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DATE: 14 February 2019

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

Councillor Neil Reddin FCCA (Chairman)  
Councillor William Huntington-Thresher (Vice-Chairman)  
Councillors Gareth Allatt, Ian Dunn, Robert Evans, Christopher Marlow and  
Tony Owen

A meeting of the Audit Sub-Committee will be held at Bromley Civic Centre on  
**TUESDAY 26 FEBRUARY 2019 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 14TH NOVEMBER--  
EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 5 - 20)**
- 4 QUESTIONS TO THE AUDIT SUB COMMITTEE FROM COUNCILLORS OR 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 20<sup>th</sup> February 2019.

- 5 MATTERS ARISING REPORT---PART 1 (Pages 21 - 24)**
- 6 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE WEB**

The current cycle of Internal Audit reports has been published ahead of the Audit Sub Committee meeting on 26<sup>th</sup> February.

The web link to the information briefing that shows the reports is:

<https://cde.bromley.gov.uk/ieListDocuments.aspx?CId=559&MId=6657&Ver=4>

The following Internal Audit reports have been published:

- Business Rates—2018-2019
- Review of Health and Safety Audit—2018-2019
- Review of Information Governance and GDPR Audit for 2018-2019
- Review of Pension Fund Audit--2018-2019
- Review of St. Olave's School Audit—2018-2019
- Review of Street Cleansing Contract Management—2018-2019
- Review of Debtor's Income Audit—2018-2019
- Internal Audit of the Housing Register—2017-2018
- Review of Parking Income Audit—2018-2019
- Internal Audit of Pension Payments for 2018-2019
- Review of the Management of Strategic Property for 2017-2018.

**7 EXTERNAL AUDIT PLAN 2018-2019** (Pages 25 - 84)

**8 ANNUAL INTERNAL AUDIT PLAN 2019/2020** (Pages 85 - 104)

**9 INTERNAL AUDIT PROGRESS REPORT** (Pages 105 - 178)

**10 DATE OF THE NEXT MEETING**

The date of the next meeting is 4<sup>th</sup> June 2019.

**11 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**

**12 INTERNAL AUDIT FRAUD, INVESTIGATION AND EXEMPT ITEMS REPORT (Pages 179 - 202)**

Information relating to any individual.  
Information which is likely to reveal the identity of an individual.  
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

**13 MATTERS ARISING--PART 2 (Pages 203 - 206)**

Information relating to any individual.  
Information which is likely to reveal the identity of an individual.  
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

**14 EXEMPT MINUTES OF THE MEETING HELD ON 14TH NOVEMBER 2018 (Pages 207 - 210)**

Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

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## AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 14 November 2018

### Present:

Councillor Neil Reddin FCCA (Chairman)  
Councillor William Huntington-Thresher (Vice-Chairman)  
Councillors Gareth Allatt, Ian Dunn, Robert Evans,  
Charles Joel and Tony Owen

### Also Present:

Deepali Choudhary, Barrie Cull, Catriona Ellis, David Hogan, Stephen John, Charles Oseghare, Linda Pilkington, Tricia Wennell, Councillor Angela Wilkins and Stephen Wood

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

No apologies were received.

### **16 DECLARATIONS OF INTEREST**

The Chairman declared an interest as a former Governor of St Olave's School.

Councillor Allatt declared an interest in that his daughter worked for KPMG.

### **17 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 24th MAY-- EXCLUDING EXEMPT INFORMATION**

The minutes of the meeting held on 24<sup>th</sup> May 2018 were agreed and signed as a correct record.

### **18 QUESTIONS FROM COUNCILLORS OR MEMBERS OF THE PUBLIC**

No questions had been received.

### **19 MATTERS OUTSTANDING FROM THE LAST MEETING-- EXCLUDING EXEMPT INFORMATION**

#### **CSD 18154**

Members were briefed concerning the matters arising from previous meetings.

Members noted that two issues raised in the November 2017 meeting were still ongoing; these were the issues concerning an insurance policy to insure against the effects of cyber-attack, and the outstanding matter of the objection to the accounts. It was expected that there would be an Insurance tender process initiated early in the New Year which would consider options available for cyber-insurance. A Member queried how value for money for cyber insurance could be evaluated. The Head of Audit responded that it would depend on what was covered, but a judgement would need to be undertaken. It was asked if Councillor Onslow was consulted concerning insurance matters and the answer to this was affirmative

Two matters had been raised at the meeting in May 2018, which were the appointment of consultants to oversee the Civic Centre Accommodation Strategy, and also the amount of storage at the TNT storage depot. Both of these matters were ongoing.

Members noted the update concerning the clarification of gross and net risk scores, and this matter was now closed.

A Member referred to page 3 of the minutes and the reference to agency staff engaged for more than 6 months. It was queried if this process was continuing. Internal Audit confirmed that the recommendation was still outstanding. In some cases agency staff had been employed for a year or more. This situation would continue to be monitored as it was a P1 recommendation. The issue was also going to be looked at by the CLT (Corporate Leadership Team). A Member asked who made the final decision with respect to agency staff. This was the Director of HR. Assurance was provided that the issue would be monitored and Members would be updated at the next Audit Sub-Committee meeting.

Members noted page 4 of the minutes and the previous comments made by Councillors Allatt and Owen. It was asked what would happen as a result of the comments made. It was confirmed that the comments would be fed back to officers.

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

**20 QUESTIONS ON THE AUDIT REPORTS PUBLISHED ON THE WEB**

No questions had been received regarding the Audit reports that had been published on the web.

**21 INTERNAL AUDIT PROGRESS REPORT**

**FSD 18083**

The Part 1 Internal Audit Progress Report was written by David Hogan, Head of Audit.

The report was written to inform Members of recent audit activity across the Council, and provided an update on issues that had arisen at the previous meeting.

Members were updated concerning the **Audit of Contract Management for Adult Mental Health** that had taken place previously. It was noted that the audit opinion was Limited and the five priority one recommendations were noted.

Five months subsequently, a follow up of Adult Mental Health was undertaken, and the progress on implementing five Priority 1 recommendations was reviewed.

In the previous audit it was pointed out that there had been no change in the contract for 14 years and no evidence of any change controls. It was noted that the current contract would either be terminated or formalised as a partnership agreement, or would continue as it was with the implementation of change controls to support any variations to the contract. The P1 recommendation remained open.

The Adult Mental Health Audit had identified that the performance measures in the agreement were obsolete and that no defined monitoring agreements were in place. It was also the case that a Mental Health Board was not in place and no reviews had been undertaken.

The follow up revealed that the agreement was going to be updated, with new KPI's. Feedback was required from Oxleas. Members were pleased to note that the CCG Monitoring Board now met monthly and would be reviewing the Section 31 agreement regularly. It was also the case that a dedicated monitoring meeting led by LBB and chaired by the Director for Adult Social Care would be commencing in November 2018. The recommendation for Performance Measure and Monitoring would however, remain open.

The previous audit had also shown that roles and responsibilities were not clearly defined. These issues had now been resolved and so the previous P1 recommendation was closed.

The Adult Mental Health Audit had also shown deficiencies in the amount of time taken to complete service agreement reviews. Members were pleased to note that significant improvements had been made in dealing with the backlog of reviews and with completing new reviews on time. For this reason the P1 recommendation had been changed to partially implemented. As soon as Oxleas could evidence that the reviews for new starters were being reviewed within the target time of six months, then the status of the recommendation would be changed to fully implemented.

The Head of Audit commented that much hard work had been done over the summer period, new appointments had been made and outstanding reviews had now been completed. Some improvements were dependent on responses from Oxleas.

The Director of Adult Social Care attended the meeting and apologised for the problems that had been identified by Internal Audit. He said that some of the difficulties that had been experienced had been caused by staffing issues and by conflicting priorities. He was grateful for the work undertaken by Internal Audit in setting standards and focus. The Division was now working more closely with CLT, Audit, Internal Commissioning and other partners. The Director had now set up monthly review meetings.

The Chairman asked what performance management had been undertaken previously. The Director responded that previously nothing was in place to monitor the strategic section 31 agenda—however, operational management was in place and the Director was in close contact with the Head of Social Care at Oxleas, and discussions would take place regarding statutory issues and possible detentions.

The Chairman asked if any of this would be reported back to the relevant PDS Committee and the response was 'no'. The Director stated that it was now the case that more robust processes were in place, and that the relationship with Oxleas had improved. An explanation was then provided to explain the differences between Section 31 and Section 75 agreements. The Vice Chairman asked if these agreements would show in the Contracts Register Database and the answer to this was affirmative. It was also the case that they would flag up on the CDB going forward if necessary.

A Member asked how it was possible for such a mess to occur with respect to the post of the Business Support Officer (BSO)—given the significance of the contract. The Director responded that LBB used Carefirst as its database, and Oxleas used RIO. The previous BSO had been well embedded and it seemed to be the case that feedback from RIO was not always fed back directly into the Carefirst database by the BSO. Sometimes communication was by word of mouth or letter. When the BSO left, it was the case that not only did the BSO leave, but the procedures did as well. Lessons had been learned from this. It was realised that a full time person was required that could sit in on the Peer Review Group chaired by the Director. The practice had now been revised so that information would be transferred directly to Carefirst.

A comment was made about Carefirst not being fit for purpose and so because of this the Executive had agreed that a new system be developed. The Director expressed the view that the main problem had been with the input of data onto Carefirst and with the subsequent interpretation of data by the Performance Management Team.

A Member asked if the new system being developed by for LBB would be able to 'talk' to 'Rio'. The Director responded and clarified that the two systems would not be able to speak directly to each other. Relevant sharing agreements would be developed with Oxleas to compensate. It was likely that users of Rio at Oxleas would be provided with limited/relevant access to Carefirst.

With reference to a variation to the Adult Mental Health contract, a Member asked if the relevant feedback had been received from Oxleas, and the answer to this was that it had. Just minor changes to the contract had been requested.

A Member noted comments about the review of service agreements, and that the reviews would be undertaken every 3-6 months; he hoped that this would not just be a box ticking exercise. He asked what the effect had been on those clients that had not been reviewed in time, and if the 355 cases that had now been reviewed had affected LBB's budget.

The Director responded that Care Plans would be reviewed after 6 weeks to 3 months. If that seemed to be working well, it was aimed to review again in 12 months. Regular reviews could sometimes be delayed if more urgent cases required assessing first. It may be the case that certain individuals posed a threat to the public under the Mental Health Act, and so those cases would need to be reviewed first. Also if the care of individuals had been assessed by the CQC as requiring improvement, those cases would also have to be allocated priority. With respect to the effect on budget spend; the Director stated that there had been an effect, with some care packages reducing and some increasing.

A Member asked if it was necessary (and VFM) for a Mental Health Board to exist as well as the Adult's Safeguarding Board and the Children's Safeguarding Board. The Director explained that the Mental Health Board that he had referenced previously was different, and was not a safeguarding board. It was a performance management board that was concerned with overseeing the Section31/75 contract.

It was clarified that LBB's relationship with Oxleas was contractual—Oxleas was a contractor to whom LBB had contracted out services. However, the Director was keen to stress that he liked to work with Oxleas on the basis that they were not only a contractor, but that they were also a partner.

The Vice Chairman asked how the flow of money worked between LBB and Oxleas. It was explained that the money was passed to Oxleas from LBB upon receipt of an invoice.

The Audit opinion with respect to **Adult Safeguarding** was defined as 'Substantial'. However two P2 recommendations had been raised regarding the timeliness of the strategy discussion and the timeliness of closing the case when risks had been eliminated.

Members noted the **Risk Registers** that had been appended to the report. They were reminded that it had been agreed that the Risk Registers would be reviewed at least on a six monthly basis. They would be reported on initially to the Audit Sub Committee, and subsequently to the various PDS Committees.

Members further noted the work streams that the CRMG had commissioned Zurich to undertake to inform and strengthen risk management.

Members were advised that the **Annual Governance Statement** for 2017/2018 had received approval from LBB's external auditors on 25<sup>th</sup> July 2018. Members noted the five areas that had been identified for further improvement:

- Finance
- Contract Management
- Performance Management
- Code of Corporate Governance
- GDPR

The Head of Audit drew the attention of Members to Appendix B, which outlined the current list of outstanding priority one recommendations.

Members were appraised that the Audit opinion for **Continuing Healthcare Funding** was 'Substantial'; however it was also the case that seven P2 recommendations had been raised.

Members were pleased to note that the Audit opinion with respect to **Council Tax** was 'Substantial' and that controls were in place and working well.

The Committee was updated with respect to the audit for **IT Project Management** and notified that controls were working well with respect of Change Control Notices and in other areas. There were no P1 recommendations and the Audit opinion was substantial.

The Audit of **Creditors** was mixed—controls were working well and in place in certain areas such as ledger reconciliation. However a P1 recommendation had been raised with respect to the set up/amendment form for new start-ups and amendments, as this was not being signed off by the relevant designated manager or budget holder.

The Head of Audit notified the Committee that LBB had to be careful when dealing with purported suppliers, as in some cases they could be dealing with fraudsters who were posing as legitimate companies. This had been experienced by other local authorities. Controls had been implemented to prevent monies from being paid to scammers that were posing as genuine suppliers.

A Member highlighted section 3.11.4 of the report which stated that, '*a payment of £230,832 had been authorised by an officer with insufficient delegated financial authority.*' It was clarified that this payment was a cumulative batch payment for SEN services. The officer that had authorised the payment had been acting in good faith, but had authorised a payment that was outside of their delegated authority. In this case the payment should have been authorised at Director level. Liberata had been encouraged to be more vigilant in such matters, and to refer payments back to Exchequer Services if they suspected a possible breach with respect to financial regulations.

The Committee was briefed concerning the Audit of the **Home Tuition Service**. This was to ensure that the process of referral and payment to providers was working efficiently. It was clarified that 'Home Tuition' in LBB was undertaken in three areas:

- Hospital Tuition Team at the PRUH
- Elective Home Education
- Home Tuition for children who were not able to attend school for physical, medical, or mental health reasons.

The Audit team undertook an Audit on the latter group only.

Members were concerned to hear that 5 P1 findings had been identified. The P1 recommendations relating to the following areas:

- Core Panel Decisions
- The Database
- Payments to Agency Tutors
- Attendance Registers
- The use of just 1 supplier for procurement

Six P2 findings were also identified. Members were happy to note that the Audit findings were discussed with the Home Tuition Team during the course of the Audit and progress to implement some of the recommendations had been commenced prior to the Internal Audit Progress report being finalised.

The overall assurance for the Home Tuition Audit was 'Limited'.

The Committee noted the inadequacies of the Home Tuition purchasing system. A Member stated that there was a complete management failure with respect to the service and he wondered how it could have failed so badly. He felt that responsibility had been placed on the Lead Teacher when it was not his fault. He expressed the view that whoever was responsible should be summoned to appear before the Audit Sub Committee. The Chairman stated that the matter should probably go to the 'Education, Budget and Performance Management Committee'.

A Member referred to the last bullet point in section 3.12.20 which stated that *'the summary spreadsheet maintained by accountancy of the weekly invoices showed £471,366 to them for 2017/18. 'Accountancy explained that as the payments are made from a holding account and recharged rather than individual expenditure codes, the value is not captured on cumulative spend.'* There was a lack of clarity as to what this meant, and so it was requested that the matter be looked into so that clarity could be provided.

The Vice Chairman asked how it would be possible to properly assess cumulative spend for one contractor if several different teams were involved. Members heard that the new Assistant Director of Procurement would be

producing a list of all spends and then linking them to the Contracts Database, and identifying any associated risks.

The Head of Audit briefed the Committee regarding the Audit of **Direct Payments**. The audit was undertaken so that the system in place for the assessment and review of clients for direct payments could be assessed. It was noted that 10 recommendations were made because of this Audit, and that four of these were P1 recommendations:

- In many cases there was a problem in locating the DP5 form on Care Store
- Due to the absence of monitoring information, there was a danger that in some cases, the Direct Payment terms and conditions had not been met
- Payments made—there were issues in 2 cases where it appeared that overpayments had been made
- There were problems in locating Direct Payment documentation, and this included the Nominated/Appointer person form.

The Audit opinion for **Direct Payments** was 'Limited.'

The Head of Assessment and Care Management explained that much work was ongoing to provide updated guidance and training for staff. The reliance on locums was quite a problem for Adult Social Care and made training more difficult. However staff were being retrained in the current guidance prior to any changes that may arise out of the review of Direct Payments. Weekly scrutiny was now taking place with regard to casework and Direct Payment documentation.

The Chairman asked to what extent it was possible to recruit locum staff who were competent in the use of Carefirst and familiar with direct payment documentation and processes. The Director pointed out that they had been able to recruit 15 new social workers who were competent in these areas. Robust systems were now in place to improve the relationship between management and clients. The Chairman asked about the current vacancy rate and it was confirmed that it was 47%.

A Member was concerned to note that in 15 cases where there was a lack of mental capacity to manage finances, the relevant documentation could not be found. The Director explained that this did not mean that all of the documentation for those clients could not be found. It was clarified that under new legislation, mental capacity had to be tested for in several areas, and it was in the single area of mental capacity to manage finances—that the forms were missing at the time. The forms had since been located, along with the relevant reviews that were required.

The Director was asked if the service used process maps. The Director clarified that process maps were being used for:

- Discharge from hospital



- The Early Intervention Service
- Direct Payments

Process maps for other areas were being developed.

A Member asked how it could be that it was not determinable at the time of the audit, which officer was responsible for the review and update of direct payment documentation. The Director answered that the reason for this was that the post had been lost. Now it was the case that a Direct Payment lead had been appointed and improvements had been made.

The Committee heard that it was the Department's aim to increase the use of Direct Payments to empower service users. One of the possibilities being considered was to provide users with a pre-payment card that could be used to purchase services. A big advantage of doing this would be that all expenditure could be tracked. This would make the audit process a lot simpler. The Director emphasised that this system was being considered but had not been agreed yet.

Members were briefed on the Audit that took place with respect to **Edgebury Primary School** in order to assess the adequacy and the effectiveness relating to the system of controls surrounding the financial administration of the school. Controls were in place and working well and the Audit opinion was 'Substantial'.

Members were briefed on the review that had taken place regarding **Family Placements**. This had taken place to review the systems in place for the assessment of service and payments. The Audit opinion was 'Limited' and one P1 recommendation was raised. The P1 recommendation was raised because the weekly allowances for payments of Child Arrangement Orders and Connected Persons Allowances were not in line with the DfE rates that were applicable at that time, and had not been uplifted. The uplift process had now been implemented.

The Head of Audit briefed Members concerning the results of the Audit regarding **Leaving Care** payments. Members were concerned to note that six P1 recommendations had been raised. Resultantly, the Audit opinion was 'Limited'. A Member asked that if there were not clear Pathway Plans in place, would this adversely impact the current Ofsted inspection. The Head of Audit responded that it could be an issue. However, he also pointed out that weekly monitoring was taking place around compliance and quality and that all outstanding pathway plans had been reviewed and updated. It was noted that the Deputy Chief Executive was monitoring the implementation of the Audit recommendations.

Members looked at the **Housing Benefit** Follow up Audit and noted that 2 out of the original five recommendations had been implemented. A further full review was due in quarter 4. It was noted that the 'significant functional implications' mentioned in the report, referred to IT issues.

Members were pleased to hear that with respect to the Audit of **Temporary Accommodation and Rent Accounts**, effective controls were in place in many areas and so the Audit opinion was 'Substantial'.

Members were informed of the **PCN Audit**. This was two-fold—a review of the current parking enforcement contract with APCOA, and a follow up of the recommendations from the previous Audit. Overall, the conclusion of the PCN Audit was that substantial assurance could be placed on the effectiveness of the overall controls. Five recommendations had been made within the 2016/17 report and these were followed up. Members were pleased to note that 4/5 of the previous recommendations had been implemented.

A Member enquired if the new contract was also concerned with looking at the number of PCNs issued by the new contractor and the answer was affirmative. Members were informed that the new contract would focus on the KPIs which were related to deployment, hours and availability.

Members were pleased to note that the Audit of **'Vehicle Crossovers'** had resulted in a 'Substantial' Audit opinion, with controls in place and generally working well.

A follow up Audit was undertaken on the **Reablement Team and Reablement Assessment Team** following the Audit that had been undertaken during March 2017. This Audit had resulted in 10 recommendations and Limited Assurance.

The Committee was concerned to note that at the follow up Audit that took place during June 2018, seven of the original recommendations were still outstanding. It was also the case that the two P1 recommendations regarding the Outcome Measurement Tool (OMT) and target hours in terms of contact times with the clients had still not been implemented. Staff had now been reminded to use the OMT. No timescale existed for the benchmarking of a new system to replace the OMT.

The Director reminded the Committee that 6/8 previous recommendations had been implemented. He said that he had not wished previously to spend too much time in trying to improve the OMT as it was the case that the service was due to be commissioned out to Bromley Healthcare (BHC). This proposal subsequently fell through and the service remained with LBB. The Director stated that the NHS and BHC had better OMT systems in place for monitoring outcomes and it was hoped that LBB could learn from these. The current plan was that LBB would develop and use an OMT system called 'TOM' (Total Outcome Management).

The other P1 recommendation was related to the amount of contact time that support staff spent with clients—the target time being 65%. The Director advised that this was a matter that he would need to discuss further with officers. Target time was affected by various issues such as traffic when travelling, shift patterns and other work force issues.

A Member referred to section 3.22.2 of the report where Audit had noted in March 2017 that *'Insurance certificates to confirm that staff are insured for business use were found to have expired in some cases.'* He asked what the possible implications of this could be for the Council. The Director responded and explained the current system that was in place for checking driving licenses and insurance certificates. It was noted that only occupational therapists carried equipment with them. This being the case, a Member asked if cars were really required to be used by staff. The Director responded that cars were required as Bromley was a large geographical borough, and so the use of cars was required to maximise agility and speed.

The Chairman thanked the Director for attending the meeting and for answering questions.

The Committee was briefed concerning the follow up Audit of **St Olave's School** that took place during December 2017. A P1 recommendation had been raised previously concerning the tendering and procurement of the school's IT contract. The previous Audit had identified that the 3 year IT contract had not been subject to a proper tendering and procurement process. During the visit in December 2017, it was confirmed that this had not changed.

The Committee was informed that a meeting had taken place with BT, LBB officers and the School Business Manager to discuss how to progress the matter further. The school was also considering bringing the service in house. Internal Audit planned to revisit the school on 3<sup>rd</sup> and 4<sup>th</sup> December to assess what progress was being made to implement the P1 recommendation.

Members were reminded that the original P1 reported in November 2016 regarding document storage related to cumulative expenditure and the requirement to undertake a comprehensive review of **documents in storage**. The Head of Audit informed the Committee that given the progress made in the recent Audit, the recommendation relating to document storage could now be closed.

Members were briefed concerning the P1 follow up **Audit for Waivers**. Both P1 recommendations were linked to the ongoing development of the Corporate Contracts Database and the associated development of an electronic authorisation process. So although the recommendations were being progressed, they still remained open.

The Committee was reminded that in the previous Audit report (dealing with Agency Staff) that had been published in March 2018, there were 3 P1 recommendations. Members were pleased to note that 2/3 recommendations had now been implemented. The recommendation for governance arrangements had now been implemented as had the recommendation relating to reminding managers of the process for removing the IT systems access and the recovery of Council equipment when agency workers left the Council.

The recommendation relating to the review of agency staff engagements exceeding six months remained outstanding.

A Member expressed disappointment that there had still been problems with removing IT systems access and the recovery of security passes for agency staff leaving the Council. Mr Hogan commented that in the last 10 years, local authorities had lost 28% of staff (many of whom were managers) and so this had not helped. Reminders had gone out from Audit and from HR for managers to make sure that they understood the starters and leavers process. It was clarified that guidance on this matter was provided via online training and managers' briefings.

Audit had conducted a review of the best way to undertake its counter fraud work, and it was agreed by the PDS and the Portfolio Holder that partnership work should continue with Royal Borough of Greenwich (RBG). A new contract to this effect was due to take effect from April 2019.

The Troubled Families claim for September 2018 was verified. Similarly, the Chief Executive and the Head of Audit verified that the conditions of the Pothole Action Fund Grant had been met, and a declaration to that effect was signed on 19<sup>th</sup> September 2018.

The review of waivers was a time consuming piece of work for the officers concerned. Officers had to get approval from various sources, including the Commissioning Board and access a variety of documents. Ideally (in the future) this could be a single report that could be run off from the CDB. Waivers had to be signed off by a relevant Director—sometimes it appeared that this process was not fully understood, but that did not mean that there was anything wrong with the process and so this was something that could be looked at with the Commissioning Team. It was hoped that in the new year, a new, robust and easier to use process could be developed and used.

Members noted that there was no change to the Corporate Risk Register. Any significant risks would be reported to PDS Committees in the next cycle of meetings. A Member asked if Audit was relaxed about the risks flagged as red. The Head of Audit explained that there were certain areas that even with mitigations in place, the risks would remain as red—this for example would apply to the Financial Strategy.

Other areas such as the risks attached to a rising elderly population and homelessness were likely to always remain without significant changes to strategy and policy.

A Member raised the issue of the risks associated with commissioning, and whether or not it was still felt that commissioning was working. It was the case that some commissioners like Carillion had gone bust, and other commissioners had been put under too much pressure to deliver results in difficult circumstances, and thus had to later cease trading.

The Head of Audit responded that this was a national issue and not specifically an audit issue to address. However, Audit did plan to look at strategic risks relating to Commissioning.

A Member referred to the Corporate Risk Register and to the risk associated with the possible failure to deliver the partial implementation of health and social care—he suggested that this risk should have been red. He was also interested to note that the title of the risk had been changed from the full integration of health and social care, to a partial integration. He wondered how a 'partial' integration could be defined.

The Member also referenced the risk pertaining to the possible failure to deliver effective Adult Social Care Services. He asked why there was no comment in the text box which would detail what further action was required to mitigate risk. He also wondered why this risk rating had been downgraded from red to amber. The Head of Audit responded that Zurich would challenge the risk register at the DMT if they felt it was appropriate.

It was noted that the current risk for providing effective Children's Services had also been downgraded from red to amber, but that this would require validation from Ofsted.

Members noted that the ECHS Risk Register contained a risk for School Standards. The comment was made that LBB was not responsible in the most part for this as most of the schools in the borough were Academies. LBB would just be responsible for Safeguarding.

Members noted the importance of running a balanced budget, and that it was a statutory responsibility to do so. It was queried if the responsibility to provide a balanced budget would take precedence over other statutory responsibilities, and would this priority be a defence against not providing other statutory services. The Head of Audit responded that all implications would need to be considered, in addition to the possibility of legal challenge.

A Member asked what would be the definition of a balanced budget. The Head of Audit answered that CIPFA had published legal guidance on these matters. What was required was sustainable transformation. This was a challenge for the whole sector and no councils were relaxed about their financial future.

**RESOLVED that**

**1- The Internal Audit Progress Report is noted**

**2- The Committee notes the actions taken with respect to the Risk Management Process**

- 3- The Committee notes the Departmental Risk Registers
- 4- The Committee approves the revised Corporate Risk Register
- 5- The Committee notes the list of Internal Audit Reports published on the Council's website.
- 6- The Committee notes the list of waivers sought since May 2018
- 7- The Committee notes the Letter of Representation
- 8- The Committee notes the Annual Audit Letter from KPMG
- 9- The Committee notes the Code of Transparency relating to the reporting of fraud
- 10- The Committee notes the latest position with respect to the objections to the Accounts.

**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 24th MAY 2018**

The exempt minutes of the meeting held on 24<sup>th</sup> May 2018, were agreed and signed as a correct record.

**24 MATTERS ARISING FROM THE MEETING ON 24th MAY-- EXEMPT INFORMATION**

**CSD 18155**

Members noted the Matters Arising (Exempt Information) from the meeting on 24<sup>th</sup> May 2018.

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

**FSD 18084**

The Internal Audit Fraud and Investigation and Exempt Items Report was written by David Hogan, Head of Audit.

The report informed Members of recent Internal Audit activity on fraud and investigations across the Council and provided updates on matters that had arisen from previous meetings of the Audit Sub Committee.

Members noted and commented on the report.

The full minutes of the Internal Audit Fraud and Investigation and Exempt Items report were recorded in the Part section of the minutes.

**RESOLVED that the Internal Audit Fraud and Investigation and Exempt Items Report be noted.**

The meeting ended at 9.30 pm

Chairman

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Report No.  
CSD 19032

LONDON BOROUGH OF BROMLEY

PART 1 PUBLIC

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

**Date:**                    **26<sup>th</sup> February 2019**

**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
- 

## 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: **£350,650**.
  5. Source of funding: 2018/19 revenue budget
- 

## Staff

1. Number of staff (current and additional): 8 posts 6.87fte
  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.
- 

## Legal

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

## 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.
- 

## 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

Issue & Date	Summary	Action being taken	By	Est. Completion
<b>Minute 20</b> <b>8<sup>th</sup> November 2017</b> <b>Zurich Overview</b>	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.	<p>Zurich are currently working on the possibility of a specific cyber policy, bespoke to the Public Sector. When this becomes available we will be made aware.</p> <p>There have not been any specific updates since the last meeting, but the Council has tendered its insurance contracts and policies around this will be considered as part of that process.</p>	Zurich  Procurement/ Commissioning Directorate.	Ongoing
<b>Minute 21</b> <b>8<sup>th</sup> November 2017</b> <b>Internal Audit Progress Report</b>	Members were advised that there had been an objector to the accounts. The objections were in relation to Waste Management and Trade Waste Collection.	This matter has still not been concluded and is ongoing.	KPMG  External Auditors.	On-going.
<b>Minute 7</b> <b>24<sup>th</sup> May 2018</b> <b>Internal Audit Progress Report</b>	It was expected that consultants would be appointed in quarter 2 of 2018 to advise on the Civic Centre Accommodation Strategy.	The Invitation To Tender is expected to be issued in the next few weeks	Procurement/ Commissioning Directorate.	On-going
<b>Minute 19</b> <b>14<sup>th</sup> November 2018</b> <b>Matters Arising</b>	A Member referenced the matter of agency staff still being employed after 6 months. Assurance was provided that the issue would be monitored and Members would be updated at the next meeting.	<p>We have identified 195 agency staff who have been engaged for longer than 6 months. This includes 18 agency staff who have been engaged for longer than 3 years. We have asked HR to provide both the business case made by the Directorate to continue to engage these 18 staff and evidence of HR Directorate's approval.</p> <p>We have not yet received this. We have been told by HR that 'Where the placement is in CSC or ASC we have a recognised shortage of qualified staff and we are making every effort to reduce our reliance on agency workers but this is difficult given that there is a national shortage. The use of agency staff is therefore outside of the 6 month time limit but is regularly monitored as part of the data that goes to the R&amp;R Board every 2 months as well as the CSIGB.'</p> <p>This matter is therefore on-going and an update will be provided at the February meeting.</p>	Head of Audit	On going

<p><b>Minute 21</b> <b>14th November 2018</b> <b>Internal Audit Progress Report</b></p>	<p>A Member queried why the risk rating for Adult Social Care had been downgraded from red to amber. It was stated that Zurich would challenge the risk register at the DMT if required.</p>	<p>This is likely to be a miscommunication as there has been no change to the 'Failure to deliver Adult Social Care' Risk</p>	<p>Head of Audit</p>	<p>Closed</p>
<p><b>Minute 21</b> <b>14th November 2018</b> <b>Internal Audit Progress Report</b></p>	<p>It was noted that the current risk rating for Children's Services had been downgraded from red to amber, but that this would require future validation from Ofsted.</p>	<p>The 'Failure to deliver effective Children's Social Care' Risk (Risk 3) Gross Likelihood Risk Rating had reduced from 4 (Likely) to 3 (Possible). The overall Gross Risk Rating remains 'High' (Red).</p> <p>This information comes with the caveat that the ECHS DLT has not yet formally approved Zurich's proposed amendments to the register.</p>	<p>Ofsted.</p>	<p>Closed</p>

Report No.  
FSD 19022

London Borough of Bromley

PART ONE - PUBLIC

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

**Date:**                    **Tuesday 26 February 2019**

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

**Title:**                   **EXTERNAL AUDIT PLAN 2018-19**

**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 2018-19

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2.    **RECOMMENDATION(S)**

2.1   **Members are asked to note the External Auditor's arrangements for the Audit Plan 2018-19.**

2.2   **Members are asked to note the materiality limits within the plan and to confirm their understanding of, and agreement to, the materiality and reporting levels on page 18.**

### 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.
- 

### 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: External Audit
  4. Total current budget for this head: £91,690 for the authority and £16,170 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
- 

### 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 Ernst & Young LLP, 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 2018/19. The plan for the Pension Fund work will follow.

3.3 Members should note the audit fees of £91,689 for the authority and £16,170 for the Pension Fund is reduced from £119,076 and £21,000 from last year respectively.

3.4 Members should note the materiality limits within the plan and note that they are asked to confirm their understanding of, and agreement to, the materiality and reporting levels.

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.

3.7 Members are asked to note Ernst and Young LLP's Local Government Audit Committee Briefing Quarter 4, December 2018.

### **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 2018/19. The total fee is expected to be £91,689 for the authority and £16,170 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



A photograph of a meeting table with several papers and hands pointing at documents. The scene is brightly lit, and the focus is on the documents and the hands. A yellow banner is overlaid on the left side of the image.

# London Borough of Bromley

## Audit planning report

Year ended 31 March 2019

15 February 2019

15 February 2019



Audit Sub-Committee  
London Borough of Bromley  
Bromley  
BR1 3UH

Dear Audit Sub-Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Sub-Committee, which has been given delegated responsibility by the General Purposes and Licensing Committee, with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Sub-Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the Audit Sub-Committee on 26 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the General Purposes and Licensing Committee and management of London Borough of Bromley in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the General Purposes and Licensing Committee, and management of London Borough of Bromley those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the General Purposes and Licensing Committee and management of London Borough of Bromley for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





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01

# Overview of our 2018/19 audit strategy





## Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the General Purposes and Licensing Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risks	Risk identified	Details
Misstatements due to fraud or error (management override)	Fraud risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. <b>This risk is not specific to a certain section of the financial statements, but we will perform procedures to mitigate this risk.</b>
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Asset Valuations	Inherent risk	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
IAS 19 - Valuations	Inherent risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund liabilities are material estimated balances and the Code requires that these liabilities be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary Mercer. Accounting for these schemes involves significant estimation and judgement and therefore management engages actuaries to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

## Overview of our 2018/19 audit strategy

In addition to the risks outlined above we have identified two areas of audit focus.

Area of focus	Details
Spring Capital Loan	The Council entered into an agreement with Spring Capital to loan Spring Capital funds to purchase a nursing home and detached house in 2017/18. 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.
New Accounting Standards - IFRS 9 & IFRS 15	The CIPFA Code of Practice for 2018/19 confirms that the local government bodies will implement International Financial Reporting Standard ("IFRS") 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers this year.

### Materiality

Planning  
materiality

£9.59m

Materiality has been set at £9.59m, which represents 1.8% of the prior years gross expenditure on provision of services.

Performance  
materiality

£7.19m

Performance materiality has been set at £7.19m, which represents 75% of materiality.

Audit  
differences

£479,500

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £479,500. Other misstatements identified will be communicated to the extent that they merit the attention of the General Purposes and Licensing Committee.

# Overview of our 2018/19 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of London Borough of Bromley give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



# 02

## Audit risks





## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Misstatements due to fraud or error\*

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For London Borough of Bromley, we have assessed that this risk is not specific to any section of the financial statements, but could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

#### What will we do?

We will:

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Evaluating the business rationale for significant unusual transactions.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

## Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure\*

### Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions of Property, Plant and Equipment.

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax.

### What will we do?

We will:

- ▶ Test PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature;
- ▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources; and
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

## Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

**Valuation of Land and Buildings**

**What is the risk?**

The fair value of land and buildings in Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

**What will we do?**

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists (as necessary - such as significant or unusual movements in valuation, difficult to value specialist assets, etc.);
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Liberata. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £80 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

##### Spring Capital Loan

The Council entered into an agreement with Spring Capital to loan Spring Capital funds to purchase a nursing home and detached house in 2017/18. This is being 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. This is treated as a loan secured on assets at 6% return (rising to 7.5% return if the Loan To Value exceeds 70%).

#### What will we do?

We will:

- ▶ Obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Where outturn information is available at the time we undertake our work after production of the Council's draft financial statements (for example the year-end actual valuation of pension fund assets), we will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

We will:

- ▶ Confirm the terms of the agreement with Spring Capital;
- ▶ We will assess the interpretation of the arrangement and the impact on the preparation of the Accounts as part of the 2018-19 audit; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

### Other areas of audit focus (continued)

#### What is the area of focus?

#### What will we do?

##### **IFRS 9 financial instruments**

This new accounting standard will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9 and the application of a statutory override.

##### **IFRS 15 Revenue from contracts with customers**

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

We will:

- ▶ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Consider the classification and valuation of financial instrument assets;
- ▶ Review new expected credit loss model impairment calculations for assets; and
- ▶ Check additional disclosure requirements.

We will:

- ▶ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- ▶ Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Check additional disclosure requirements.



# 03

## Value for Money Risks







# Value for Money

## Background

We are required to consider whether London Borough of Bromley has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage, this has resulted in us identifying two significant risks which we outline over the page



## Background

We are required to consider whether the London Borough of Bromley has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

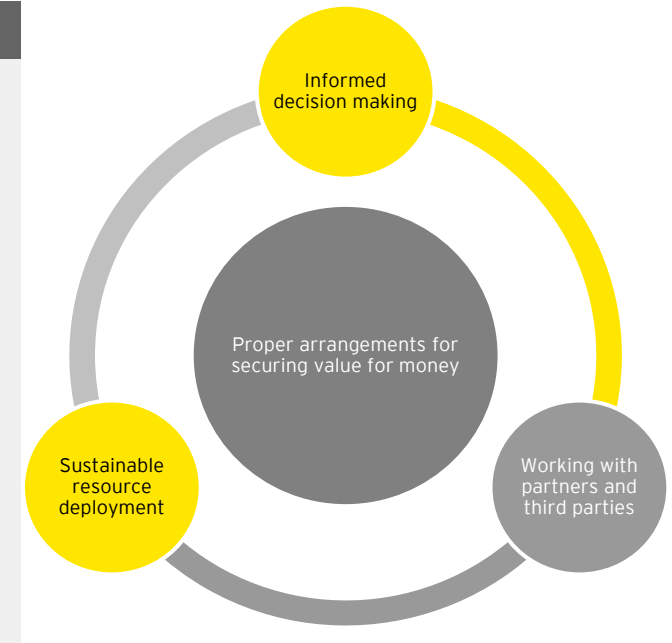
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. We've also considered the Council's progress on savings in 2018/19 to date, the medium term financial plan and the Council's history of delivery against such plans. This has not resulted in the identification of a significant risk. We have not completed our full risk assessment, however. Although we do recognise that they will be required to implement significant savings plans to bridge the budget gaps in their medium term financial plan.







# 04

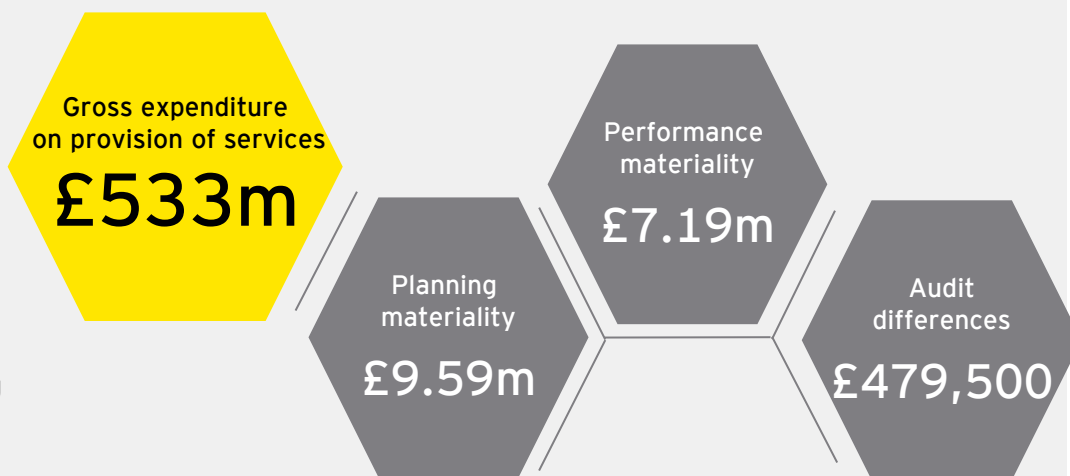
## Audit materiality



# Audit materiality

## Materiality

For planning purposes, we have set materiality for 2018/19 at £9.59m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. We have applied a lower percentage than potentially available on the basis that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit. We have provided supplemental information about audit materiality in Appendix C.



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We request that the Audit Sub-Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.19m which represents 75% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, & collection fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the General Purposes and Licensing Committee, or are important from a qualitative perspective.

**Specific materiality** - We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.





**05**

# Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the General Purposes and Licensing Committee.

Internal audit:

We will regularly meet with the Head of Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.





06

# Audit team



# Audit team

## Audit team structure:



## Working together with the Pension Fund

We are working together with officers on communication and processes for the 2018-19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

# Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	<p>Management specialist: Cushman &amp; Wakefield - RICS Registered Valuers</p> <p>We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.</p>
Pensions disclosure	<p>Management specialist: Mercer</p> <p>EY third party specialist: PWC Pensions</p> <p>EY specialist: EY Pensions</p>

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





07

Audit timeline







# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19. From time to time matters may arise that require immediate communication with the Audit Sub-Committee as delegated by the General Purposes and Licensing Committee and we will discuss them with the General Purposes and Licensing Committee Chair and the Chair of the Audit Sub-Committee as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Sub-Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	January		
Walkthrough of key systems and processes	February	Audit Sub-Committee	Audit Planning Report
Testing of routine processes and controls	March		
Interim audit testing	April		
	May		
Year end audit	June	Audit Sub-Committee	Interim audit update
Quality Report/Account testing	July	General Purposes and Licensing Committee	Audit Results Report
Year end audit			Audit opinions and completion certificates
Audit Completion procedures	August - October	Audit Sub-Committee	Annual Audit Letter





08

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

#### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

#### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not complete any non-audit work. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





**09**

**Appendices**



## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19
	£	£
Total Fee - Code work	91,689	91,689
<b>Total audit</b>	<b>91,689</b>	<b>91,689</b>
Non-audit services (Housing Benefits)	TBC	N/A
Non-audit services (Teacher's Pensions)	TBC	N/A
<b>Total other non-audit services</b>	<b>TBC</b>	<b>N/A</b>
<b>Total fees</b>	<b>91,689</b>	<b>91,689</b>

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*All fees exclude VAT*

Our 2018/19 Code work includes additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. As at the date of our planning report the Council is yet to evidence their assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation for these additional procedures. We will agree this with management, depending on the identified impact of the new standards. Any additional fee will be subject to approval by the PSAA.





## Appendix B

# Required communications with the General Purposes and Licensing Committee

We have detailed the communications that we must provide to the Audit Sub-Committee as delegated by the General Purposes and Licensing Committee.

Required communications	What is reported?	Our Reporting to you
		When and where
Terms of engagement	Confirmation by the General Purposes and Licensing Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report to be presented to the February 2019 Audit Sub-Committee
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b>



# Required communications with the General Purposes and Licensing Committee

Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the <b>General Purposes and Licensing Committee</b> include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the <b>General Purposes and Licensing Committee</b></li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit planning report to be presented to the February 2019 Audit Sub-Committee And Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b></p>

## Appendix B





# Required communications with the General Purposes and Licensing Committee (continued)

### Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b>
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the General Purposes and Licensing Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b>
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b>

## Appendix B



# Required communications with the General Purposes and Licensing Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report presented to the February 2019 Audit Sub-Committee and Audit results report to be presented to the July 2019 <b>General Purposes and Licensing Committee</b></p>

## Appendix B

# Required communications with the General Purposes and Licensing Committee (continued)





### Our Reporting to you

Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the General Purposes and Licensing Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the General Purposes and Licensing Committee may be aware of</li> </ul>	Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report to be presented to the Summer 2019 Audit Sub-Committee



## Appendix B

# Required communications with the General Purposes and Licensing Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report to be presented to the February 2019 Audit Sub-Committee; and Audit results report to be presented to the Summer 2019 Audit Sub-Committee
Certification work	Summary of certification work undertaken	Certification report to be presented to the Winter 2019 Audit Sub-Committee

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the General Purposes and Licensing Committee reporting appropriately addresses matters communicated by us to the General Purposes and Licensing Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



# Local Government Audit Committee Briefing

Quarter 4, December 2018



Building a better  
working world





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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

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It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



# Government and economic news

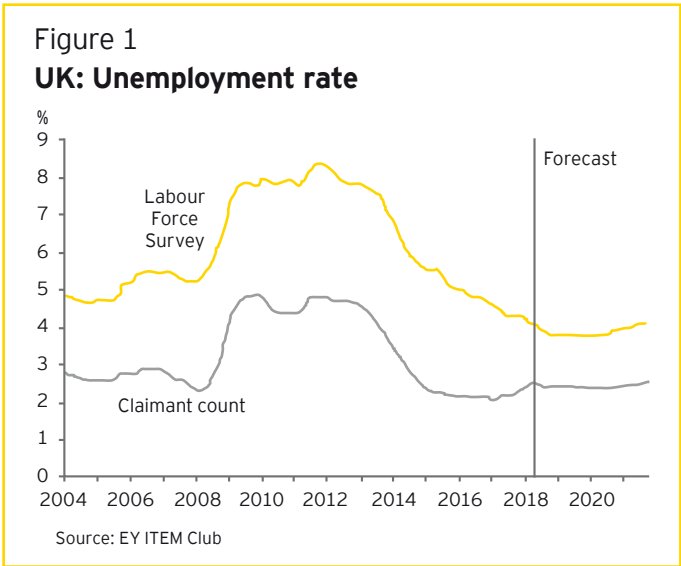
## EY Club Item

The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.



The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993-2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

## **As Brexit beckons, what is the impact that local authorities can expect across the UK?**

With increasing focus on a potential extension to the Brexit transitional period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

### **The impact on social care provision:**

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

### **The impact on supply chains and logistics:**

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

### **Consumer demand:**

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

### **Impact on property and agricultural land prices.**

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

## Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- ▶ Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- ▶ £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- ▶ Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- ▶ Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- ▶ Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health,

social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

## CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127%). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.





# Accounting, auditing and governance

## IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

## Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

## Local Public Audit – Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the



public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.

4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.



## Regulation news

### **PSAA: Report on results of 2017/18 audits**

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.



**Other**

## **EY 2018 Transparency Report**

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we

do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

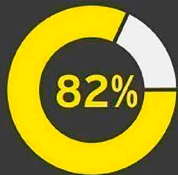
We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.



# 2018 Highlights

## Audit quality

### External review



82% of EY's FTSE 350 audits and 67% of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

**No FRC fines** for audit work completed in the last five years and **no sanctions** against EY UK partners in respect of that period

### Internal review

108 engagements reviewed in FY18, covering

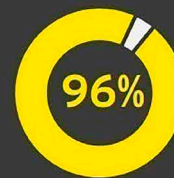
47% of our

Responsible Individuals, of

which 81% had no improvements or minor improvements only

### Delivery

Of our people in Audit



96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest



The result of the FRC's most recent review of our audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

# Key questions for the Audit Committee

## 2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

## CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

## IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

## Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

## Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

## PSAA: Report on results of 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

## Find out more

### EY Club Item

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

### 2018 Budget

<https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>

<https://www.local.gov.uk/about/news/lga-responds-budget-2018>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018>

<https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf>

### CIPFA Investment Guidance

<https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges>

### Local Public Audit – Expectations gap

<https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap>

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>

### IFRS 9: Statutory Override

<https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years>

### Public Sector Pension Scheme Valuation

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/738917/Technical\\_Bulletin\\_Public\\_Service\\_Pension\\_Schemes\\_Valuations.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf)  
<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/>

### PSAA: Report on results of 2017/18 audits

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

### EY Transparency Report 2018

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf)



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ED None

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Report No.  
FSD 19023

London Borough of Bromley

PART ONE - PUBLIC

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

**Date:**                   **Tuesday 26 February 2019**

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

**Title:**                   **ANNUAL INTERNAL AUDIT PLAN 2019/20**

**Contact Officer:**     David Hogan, Head of Audit  
Tel: 020 8313 4886   E-mail: [david.hogan@bromley.gov.uk](mailto:david.hogan@bromley.gov.uk)

**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.

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2.    **RECOMMENDATION(S)**

2.1   That the 2019/20 Audit Plan is approved.

2.2   To note and comment upon the revised assurance opinions and definitions and the priority risk ratings and definitions.



### Impact on Vulnerable Adults and Children

1. Summary of Impact: None
- 

### Corporate Policy

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

### 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: £506k including £165k Fraud Partnership Costs.
  5. Source of funding: General Fund, Admin Penalties, Legal cost recoveries
- 

### Personnel

1. Number of staff (current and additional): 6.5 FTE (1 post currently vacant)
  2. If from existing staff resources, number of staff hours: 2019/20 902 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich time.
- 

### Legal

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

### Procurement

1. Summary of Procurement Implications: Some planned audits will have procurement implications.
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100, including Chief Officers, 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 The Public Sector Internal Audit Standards 2017 define Internal Audit as follows:

‘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’. Heads of internal audit throughout the public sector provide an annual report with an overall opinion to help the organisation prepare a governance statement. To inform an overall annual opinion means the Annual Internal Audit Plan 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 The Council 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. Up to date Risk Registers provide a useful starting point for planning.

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 2019/20 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 and transforming 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 2019/20 will be 902 days compared to 900 days last year. 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 managed by LB Croydon that is available to London Boroughs. This is also to be used where particular specialist skills might be needed.

### 3.9 Review of audit assurance levels and recommendations

Our audit assurance levels and recommendations have not been reviewed for a considerable number of years. Since the appointment of a new Head of Audit in May 2017 and the increasing focus on risk, this has prompted us to review how these should be described and defined. It has coincided with observations made recently by the Corporate Leadership Team and several senior managers.

At present, we have four assurance levels which are 'Full', 'Substantial', 'Limited' and 'No assurance'. In practice, 'Full assurance' is not appropriate because we carry out sample testing and can rarely give full or absolute assurance over all the controls and procedures in place.

In the current and previous year we have only used the 'Substantial' and 'Limited' assurance levels. This also creates a dilemma when we have a number of important recommendations resulting from an audit but, overall, neither the 'Substantial' or 'Limited' assurance levels fit comfortably.

We have therefore compared our assurance levels and recommendations with those used by other public and private sector organisations. As a result of our research and following consultation with the Corporate Leadership Team, we intend to use the following new assurance levels and recommendations with accompanying new definitions. These will be used in audits carried out from our 2019/20 audit plan. The colour coding will be introduced to make them more recognisable.

### 3.10 Assurance level

Assurance Level	Definition
<b>Substantial Assurance</b>	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
<b>Reasonable Assurance</b>	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
<b>Limited Assurance</b>	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
<b>No Assurance</b>	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

3.11 We have also taken the opportunity to clarify the definitions of the priority recommendations to ensure they are clearly understood.

### 3.12 Recommendation ratings

Risk rating	Definition
<b>Priority 1</b>	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
<b>Priority 2</b>	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
<b>Priority 3</b>	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

#### 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 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

7.1 Staff in breach of financial rules or procedures or acting inappropriately against the Council's legal and financial interests may be subject to disciplinary or/and criminal investigation.

#### 8. LEGAL IMPLICATIONS

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.

#### 9. PROCUREMENT IMPLICATIONS

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

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





# Internal Audit Strategy and Plan 2019/20

## DRAFT

**Internal Audit (Draft) 8<sup>th</sup> February 2019  
(Appendix A)**

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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.

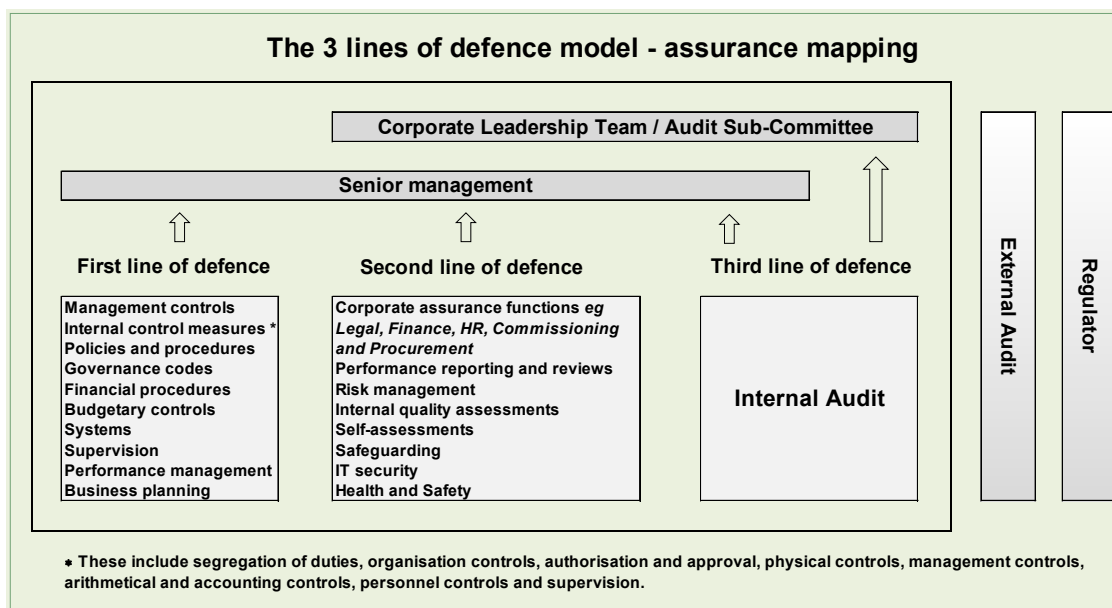
The three lines of defence model, as detailed below (Figure 1), provides a simple framework for understanding the role of Internal Audit in the overall risk management and internal control processes of an organisation:

- ▶ 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 2019/20

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.

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.

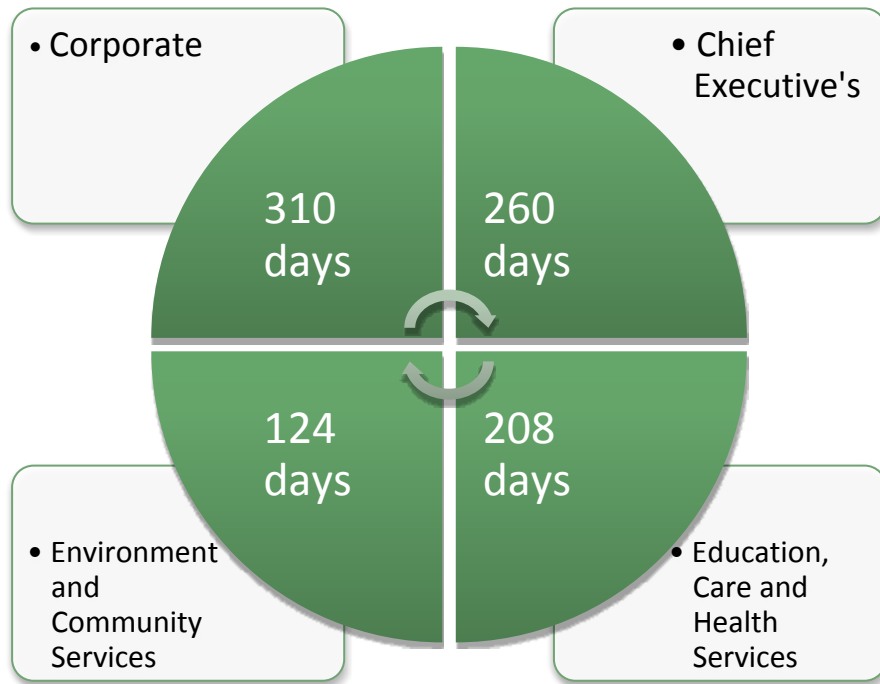
The Audit Plan has been developed to enable us to respond to changes made during the year. Whilst every effort will be made to deliver the plan, it must be recognised that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. **The plan 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 2019/20

The Internal Audit Plan coverage for 2019/20 includes 902 direct days compared to 900 days in 2018/19. 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 2.2 – 2.5.

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





## 2.2 Corporate

	Division/Service	Audit Title	Days	Objective or Rationale
Corporate (Page 1)	Cross Cutting/ Finance Lead	Council's Transformation Strategy	10	Review controls in place to mitigate risk in delivering the programme and ensure savings are robust
	Cross Cutting/ CEX Lead	Information Governance and General Data Protection Regulations (GDPR)	10	Review of controls in place within Directorates to ensure that compliance with GDPR 2018 is effective
	Cross Cutting/ ECS Lead	Business Continuity and Emergency Planning	10	Following the Zurich Risk Management review, examine progress to ensure controls mitigate risk of failing to maintain robust Business Continuity and Emergency Planning arrangements
	Commissioning	Procurement Control Framework Compliance	10	Building on the analysis undertaken by procurement, 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
	Council wide	Provision for investigations into irregularities	80	Investigation into financial or governance irregularities which are reported or referred
	Governance	Consultancy and advice to directorates	30	Contingency for advice/guidance contribution to Corporate projects
	Governance	National Fraud Initiative 2019	20	Provision to assist Council meets its statutory obligations including dataset uploads and distribution/investigation of matches
	Governance	External Grants	10	Contingency for certification requests that may arise that are not already planned for
	Governance	Follow up and implementation of higher priority recommendations	45	Ensuring implementation of priority recommendations

Corporate (Page 2)	Governance	Provision of training	10	Providing advice and on-line training on risk, control and governance.
	Governance	External liaison with other authorities and agencies	10	Effective contributions to regional or national initiatives
	Governance	Audit 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
	Governance	Risk Management	40	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>310</b>	

## 2.3 Chief Executive's

	Division/Service	Audit Title	Days	Objective or Rationale
Chief Executive's (Page 1)	ICT	Delivery of ICT Strategy	10	To ensure that implementation of the IT strategy is being managed effectively. This will include a review of the financial management and governance controls
	ICT	CareFirst replacement	10	To ensure that controls are in place and operating effectively over the arrangements for the transition of the CareFirst computer application functionality and data to a new application
	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 Key Financial System	Pension Administration	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 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 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 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 Key Financial System	Main Accounting System and General Ledger	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

Chief Executive's (Page 2)	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 Key Financial System	Business Rates	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 System	Procurement Cards	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 System	Council Tax	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, and will include periodic reviews of discounts and exemptions
	Financial Governance	Financial Regulations	10	Review to ensure they are fit for purpose and reflect legislative, environment and technological changes. Include benchmark comparison with other Authorities
	Finance	Schools Finance Team	10	Review governance and management of the contract to ensure controls are satisfactory and mitigate risk. Consider the resilience of the team to deliver the school finance element of the Liberata contract
	Finance	Insurance	10	Review of the key controls and performance of the insurance function, including a review of the contractual arrangements with the Royal Borough of Greenwich
	Finance	Temporary Accommodation and Housing Rents	10	Review of Rent Collection procedures operated by Liberata
	Customer Services	Registrars	10	A review of the adequacy and application of the control framework put in place for the cash minimisation programme. We will also review access arrangements to the registrars' offices to ensure that security risks are mitigated

Chief Executive's (Page 3)	Commissioning	Review of governance and contract documentation	10	A review of governance over contracts and key supporting documentation to ensure that contracts have been signed and sealed by all parties, are retained securely and can be located readily. Key documents associated with the contract such as performance bonds and indemnities are retained, available and current
	Commissioning	Review of a sample contracts coming to an end	10	A review of a sample of contracts coming to an end. This is to ensure that a lessons learned exercise for the current contract has been carried out, roles and responsibilities have been assigned appropriately for the re-tendering of the contract and sufficient time and resources have been allocated for the re-tendering process
	Human Resources (Key Financial System)	Payroll to include Staff overtime, allowances and expenses, including mileage	10	This review will seek to provide assurance over the policies, procedures, authorisation and administration of claims. It will also examine where alternative arrangements exist e.g. pool cars
	Human Resources	Engagement and use of consultants	10	A review of the engagement and use of consultants including compliance with contract procedure rules, terms and conditions and employee rights. We will also examine financial management arrangements and the benefits realised from the engagement
	Chief Executive's	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	30	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2019/20
	Chief Executive's	Work in progress from 2018/19 carried forward	20	Provision for completion of work from 2018/19 which is in progress at year end
	<b>Chief Executive's Total</b>		<b>260</b>	

## 2.4 Education, Care and Health Services

	Division/Service	Audit Title	Days	Objective or Rationale
Education, Care and Health Services (Page 1)	Programmes	Health & Social Care Integration	10	Review existing controls to secure joint working across the health and social care economy, looking at the use of Delayed Transfer of Care, Better Care Fund and Improved Better Care Fund. Ensure satisfactory progress towards statutory duties
	Adult Social Care	Care Act	10	Confirm that the statutory duties under the Care Act are being adhered to and adequate documentation is maintained to support decisions
	Programmes	Integration and Better Care Fund: The Disabled Facilities Capital Grant (DFG) determination 2018-19 [31/3337]	5	To carry out work as required to confirm the conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with
	Adult Social Care	Mental Health Service Agreements and Section 117	15	Review the controls around the assessment, service agreements, reviews and collection of income. Confirm that robust controls are in place for the collection of income in respect of Section 117 clients including a benchmarking review
	Adult Social Care	Deferred Payments	10	Review the process to apply for a deferred payment to property for clients placed in residential placements
	Adult Social Care	Appointeeship and Deputyship	15	Review the controls in place for the delivery of the Appointeeship and Deputyship service by Liberata. This will include referral from care management, management of client finances, protection of property and contract burials
	Adult Social Care	Discharge to Assess	10	Review the controls in place to deliver the Discharge to Assess service. Consider the review of the pilot scheme that was extended to March 2019, specifically the delivery of financial savings
	Education	Schools	8	Review of systems and procedures at a sample of schools
	Education	SEND Reforms	10	Review of controls in place to assess service users, eligibility criteria and review process



Education, Care and Health Services (Page 2)	Children's Social Care	Looked After Children	15	Review the controls in place for the assessment and reviews of children looked after in residential placements. To include the procurement of placements and joint funding arrangements with Education and Health
	Children's Social Care	Direct Payments for Children	10	Review the controls in place for the assessment, service agreement and review of direct payments for children. Consider any split costs between Education and Health
	Children's Social Care	Youth Offending Team	10	Review the systems operating for the YOT, including expenditure controls, contract and budget monitoring
	Children's Social Care	Troubled Families Claim	5	Verification work to confirm identified troubled families have been 'turned around' as per the grant conditions
	Public Health	Substance Misuse Services	10	Review of the Substance Misuse contract to include Substance Misuse panel spot purchasing for residential detox and rehabilitation. Needle Exchange Scheme and Supervised Administration of Methadone (SAM) delivered by pharmacists and recharges to the CCG
	Housing	More Homes for Bromley LLP – Residential Property acquisitions	10	Review the governance and controls in place over the operation of the scheme
	Housing/Public Health	Care Pathway – Service Overview	10	Consultancy review of a sample of cases involving public health, housing and social care to ensure value for money where there are competing objectives
	Education, Care and Health Services	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	30	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2019/20
	Education, Care and Health Services	Work in progress from 2018/19 carried forward	15	Provision for completion of work from 2018/19 which is in progress at year end
	<b>Education, Care and Health Services Total</b>		<b>208</b>	

## 2.5 Environment and Community Services

	Division/Service	Audit Title	Days	Objective or Rationale
Environment and Community Services (Page 1)	Highways	Street Lighting	10	Review governance and management of the contract to ensure controls are satisfactory and mitigate risk
	Highways	Local Transport Capital Block Funding (Integrated Transport and Highway maintenance) Specific grant determination (2018/19): NO 31/3224	4	To carry out work as required to confirm the conditions attached to the Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance) Specific Grant Determination (2018/19) No.31/3224 have been complied with
	Public Protection	Licencing	10	Coverage and scope to be discussed with management. This could include assessing the controls around compliance with legal/regulatory requirements
	Public Protection	Mortuary and Coroners Service	10	Review governance and management of the contract to ensure controls are satisfactory and mitigate risk
	Street Scene and Greenspace	FPN and Park Security	10	Review governance and management of the contract to ensure controls are satisfactory and mitigate risk
	Street Scene and Greenspace	Contract Implementation process for the new Environmental Services Contracts (LOT1, LOT2, LOT3, LOT4 and LOT5)	15	Review of the contract implementation process for the new Environmental Services Contracts (LOT1, LOT2, LOT3, LOT4, LOT5) to ensure that the processes embedded are as specified in the contract. Any findings from the review of exit strategy (LOT3 and LOT5) and their implementation and lessons learned from previous contract reviews will inform the areas to be reviewed
	Planning	Section 106 contributions	10	Review to focus on ensuring that the Section 106 contributions are spent in accordance with the agreements by project sponsors. The requirements such as purpose for which Section 106 contribution is to be used, geographical area, time limits and 'pooling' restrictions
	Recreation	Post Implementation review of Libraries contract	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk. To include review of budget options

Environment and Community Services	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	25	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2019/20
Environment and Community Services	Work in progress from 2018/19 carried forward	20	Provision for completion of work from 2018/19 which is in progress at year end
<b>Environment and Community Services</b>		<b>124</b>	
<b>Annual Plan Total</b>			
		<b>902</b>	

Report No.  
FSD 19024

## London Borough of Bromley

### PART ONE - PUBLIC

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

**Date:**                   **Tuesday 26 February 2019**

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

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

**Contact Officer:**     David Hogan, Head of Audit  
Tel: 020 8313 4886   E-mail: [david.hogan@bromley.gov.uk](mailto:david.hogan@bromley.gov.uk)

**Chief Officer:**        Director of Finance

**Ward:**                   (All Wards);

---

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. It covers:-

- 3.2 Risk Management
- 3.3 Audit Activity (Key Findings)
- 3.4 Audit Activity (Priority 1 Commentary)
- 3.5 Audit Activity (Other work)
- 3.6 Update to the Anti-Fraud and Corruption Policy, Raising Concerns (Whistle-blowing policy), Anti Bribery Policy and Procedures and Money Laundering Protocol.
- 3.7 Publication of Internal Audit Reports

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2. **RECOMMENDATION(S)**

- a) Note the Progress Report and comment on matters arising
- b) Note the list of Internal Audit Reports published on the council's website
- c) Note and approve the updated Anti-Fraud & Corruption Policy and associate documents.

### Impact on Vulnerable Adults and Children

1. Summary of Impact: Some of the audit findings could have an impact on Adult and Children's Services
- 

### 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: £560k including £165k Fraud Partnership Costs.
  5. Source of funding: General Fund/Legal Cost recoveries
- 

### Personnel

1. Number of staff (current and additional): 6.5 FTE (1 Post currently vacant)
  2. If from existing staff resources, number of staff hours: 2018/19 – 900 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 recommendations will have procurement implications.
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100, including Chief Officers, Heads of Service, 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 Internal Audit Progress**

3.1.1 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) or guidance. Internal audit is a key component of corporate governance within the Council. The three lines of defence model, 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
- Third line – independent assurance (Internal Audit forms the Council's third line of defence)

3.1.2 In simple terms this assurance will assess whether risks are being appropriately managed. This will help the organisation to; avoid surprises, establish whether activities are being delivered as expected and ensure opportunities are delivered in an efficient way. This provides accountability to our stakeholders and establishes priorities for managers where further action is required.

#### **3.2 Risk Management**

3.2.1 As part of the Council's Insurance Contract with Zurich, there is a 'notional budget' to use the services of their Strategic Risk Management Consultants and their expertise and knowledge to further strengthen risk management and controls within the Council. Members will be aware that the following work streams were commissioned for 2018/19:-

- Risk Register Refresh, Check and Challenge  
A series of Check and Challenge sessions to review and refresh the departmental risk registers resulting in an updated suite reflecting the current risk profile of the organisation.

3.2.2 The Risk Register refresh took place between December 2018 and January 2019. None of the registers required wholesale changes and a good general awareness and understanding of Risk Management was reported. Overall, there was a good level of engagement and it was evident through discussions that over the last couple of years, and in particularly recently, risk has become more embedded and is more 'live'.

3.2.3 The revised suite of registers will be presented to Audit Sub Committee at the June meeting and will accompany the Annual Governance Statement.

- Information Governance Health Check  
A desktop review of the existing policies and procedures, supported by a series of interviews with key stakeholders, resulting in recommendations for improvement and an Information Risk Maturity grading.

3.2.4 The Information Governance Health Check took place in November 2018 and was scoped to dovetail with the Internal Audit review of the area. The outcome of the Health Check was positive, with the organisation aware of the areas for improvement. Although a number of recommendations were made, these are in line with the issues and actions the organisation has already identified. The IT transformation project due to take place over the next 18 months will also mitigate a number of the associated risks/gaps. The full Health Check report



forms appendix A of this paper with the Internal Audit report published as part of the Information Briefings accompanying this agenda.

- **Business Continuity Planning**  
Provision of guidance and reassurance on best practice and approach supplemented by testing, through suitable scenarios, of the Business Continuity plans of each directorate to provide greater awareness of the individual service needs and responses to others.

3.2.5 Since the review was planned, both members of staff who oversaw Business Continuity and Emergency Planning have left the Council. The new Head of Service has been carrying out a review of the current position. It was agreed that the internal audit planned for this area will be deferred to 2019/20. In terms of the risk management review, a scoping exercise took place in Quarter Three with three days now set aside towards the end of March to provide professional support to Business Continuity Plan leads. The aim of this is to assist in the review and/or development of the Business Continuity plans for services designated as Priority 1 for the purpose of business resumption. Subsequent to this, the plans will be tested through an exercise designed to assess the response to major disruption.

### **3.3 Audit Activity (Key Findings)**

3.3.1 The latest list of outstanding Priority 1 recommendations is shown in Appendix B. There have been some additions since the last meeting of this Committee and these are detailed below. There has also been some movement in Priority 1 recommendations brought forward that are also detailed below.

3.3.2 A summary of key findings from Audits completed to date follows. Members are reminded that the full reports have been published with the agenda if they require further detail.

#### **3.3.3 Housing Register**

Audit opinion	Substantial
---------------	-------------

3.3.4 The overall objective of the audit was to review the online applications procedures and the verification process prior to the allocation of Housing.

3.3.5 Controls were in place and working well in that an up to date housing allocation scheme was available on Bromley Home seekers internet page to show how the Housing Association's housing stock is distributed; a visiting officer undertakes sample visits to applicants wanting to join the register and those currently on the register and these visits are logged; properties for bidding are available to view by applicants on the Bromley Home seekers internet page and there is evidence that Housing Associations contact the Authority where queries arise with nominations

3.3.6 We made six Priority 2 recommendations to improve controls. These related to nomination agreements, application forms to state how information is to be processed stored and shared; the need for data sharing agreements; for the Housing Association to notify the Authority when a nomination is successful; verification check forms to be approved if appropriate and development of a procedure note to detail what information should be collected during visits. One Priority 3 recommendation was raised relating to the need for spot check forms to be signed by completing officer.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	6	6	0
Priority 3	1	1	0

### 3.3.7 Parking Income

Audit opinion	Limited
---------------	---------

3.3.8 The overall objective of the audit was to review key controls to include controls on new collection arrangements under the new contract.

3.3.9 Two Priority 1 recommendations were made that related to contract variations and key performance indicators.

#### Contract Variations

3.3.10 On reviewing the Change Control Notices applicable for the contract it was found that in relation to CCN 9, that related to Acquiring Charges, the financial impact of the CCN was an increase of £1,800-£2,100 per month to the contract. This relates to the charges that had been incurred by the contractor since the commencement of the contract for using the merchant account for cashless payments. This would equate to £25,200 per year and £252,000 for the lifetime of the contract. However, discussions with the Acting Head of Parking confirmed this could higher as this increase was based on usage.

3.3.11 Due to the value of the CCN, enquiries were made whether a contract variation sign off form was ever completed with parking services obtaining the relevant approvals via Acting Head of Parking and the Director of Regeneration.

3.3.12 It is noted that within Schedule 5 of the contract which relates to Change Control Procedures; that 'A Change Control Note signed by both Parties shall constitute a variation to this Contract in accordance with the terms of the Contract'.

3.3.13 Internal Audit liaised with the Procurement team that confirmed that due to the value the CCN it would require the sign off form and go via the Commissioning Board as well as requiring Portfolio Member's Approval.

3.3.14 This also applies to CCN 1 that relates to £16,063 with the effect over the lifetime of the contract being £160,630. Internal Audit have not seen sight of the relevant sign off sheet and Portfolio Member's Approval in both cases.

3.3.15 Management have agreed that the relevant CCN will be countersigned by the Chief Officer and Portfolio Holder. A full review will be undertaken by management.

#### Key Performance Indicators

3.3.16 When reviewing the key performance indicators contained within the contract; a number of issue arose:-

- The process of collecting KPI's and the relevant documentation used was found not to be standardised. The process by which KPI's are collected is not clearly defined and data held in relation to each of the indicators is not readily accessible.
- The KPI table that was previously completed stopped being produced. The new Acting Head of Parking advised that this had now been reinstated. The table will need to be amended and reviewed to ensure all relevant information is available at any given time such as responsible officer, source of data etc.
- The KPI table should be supported by relevant documentation detailing the frequency of collection, responsible post holder, KPI target, KPI actual and the applicable default for the relevant period.
- KPI's that are not collected frequently should have the relevant supporting documentation to confirm this as such.
- Staff responsible for collecting the KPI's should be easily identifiable.
- There is currently a lack of understanding from the Parking Services team in respect of their knowledge of responsibilities in collecting the KPI data and the impact of the KPI data.

3.3.17 Management have reinstated the KPI table and the table has been reviewed. A full review of the KPI's will be undertaken.

3.3.18 We made five Priority 2 recommendations to improve controls. These related to the procedures not being in place at the commencement of the contract; format of contract monitoring minutes; issues identified with change control notices; officers and management had not completed the mandatory financial regulations course and a lack of supporting documentation.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	2	2	0
Priority 2	5	5	0
Priority 3	0	0	0

### 3.3.19 Health and Safety

Audit opinion	Limited
---------------	---------

3.3.20 The overall objective of the audit was to review and provide assurance that the Council's Health and Safety at Work policy and procedures are sound and being monitored.

3.3.21 We identified the lack of an up to date Risk Assessment universe, an out of date Control framework, Policies not subject to regular review, the lack of an effective performance reporting system and out of date information relating to staff members holding a valid first aid certificate, as areas for improvement.

3.3.22 We made one Priority 1, four Priority 2 and one Priority 3 recommendation to improve the framework of controls. These related to refreshing the Control framework to reflect the current structure and evidence strategic and operational links, ensuring resilience outside of the Corporate Safety Advisor's core hours; updating the suite of Health and Safety Policies; developing an effective performance reporting system supported by performance measures

and, ensuring that all published information relating to staff with valid First Aid certificates is up to date.

3.3.23 The Priority 1 recommendation identified that a full suite of comprehensive risk assessments (Risk Assessment Universe) is not held. The Authority is not, therefore, able to demonstrate that it has assessed its Health and Safety risks and has action plans in place to implement controls. Management have confirmed arrangements to prepare and relaunch risk assessment procedures which will be supported by training and a Managers' briefing.

3.3.24 All recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	1	1	0
Priority 2	4	4	0
Priority 3	1	1	0

### 3.3.25 Debtors Income

Audit opinion	Substantial
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3.3.26 The overall objective of the audit was to review the key controls around the debtors system and ensure that they are in place and operating effectively.

3.3.27 Controls were in place and working well over policies and procedures being in place and accessible. We also found that invoices, credit notes and debts were actioned in a timely manner and the rationale for credit notes raised and debts written off was evidenced. Reconciliations were undertaken and unapplied and unidentified credits were actioned daily.

3.3.28 We identified that debtor information included on invoices, authorisation of write offs and ensuring adherence to payment plans were areas for improvement.

3.3.29 We made five Priority 2 recommendations to improve the framework of controls. These related to ensuring that the correct information (debtor) is included in invoices, that write offs have been authorised in a timely manner and that unidentified receipt balances are correctly reported. Where breaks in payment plans have been identified, action should be taken to ensure that payment arrangements are being adhered to and, efforts should be made to streamline the workflow reporting system.

3.3.30 All recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	5	5	0
Priority 3	0	0	0

### 3.3.31 Pension Fund

Audit opinion	Substantial
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3.3.32 The overall objective of the audit was to review the key controls over the operation of the pension fund.

3.3.33 Controls were in place and working well over the strategy and actuary arrangements for the pension fund and reporting to senior management and Members. Risks were assigned, RAG rated and included on the risk register, with mitigating controls in place.

3.3.34 We made one Priority 2 recommendation to improve controls. This related to the quarterly pension fund revenue account summaries not being evidenced as reviewed by a second officer on completion. It has been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	1	1	0
Priority 3	0	0	0

### 3.3.35 Business Rates

Audit opinion	Substantial
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3.3.36 The overall objective of the audit was to review the key controls around the business rates system and ensure that they are in place and operating effectively.

3.3.37 Controls were in place and working well over policies and procedures being compliant with legislation. We also found that business rate bills had been issued on time with calculations documented and retained. Payments were up-to-date and reliefs had been allocated correctly with supporting documentation retained.

3.3.38 Management information was produced timely and meetings were held to discuss the administering of local business rate relief and any issues arising. Controls over write offs and the complaints process were in place and operating effectively.

3.3.39 We brought to management’s attention that a refund was identified where the refund requested and authorised did not match the refund in the Council’s business rates system. We also found that one of the sample of arrears tested did not have evidence of a formal recovery letter and a court summons letter being sent.

3.3.40 We made two Priority 2 recommendations to address these issues. Both recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	2	2	0
Priority 3	0	0	0

### 3.3.41 Pension Payments

Audit opinion	Substantial
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3.3.42 The overall objective of the audit was to review the key controls over pension payments.

3.3.43 Controls were in place and working well over the checks of ‘life certificates’ for pensioners living abroad and information prior to the payment of death grants. We also found that controls were operating effectively for quarterly reconciliations of pension payments and checking the criteria for pension refunds.

3.3.44 We made two Priority 2 recommendations and two Priority 3 recommendations to improve controls. These related to a lack of policies and procedures, updating action taken on the task management system and reconciliations which should be carried out between the pension system and the financial information system. We also recommended that in future all pension refunds are made by BACS as opposed to cheques.

3.3.45 All the recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	2	2	0
Priority 3	2	2	0

### 3.3.46 Management of Strategic Property

Audit opinion	Limited
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3.3.47 The overall objective of the audit was to review the management of Strategic Property over the performance of the Strategic Property sub-contractor. Controls were reviewed by way of checking supporting documents and sample testing.

3.3.48 Four Priority 1 recommendations were made that related to Verification of Contract Performance to support payments, issues with work commissioned from the Strategic Property sub-contractor which is outside the scope of the contract, key performance indicators and the £1m income generation plan.

#### Verification of Contract Performance to support payments

3.3.49 A sample of 5 invoices was selected from all payments made to the Total Facilities Management (TFM) contractor in respect of the Strategic Property sub-contractor between October 2016 and March 2018 to ensure validation checks were undertaken before approval for payment. The sample of 5 invoices included 4 monthly contract invoices for the Strategic Property sub-contractor. To validate the payment in full for the sample invoices, the monthly monitoring reports, the tracker of LBB's work schedule and contract monitoring meeting minutes for the sample months were checked. Findings arose in all three areas that challenge the validity of these documents to support payment in full.

3.3.50 It has been recommended that the Management should independently verify the accuracy of the performance information produced by the Contractor and the contract monitoring reports should clearly show evidence of completed work with sufficient details to support payments for all services specified in the contract. Reports presented in dashboard format should be supported by evidence to verify the accuracy of graphical data presented.

#### Issues with work commissioned from the Strategic Property sub-contractor which is outside the scope of the contract

3.3.51 It was noted that a number of projects were commissioned from the Strategic Property sub-contractor which are outside the scope of the contract. These projects were funded from capital funding of £250K for property disposal/feasibility works. This funding was agreed by the Executive on 24/05/2017 to enable feasibility works to be undertaken on various sites. The Executive was informed by Management that the feasibility work would be undertaken by the Strategic Property sub-contractor, the key subcontractor of the Council's Total Facilities Management Contract, and their fee basis is calculated against the schedule of rates contained within the contract and consequently separate tenders for this work would not be required.

3.3.52 From the review of a sample of 5 projects, it could not be established that the TFM agreed schedule of rates were applied for these projects/feasibility studies. Payments have been made towards 3 of the 5 projects in the sample, for a total of £67,752 and therefore it cannot be confirmed if the Council has secured value for money.

#### Key performance Indicators (KPIs)

3.3.53 The KPIs in the original contract were deemed to be unworkable by Management and a review of KPIs was started with the contractor in January 2017 which completed in January 2018. New KPIs and a Balanced Scorecard system to calculate the penalties were agreed by the Strategic Partnership Board for implementation from 01/03/2018. The following issues were noted with the review process and adoption of new KPIs and Balanced Scorecard system to calculate the penalties:

- No interim arrangements were put in place for monitoring and application of penalties whilst the original KPIs were under review.
- No penalty has been applied which relate to the management of Strategic Property since the start of the contract in December 2016. Due to poor recording of contract monitoring information it could not be confirmed if satisfactory service has been received and penalties

were not due, or penalties were due, but had not been applied.

- There is no evidence that the management has considered the financial impact of non-delivery of service to LBB to inform the maximum penalties.

£1m income generation plan

3.3.54 On commencement of the contract in October 2016, the Strategic Property sub-contractor was expected to develop and agree with the LBB a £1m Income Generation Strategy and Plan by April 2017 and monitor progress against this plan and report monthly. On enquiry by Internal Audit on the progress of the plan, the Head of Asset and Investment (HAI) advised that another discussion had taken place (that was also not formally documented) between LBB and the Strategic Property sub-contractor where it was further discussed that the savings would not be required to start being realised until April 2018.

3.3.55 Management provided a copy of the Income generation plan as produced by the Strategic Property sub-contractor to Internal Audit. Internal Audit queried the assumptions made or factors that the Strategic Property sub-contractor has taken into account in generating the plan and how have they identified the properties from which they consider the additional income will be achieved. The HAI informed Audit that he does not have any information to substantiate the Income generation plan.

3.3.56 A copy of the first quarterly monitoring report on the progress of the Income Generation Plan as produced by the contractor was reviewed by Internal Audit. As part of the review, Internal Audit discussed the monitoring report with The Senior Accountant ECS Finance to confirm that the increase in income identified in the monitoring report was new Income. The Senior Accountant ECS Finance advised that a number of queries are outstanding on the new income identified by the contractor and they had been chasing the contractor for 4 months for resolution. Due to lack of evidence it could not be confirmed if the Strategic Property sub-contractor has so far managed to grow LBB's net investment income.

3.3.57 We also made three Priority 2 recommendations to improve controls. These related to the procedures not being in place for the confirmation of the actual charges where payments are made on estimates; lack of common debt recovery procedures applicable to both the Exchequer contractor and the Strategic Property sub-contractor; and unavailability of up-to-date information on the rental arrears on commercial properties.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	4	4	0
Priority 2	3	3	0

**3.3.58 St Olaves School**

Audit opinion	Limited
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3.3.59 The overall objective of the audit was to review the adequacy and effectiveness of the system of controls surrounding the financial administration of the school, as required by the 1998 School Standards and Framework Act Section 48, paragraph 2(d) and the Authority's Scheme for Financing Schools.

3.3.60 The school was visited on the 3rd and 4th December 2018 to review financial management, governance arrangements, safeguarding assets and probity testing for the primary accounting procedures.

3.3.61 The fourteen recommendations raised in the previous audit report finalised on the 8/2/18 were followed up and progress to implement assessed from interview with officers and testing on recent data. Eight recommendations were found to be fully implemented, four recommendations relating to IR35 assessments, asset register, scheme of delegation and cash flow were partially implemented and two relating to the IT contract and the contract register were outstanding. The school had made significant progress to implement the recommendations raised in the previous audit report and it was acknowledged that the school has been through a period of change; officers, governors, appointments to the Headteacher and SBM posts and an increase of project work and spend, which impacted on the workload of the Finance Team. It was also acknowledged that the school were tasked with implementing the recommendations raised in the independent investigation report and the additional workload generated by that report.

3.3.62 Audit testing this time identified a weakness in the expenditure process, specifically the separation of duties and authorisation controls. Two medium Priority recommendations were raised for the school to review and revise the expenditure process including a requirement to raise awareness of budget holders, SLT and Finance officers as to their role and responsibilities regarding authorisation. A further three medium Priority recommendations were made relating to the scheme of delegation to ensure current working practices are supported; IR35 to ensure the online assessments are signed and dated and for claim forms to be supported by authorised documentation prior to payment. Three Priority 3 recommendations were raised with regard to completing and certifying the asset register, pecuniary interest forms for Governors to be held on site and distribution and timeliness of Finance Committee minutes.

3.3.63 All recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	5	5	0
Priority 3	3	3	0

### 3.3.64 Street Cleansing Contract Management

Audit opinion	Substantial
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3.3.65 The objective of the audit was to review the management controls on the performance of the Street Cleansing contract which delivers the day-to-day cleaning operations across the Council's administrative area.

3.3.66 One Priority 1 and two Priority 2 recommendations were made. Whilst there is a Priority 1 recommendation in the report this relates to a historical deficiency. The current management of the contract and the implementation of new contract principles are reflected in the overall assurance opinion.

3.3.67 The Priority 1 recommendation related to payment of invoices without adequate supporting documents. On reviewing a sample of invoices it was found that the prices charged for some elements of the agreed programme of additional work could not be substantiated.

3.3.68 This accounts for expenditure of £23,144 each month, £277,725 per annum that has been processed for payment without supporting documentation. It was noted that some of the programmed additional works have been in place, from the start of the contract. The key elements were discussed and referred to in the contract award report (ES 11123) however they did not provide a breakdown of prices. Management however provided a report from the Confirm database to demonstrate that the prices charged for the programmed additional work over the length of the contract have remained consistent since the start of the contract.

3.3.69 We also made two Priority 2 recommendations to improve controls. These related to the monitoring of the rebate for the extension period and site inspections for additional and ad-hoc work.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	1	1	0
Priority 2	2	2	0

### 3.3.70 Information Governance and General Data Protection Regulations

Audit opinion	<p>Governance and policies and procedures – <b>Substantial</b></p> <p>Training and awareness and arrangements for the collecting, processing, storing, sharing of data and disposal of IT equipment containing personal data – <b>Limited</b></p>
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3.3.71 The overall objective of the audit was to review the key controls put in place at a corporate level over GDPR and Information Governance.

3.3.72 Controls and areas of good practice were in place over the governance arrangements and policies and procedures. Whilst controls have been put in place over awareness and training and for the collecting processing, storing and sharing of data, there are issues within those areas which need to be addressed.

3.3.73 Two of the policies are currently in draft form and need to be finalised. All the policies would benefit from being organised in a hierarchical order on the Council's intranet site.

3.3.74 Information on GDPR and Information Governance is not included in the joining pack sent to new members of staff and controls over the undertaking and monitoring of on-line information governance training require strengthening. Instructions reminding staff of the security arrangements for files containing personal information should be issued. Controls should be put in place to improve arrangements over the storage and disposal of IT equipment.

3.3.75 A regular and formal review of the implementation of the recommendations outstanding from last year's review of GDPR and Information Governance by an external contractor should be undertaken.

3.3.76 We made eight Priority 2 recommendations and one Priority 3 recommendation to address the above issues. All recommendations have been accepted by management.

	Number of recommendations made	Number of recommendations accepted	Risk accepted but no action proposed
Priority 1	0	0	0
Priority 2	8	8	0
Priority 3	1	1	0

### 3.3.77 Grant funding received for trainee teachers – St Olaves

3.3.78 We carried out a certification check of monies received by St Olaves from the National College of Teaching and Leadership ('NCTL') under its grant funding agreement to assist funding trainee teachers in schools.

3.3.79 Our work involved ensuring that all terms of the Grant Funding Agreement had been complied with. We examined and verified payroll records and payslips for both of the trainee teachers, invoices received and paid by the school for relevant training fees and the income grant received by the school. All relevant entries on the school's financial management system were examined to confirm that they reconciled to the annual certification of expenditure submitted to the Department for Education. This covered the funding period between 1 September 2017 and 31 August 2018.

### 3.3.80 For current 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 system 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 1 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 1 recommendations considered to be fundamental control system weaknesses and/or several Priority 2 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.

### **3.4 Priority 1 Follow Up**

#### **3.4.1 Review of Contract Management – Adult Mental Health – Priority 1 Follow Up**

- 3.4.2 At the previous meeting in November 2018 Members were advised that the Department had made significant progress to implement the five Priority 1 recommendations raised in the audit report finalised in May 2018. The update in November concluded that 1 recommendation relating to roles and responsibilities had been fully implemented; 1 recommendation relating to service agreement reviews was partially implemented and three recommendations relating to the deed of variation, performance monitoring and management reporting remained open.
- 3.4.3 The Strategic Commissioner responsible for the Mental Health contract provided the update for this committee meeting and the supporting documentation; Dashboard report, meeting minutes and the Performance Management Summary.

##### Variation to Contract

- 3.4.4 The Legal Department decided that it would be preferable to retain the original agreement and complete a deed of variation to support the current service delivery.
- 3.4.5 Both parties have negotiated and agreed the revised terms and conditions of the variation and although there are still certain areas outstanding there are regular meetings and exchanges to keep the task moving forward. The allocated Legal officer has given assurance that the Mental Health agreement will now be prioritised. The anticipated deadline to have the revised S31 Agreement completed is March 2019.
- 3.4.6 The data sharing document, dated May 2018, has been revised for accuracy and the anticipated deadline for Legal to reissue the document is the end of March.

- 3.4.7 The recommendation remains open

##### Performance Measures and Monitoring

- 3.4.8 Since July 2018 a strategic commissioner within the Programmes Team has been directly managing the Mental Health contract and leading on the development of the revised performance framework for the contract with Oxleas. Both the strategic commissioner and the responsible Head of Service will maintain these responsibilities going forward.
- 3.4.9 Oxleas commenced the submission of performance data in November 18 prior to the planned monitoring meeting.
- 3.4.10 Discussion at the monitoring meeting on the 27th November focused on the need for the Council to agree with Oxleas data definitions, availability and capacity for reporting on the dataset. The RIO system is used by Oxleas to case manage clients and this will be the source of their submitted data. Performance data for service agreements is generated from Bromley's case management system, CareFirst.
- 3.4.11 The Council's Mental Health Board, focused on delivering the recommendations of the Internal Audit report. The draft performance management summary, a comprehensive document that covers all aspects of service delivery has been developed and submitted to the Board. Key indicators will be identified to monitor the contract. The intended outcome of the performance framework is to capture data to show all referrals, assessments and a greater focus on outcomes achieved for service users.
- 3.4.12 Bromley currently have 290 clients receiving a service for Mental Health, detailed on CareFirst and subject to annual reviews. The Mental Health section of the SALT (Short and Long Term Support) returns submitted by Bromley using data completed by Oxleas, show that there were some 600 clients seen by Oxleas for long term support during 2017/18 and 869 clients



receiving short term support. These 1,469 cases did not require a package of care from Bromley. The Department are looking to monitor performance and service delivery for all cases and will therefore need to consider all referrals and client contact data. The Mental Health Board has set out an expectation that the monthly performance reports will show the agreed data presented and also exceptions; an analysis of performance; narrative of the data and then the action to be taken.

3.4.13 The Department evidenced the minutes for the Section 31 Monitoring Meeting that was well attended by both Oxleas and Bromley officers, chaired by the Director of Adult Social Care. The minutes include progress to issue the revised Section 31 Agreement Review, Performance Management and Financial Monitoring. Monitoring meetings will be monthly. The Mental Health Board met on the 26th November with the Associate Director, Integrated Commissioning, Bromley CCG attending. Board meetings are planned to be monthly.

3.4.14 The recommendation remains open.

#### Service Agreement Reviews

3.4.15 The previous update showed this recommendation to be partially implemented. This would have been fully implemented but for the new clients that should be reviewed within 3 months but no provision had been made on the Dashboard report to capture this data. The Performance Team Manager has now evidenced that new clients are shown separately on the Dashboard report.

3.4.16 As at 25/1/19 there were no overdue reviews for new clients and there was just one client overdue by 2 days for the 12 month review.

3.4.17 Given the Department have now resolved the issue to identify and monitor the reviews for new clients this recommendation is now fully implemented.

#### Management Reporting

3.4.18 As with performance monitoring, the management reports will be formalised and agreed within the S31 variation. The frequency and format should be specified in the agreement any changes to the original contract will need to be addressed in the deed of variation. As reported above, the Mental Health Board was developed as a forum to receive and consider management reports.

3.4.19 The recommendation remains open.

3.4.20 The Department had set a target date of December 2018 to issue the new agreement, formally adopt the monitoring framework for performance management and schedule the receipt of quarterly and annual management reports. Due to the complexity of some of these tasks and the need to work through detailed definitions of KPIs with the provider, the deadline is now set as March 2019. Although the progress to agree a performance framework, presentation of data is ongoing, the three Priority 1 recommendations relating to the deed of variation, performance monitoring and management reporting will remain open but it is anticipated that the recommendations will be fully implemented by the end of March and therefore by the next committee meeting in June.

#### **3.4.21 Review of Home Tuition – Priority 1 Follow Up**

3.4.22 At the previous meeting Members were informed that 5 priority 1 recommendations had been raised for the Home Tuition Service. The findings related to the core panel decisions, outcome letter and review; the database to support the Home Tuition service; payment to agency tutors specifically completion and checking of timesheets; completion of daily attendance records

submitted to support service delivery and lastly the use of the procurement system to engage agency tutors for the service.

- 3.4.23 As previously acknowledged the Home Tuition Team were fully engaged with the audit process and developed an improvement plan based on the audit recommendations. This improvement plan has allowed management to monitor progress to implement and records quality assurance testing undertaken on key areas.
- 3.4.24 Given the relatively short timeframe for reporting to this Committee there has been insufficient time for the new procedures and working practices to be embedded and tested. However the interviews and limited testing carried out evidenced that the priority 1's relating to the database and the agency timesheets have been completed and are closed. A summary of progress for each recommendation is as follows:-

#### Core Panel Decisions

- 3.4.25 Management confirmed that the operation of the Core Panel (Gateway) had been reviewed and significant changes implemented, reflected in the revised Terms of Reference. The Gateway Panel meetings are held fortnightly, with all referrals and allocations subject to review. Multi-agency representation ensures that all children are identified and leads to successful cross divisional working. The Panel is chaired by the Head of Service and all decisions supported by a signed outcome letter detailing the allocated hours and required outcome. The panel administrator post is currently vacant but with an active recruitment process.
- 3.4.26 Management have identified that this is an ongoing area of improvement and have set a target of 2 successful quality assurance checks for consecutive terms to evidence implementation of the recommendation to be verified by Audit for the next Committee.

#### Database

- 3.4.27 The original management comments agreed the recommended enhancements to the database and testing this time evidence that these have been implemented. The team are satisfied that the database now meets their needs to support operation. The Division have extended this recommendation and propose to transfer data to the Capita One system in line with Early Years and SEN. The initial meeting with the Corporate Business Systems Manager (BT) on the 29th January was positive; the Lead Teacher (H/T) could see how the migration to Capita One would streamline processes and management reporting. The HT team have now been given access to Capita One to test the system and develop the options they would create to support their service. The Head of Service has allocated resources to upload the data with a target date to be completed by the end of February 2019.
- 3.4.28 This recommendation is considered closed.

#### Agency Staff

- 3.4.29 The team have developed procedures for receiving, checking and recording timesheets for all tutors including agency staff. Procedure notes setting out the requirement to complete timesheets, specifically the need for a parent/carer signature to evidence time delivered have been developed. Tutors at the Link are now required to sign an attendance record. These procedures have been in place since September 2018 and reinforced at the training session for tutors in October. Temporary changes are discussed at the weekly team meeting and any known changes recorded on the child's "live log", a record accessible to all the Team.
- 3.4.30 A sample of 5 agency tutors, submitting timesheets in November 2018, was randomly selected for audit testing. All timesheets were arithmetically correct and agreed to the actual hours on the database for 4/5 cases. For the one case where there was variation, the Lead Teacher

confirmed that the additional hours had been agreed by Panel and the database needed to be updated. Four of the 5 timesheets had been signed by the parent/carer.

3.4.31 This recommendation is considered closed.

#### Attendance Registers

3.4.32 As with timesheets the Team have reviewed and reissued the procedure to complete and return attendance registers. These procedures were e-mailed to all tutors in September 2018 and reinforced by the training session in October.

3.4.33 For week ending 7/12/18, 2 of the 5 tutors sampled had not returned the attendance register. The team are addressing this issue directly with individual tutors and evidenced a successful response for week ending 1/2/19.

#### Procurement and the use of one supplier (supplier A)

3.4.34 Management are currently reviewing the proprietary procurement system and potentially, alternative provision once the contract expires with the current provider in March 2020.

3.4.35 At the time of the original audit it was anticipated that there would be less reliance on agency tutors. The service are working on a business plan to deliver Home Tuition using LBB tutors and considering options for the two agency tutors working at the Link. The service accountant has provided financial support to cost out the options but given the agency adds a 14% commission there may be value for money achieved in changing the structure and provision of tutors.

3.4.36 Although the business plan was working towards reducing the use of agency tutors there has been an increase in active caseload since December 2018 and the Lead Teacher has had need to procure additional resources.

3.4.37 The Lead Teacher and Finance Officer have identified the correct expenditure code for all service requirements but as yet have not formally declared the changes to the proprietary procurement system provider to action the updates in the system. The service account is completing this task manually each week. A recharge to SEN will be actioned at year end. The Lead Teacher confirmed that she is now monitoring the hourly rate for each engagement and checking the weekly spend for each tutor to identify and challenge weekly values over expected. Similarly any changes to agreed hourly rate will be challenged with the agency and any annual uplift to be evidenced in writing.

3.4.38 The original audit identified training needs for the team to utilise the information available on the proprietary procurement system and to exercise a satisfactory level of checking and control. At the time of this follow up the training was still to be arranged with Procurement.

3.4.39 The follow up review for this Committee has confirmed a significant improvement to the process controls as the Team have developed financial and administrative procedures to support the service, addressing the issues raised by Internal Audit. The improvement plan and quality assurance testing undertaken by the Head of Service evidences a commitment to implement the recommendations that will be fully tested for the next Committee in June.

#### **3.4.40 Review of Reablement – Priority 1 Follow Up**

3.4.41 The Reablement Services help people adapt to a recent illness or disability by learning or relearning the skills necessary for independent daily living at home. Reablement Services may be offered to someone who has recently come out of hospital. Reablement should be provided free of charge by the local authority for up to six weeks. Reablement is one of councils' main tools in managing the costs of an ageing population and is important as Authorities face cuts in

government funding. Since the Care Act 2014, there is more of a responsibility for prevention and to enable people to remain independent.

3.4.42 In March 2017 we reported on two Priority 1 findings on the service with the findings split between the Reablement Team and the Reablement Assessment Team. Internal Audit brought the following to management's attention:-

#### Reablement Team

3.4.43 The Priority 1 recommendation related to the reablement performance data. During the following up testing was undertaken and satisfactory explanations were provided for the variances queried. Information was readily available to confirm why the variances had occurred. This priority one has now been implemented.

#### Reablement Assessment Team

3.4.44 The other Priority 1 recommendation related to the use of the Outcome Measurement Tool (OMT). Management confirmed to the Auditor that the OMT is not needed for any data for returns or financial targets. The Head of Service confirmed that the OMT will not continue to be used and staff will be advised of this with immediate effect. Therefore, this is no longer applicable.

### **3.4.45 Review of Leaving Care – Priority 1 Follow Up**

3.4.46 This report was finalised in October 2018 and reported to Members in November 2018.

3.4.47 Six Priority 1 findings were made within the report that related to:-

- Documentation to support payments to service users.
- Pathway Plans
- Individual Service Record
- Grant Sheet
- Reconciliation to Oracle – T accounts.
- Staying Put Allowances.

#### Documentation to support payments to service users.

3.4.48 Issues arose in six cases concerning the supporting documentation and substantiating the payments currently being paid and management were asked to review them.

3.4.49 Management confirmed that this recommendation had been implemented and have reviewed these individual cases.

3.4.50 Management confirmed that 'Historical service level agreements have been reviewed and data cleansed. A number of the findings are related to historical cases'.

3.4.51 'All current funding requests and service agreements are signed off by the Head of Service and the Group Manager'.

3.4.52 The review of service agreements and funding requests has been completed'.

#### Pathway Plans

3.4.53 Issues arose with Pathway Plans for 12 cases in relation the pathway plans not being reviewed every 6 months as expected.

3.4.54 Management confirmed that this recommendation had been implemented and in January 2019 that 'the majority of pathway plans are completed within the 6 month timescale. For those young people, who have a pathway plan exceeding 6 months, managers are aware of the

reasons and exceptions are agreed by the Head of Service’.

#### Individual Service Record

- 3.4.55 Payment records were reviewed and were found not to be up to date and complete. These related to the Setting up Home Allowance (SUHA), travel reimbursement, clothing allowances food vouchers and sundry items.
- 3.4.56 Management confirmed that this recommendation remains as outstanding. ‘A comprehensive record of all payments is currently not in place’.
- 3.4.57 Accurately maintaining service user records is currently dependant on one finance officer manually inputting all finances onto a spreadsheet held on a young person’s case record. This does not allow flexibility in the system for annual leave, sickness and workload fluctuations.
- 3.4.58 Improvements in this area is heavily reliant on the procurement of system that supports improved financial management. The procurement of this system is not within the remit of the service and completion of this recommendation is reliant on a suitable system being in place’.
- 3.4.59 As a risk management measure, the Head of Service (HOS) agreed for managers to review the current finance records for young people, Team Managers have not been able to review the current financial records of all young people yet’.
- 3.4.60 Interim corrective action taken within the service: HOS has dip sampled a selection of Payments and Grants records and in the majority of cases they were up to date with information related to Grants.
- 3.4.61 This record however does not account for discretionary payments based on the young person’s needs. This record also does not take into consideration any payments made via service level agreements in Carefirst.

#### Grant Sheet

- 3.4.62 It was found that when reconciling the grant sheet to the finance records, issues arose in seventeen of the cases sampled for testing.
- 3.4.63 Management confirmed that this recommendation remains as outstanding. ‘The payments and Grants Record is an Excel spreadsheet stored in Carestore. This is the same document referenced in the recommendation above. This is manually updated by the Finance Monitoring Officer for Leaving Care.
- 3.4.64 The following grants are tracked on the Spreadsheet:
- Setting up home allowance.
  - Clothing allowance
  - University grant.
- Spending against grants is updated by the finance officer (at least weekly).
- 3.4.65 There are currently 211 care leavers eligible for various levels of service and funding. Given the numbers and resources available a full review of all service users has not been possible.
- 3.4.66 The dip sample undertaken by the HOS – indicates that Grants are tracked and updated’

#### Reconciliation to T Accounts

- 3.4.67 A FBM report was run of all transactions under accounting code 807\*\*\*4076 for 2017-18. It was found that for 3 samples Setting Up Home Allowances (SUHA) transactions appeared on the finance records but not on the grant record and were unallocated to the individual T

account. Other transactions on the FBM report remained unallocated that went back to 31/7/17.

3.4.68 Management confirmed that this recommendation had been implemented.

3.4.69 'The LCT finance officer completes the monthly reconciliations of cash and APS to T accounts.

3.4.70 Payments made through Carefirst are not allocated to T codes. This is a system issue'.

#### Staying Put Allowances

3.4.71 Staying Put allowances are included within the agreed Fostering Allowances. In May 2016, a report went to the Executive Committee to approve a change whereby rates were to be brought in line with the DFE rates. It was confirmed by officers that this was to be from December 2017. The Auditor was informed that the Staying Put Rates were linked to the Fostering rates.

3.4.72 It was found that the Staying Put rates had not been subject to any uplift for 2017/18 and 2018/19.

3.4.73 Management confirmed that this recommendation has been implemented.

3.4.74 Management advised 'There are currently 23 Staying put arrangements. All carers are currently receiving payments above the DFE recommendations. The Payment structure for Staying Put arrangements were previously agreed by council members. Any changes to these arrangements would need to be reviewed by Scrutiny. The LC Service are currently not recommending any changes to payments at this time.'

3.4.75 Out of the six Priority 1 recommendations made, 4 have been implemented and 2 remain outstanding.

#### **3.4.76 Review of Direct Payments – Priority 1 Follow Up**

3.4.77 Four Priority 1 findings were made within the Direct Payment Report which was finalised in September 2018. This was reported to Members in November 2018.

3.4.78 There were four significant findings relating to DP5 documentation, direct payment terms and conditions, payments and ownership of documents for update & review including appointed person form. These have all since been addressed.

#### Direct Payment Terms and Conditions not met

3.4.79 Out of the three cases, two cases have been addressed and there is no money owing. The last case is no longer relevant as the parents do not live at the same address and their cared for sons live at different addresses.

#### Payments

3.4.80 Management confirmed that two of the cases have since been completed and no overpayment is to be reclaimed. For the third case, this is no longer applicable.

#### DP5 Documentation

3.4.81 Management advised that there were 16 of the 20 DP5's located in archive documents. The remaining 4 that could not be located have been reissued and scanned into Carestore and is completed in January 2019.

3.4.82 The Process for storage of DP5 has been reviewed and the Policy and Procedure has been updated. This has been circulated and is accessible to all staff on one Bromley.



3.4.83 All other cases with the exception of one case are available, which will be updated week commencing 11/2/19. The Policy and Procedures for storage have been updated and all staff know where the DP5/5a documents must be stored. The risk has been addressed.

Ownership of Documents For Update & Review Including Appointed Person Form

3.4.84 Management advised that the new Policy and Procedures for Direct Payments, which includes the authorised and nominated person, have been signed off and are on one Bromley. All staff have been informed of the new procedures and training was delivered to representatives of each team as a train the trainer approach. Each Rep then trained their colleagues during an additional team meeting. There is formal training being developed and this will be provided in the new business year. The owner of the documentation is the Director ASC and will be completed in January 2019.

3.4.85 All outstanding Priority 1 recommendations have now been implemented.

**3.4.86 Review of St Olaves School – Priority 1 Follow Up**

3.4.87 Members were previously informed that the Priority 1 related to the procurement of IT services at the school. The newly appointed School Business Manager (SBM) had been tasked with reviewing the current IT arrangements and undertake the procurement exercise to retender the contract when it expires in August 2019.

3.4.88 The school commissioned work from BT to document the current IT provision and draft a specification for retendering. The initial site visit was undertaken in July 2018 but the reports were not received until January 2019. This delay has impacted on the schools progress to implement.

3.4.89 In an e-mail dated 18th January the SBM set out intentions to meet with relevant members of staff and senior leadership team to discuss options and then proceed with a tendering exercise to secure ICT support.

3.4.90 The planned audit at the school in December 2018 confirmed a continued improvement in financial management and a good understanding of the requirements of procurement within the framework of Financial Regulations; two tendered contracts checked during the site visit were satisfactorily completed.

3.4.91 The original Priority 1 recommendation related to non-compliance to EU tendering regulations. The work done to date on the IT retendering and the schools approach to procurement since April 2018 supports the satisfactory implementation of this P1 recommendation.

**3.4.92 Review of Family Placements – Priority 1 Follow Up**

3.4.93 At the previous meeting Members were informed that a Priority 1 recommendation had been raised in the review of Family Placements. The audit had identified that the payment of Child Arrangement Orders (CAO) and Connected Person (CP) allowances did not agree to the current DfE published rates. The payments evidenced were the 2016/17 rates that had not been uplifted for 2017/18. An external agency had identified the underpayment in December 2017 but problems changing the payment structure in CareFirst protracted and delayed the uplift. The 2017/18 rates were changed in July 2018 to generate backdated payments to carers and then uplifted again in August 2018 for the 2018/19 rates that should have been paid from 1st April 2018.

3.4.94 The 2019/20 DfE rates are not presently available but the Head of Service and Finance Officer both confirmed that the CareFirst help desk will be requested to uplift the new rates at the

earliest opportunity to ensure that the new rates are paid to carers at the start of the financial year.

3.4.95 A sample of 5 CAO and 5 CP cases paid in January 2019 were satisfactorily checked to the 2018/19 DfE weekly allowances. Where appropriate the supporting means test for the CAO was verified. The audit testing did identify that of the 8 children detailed on the CAO report, generated from CareFirst, 4 children had returned home, the classification will be updated accordingly.

3.4.96 This recommendation has been satisfactorily implemented.

#### **3.4.97 Review of Agency Staff – Priority 1 Follow Up**

3.4.98 Directors to review their agency staff engagements which currently exceed six months and obtain approval from the Director of HR where there is a need to extend the engagement.

3.4.99 At the last Audit Sub-Committee meeting in November 2018, in response to questions from Members, we reported that this had not been implemented at that time and would be kept under review. As at 16 January 2019, we have identified 195 agency staff who have been engaged for longer than 6 months. This includes 18 agency staff who have been engaged for longer than 3 years.

3.4.100 We have asked HR to provide both the business case made by the Directorate to continue to engage these 18 staff and evidence of the HR Directorate's approval. HR are currently gathering this information. We have been told by HR that 'Where the placement is in CSC or ASC we have a recognised shortage of Qualified staff and we are making every effort to reduce our reliance on agency workers but this is difficult given that there is a national shortage. The use of agency staff is therefore outside of the 6 month time limit but is regularly monitored as part of the data that goes to the R&R Board every 2 months as well as the CSIGB.'

3.4.101 We consider that this recommendation has not been implemented and an update will be provided at the meeting.

#### **3.4.102 Review of Waivers – Priority 1 Follow Up**

3.4.103 Both Priority 1 recommendations are being progressed through the ongoing development of the Corporate Contracts Database and associated guidance and procedures that have been put in place.

3.4.104 The Contracts Database is currently in User Acceptance Testing (UAT) for the functionality of an electronic authorisation process for all relevant contract actions, including extensions, exemptions and variations. Subject to UAT, the functionality will be rolled out hopefully in the coming months.

3.4.105 The electronic authorisations process will generate and securely store formally approved authorisations in accordance with the Council's Contract Procedure Rules, so that there is one agreed and auditable record for every contract authorisation. Training will be provided to Contract Owners to facilitate a clear understanding of the process. However, it is to be noted that the authorisations process, including guidance and standard templates, is already in place and embedded via the manual system on the Council's Toolkit.

3.4.106 The recommendations are therefore in progress but remain open.

### **3.4.107 Review of Creditors – Supplier set up form – Priority 1 Follow Up**

3.4.108 The Priority 1 recommendation relating to the authorisation of the form to set up suppliers to the creditors master file is being progressed and will be addressed as part of the audit of creditors which is due to take place in the near future.

3.4.109 The form has been re-designed to include the necessary authorisation. We are, however, seeking confirmation from our audit contractor, who audits this area at other local authorities that our set up form and associated procedure meets with best practice adopted elsewhere.

3.4.110 The recommendation is therefore in progress but remains open.

### **3.4.111 Review of Children with Disabilities – Priority 1 Follow Up**

3.4.112 It was reported in November 2018 that through testing we identified in our sample that a service user is currently in a residential boarding school placement from 11/9/17 at a cost of £3,072.85 per week and is a split funded between children's social care and SEN. It was confirmed that the service user has been attending 2 of the 4 nights per week from October 2017 that are being funded and as a result we continue to fund for 4 nights.

3.4.113 The Director of Social Care confirmed that she had 'reviewed and the circumstances surrounding this are not straightforward and there is rationale as to why the child attends as they do'.

3.4.114 Therefore, this priority one is now closed.

### **3.5 We also carried out the following:**

- Planned audit work with the focus on completion of the 2018/19 Internal Audit Plan.
- Fraud and investigations – the results of which are reported in Part 2 of this agenda.
- Preparation of the Draft Internal Audit Plan for 2019/20.
- 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. Preparation of the new Contract to start 1 April 2019.
- Committee work including preparation of Risk Management papers for Executive, Resources and Contracts PDS and attendance at the Standards Committee.
- Internal Liaison with the Corporate Leadership Team/Directors' Group; Directorate Management Teams and Corporate Risk Management Group.
- External liaison with the various London Audit Groups, the Kent Audit Group and our External Auditors

### **3.6 Update to the Anti-Fraud & Corruption Policy, Raising Concerns (Whistle-blowing policy), Anti-Bribery Policy and Procedures, Money Laundering Protocol (Anti-Money Laundering Policy) Appendix C**

3.6.1 In November 2018 the Council's Anti-Fraud & Corruption Policy was scheduled for review. That was carried out and an update to it and its appendices namely the Fraud Protocol, Raising Concerns (Whistle-blowing policy), Anti-Bribery Policy and Procedures, Money Laundering Protocol (Anti-Money Laundering Policy) are attached as Appendix A, B, and C respectively to the main policy. The changes are minor in nature including job titles, replacing the reference to the annual Protecting the Public Purse report which is no longer produced with CIPFA's Counter Fraud Tracker and reflecting the change of name and contact details for the independent advice Charity "Public Concern at Work" to "Protect". It has also been changed on a regular basis to reflect changes of job holders. With respect to the Money Laundering Protocol (Anti-Money Laundering Policy) this has been redrafted to clarify procedures and reflect the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) which came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering. In doing so, they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force. Whilst Local Authorities are not directly covered by the requirements of the Money Laundering Regulations 2017, guidance from finance and legal professions, including the Chartered Institute of Public Finance and Accountancy (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002);
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329).

3.6.2 These are the primary money laundering offences, and are thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the three primary offences, and tipping off. Tipping off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer the Head of Audit. The purpose of the Policy is to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases of money laundering. The revised policy lowers the level at which the Council will accept payments in cash from £10,000 to £5,000. Subject to endorsement from this committee Internal Audit will re-raise awareness of these policies with Managers and Staff.

### 3.7 Publication of Internal Audit Reports

- 3.7.1 Since the last cycle of this Committee we have published a further 13 redacted final reports, listed below. 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.

AUDIT	OPINION
Housing Register	Substantial
Parking Income	Limited
Health and Safety	Limited
Debtors Income	Substantial
Pension Fund	Substantial
Business Rates	Substantial
Pension Payments	Substantial
Management of Strategic Property	Limited
St Olaves School	Limited
Street Cleansing	Substantial
Information Governance and GDPR – Policies and Procedures	Substantial
– Operational Data Matters	Limited
Waste 2016/17	Limited
Waste follow up 2017/18	N/A

### 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 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

- 7.1 Staff in breach of financial rules or procedures or acting inappropriately against the Council's legal and financial interests may be subject to disciplinary or/and criminal investigation.

## 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 implication for procurement relating to contract procedure rules, financial regulations and Value for Money issues.

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



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# Information Governance Health Check Report London Borough of Bromley

Adam Lickorish, Senior Strategic Risk Consultant

Martin Clemmit, Strategic Risk Consultant

**November 2018**

**Zurich Municipal**



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# Introduction & Methodology

Zurich have been commissioned by London Borough of Bromley (LBB) to review the effectiveness of the organisation’s information governance arrangements. In order to measure the maturity of this, a Performance Model has been used which breaks down the relevant activities into seven categories that contribute towards effective information governance arrangements within an organisation:

<b>Leadership and Management</b>	<i>How well do Senior Management understand and respond to Information Risks?</i>
<b>Strategy and Policy</b>	<i>How effective are the strategies and policies for managing for managing information risks?</i>
<b>People and Training</b>	<i>How well do individuals understand their specific responsibilities and what is the appetite for learning about information risk management within the organisation?</i>
<b>Technology and Infrastructure</b>	<i>How securely is information stored and how well is both digital and physical access to information managed?</i>
<b>Supply Chain</b>	<i>How well does the organisation understand how much data is shared with suppliers and how well is it managed?</i>
<b>Incident Management</b>	<i>How well is the process for identifying, escalating and responding to a data breach understood and embedded?</i>
<b>Compliance and Audit</b>	<i>To what extent does the organisation obtain assurance around the effectiveness of its information management processes?</i>

The model enables an assessment to be made around the extent to which risk management is having a positive effect on the organisation. The five levels of maturity are as follows:

Level 1 - Aware	Level 2 - In Development	Level 3 - Managed	Level 4 - Integrated	Level 5 - Transformational
This level describes organisations where there is recognition of the importance of good IG but although some policy documentation exists, awareness and consistency of approach is generally poor making it highly vulnerable to information breaches	This level describes organisations where there is development of a structured approach to IG but while the risks are better understood these organisations remain vulnerable to information breaches	This level describes organisations where there is a good understanding of information risks and defined policies and procedures. Controls should reduce exposure to information breaches but there are likely to be inconsistencies in how these applied across the organisation	This level describes organisations where IG is embedded and consistently applied across the organisation. Such organisations seek to continually improve their processes and controls to limit their vulnerability to information breaches.	This level describes organisations where IG is a strategic priority and the use of information is leveraged to drive maximum value. Information risks and trends are proactively monitored and mitigated to minimise the vulnerability to information breaches

# Executive Summary

Whilst the benefits of digital transformation are clear a recent poll identified that only 30% of the public have confidence in local government to handle their data and information appropriately. It is therefore essential that information governance needs to be considered as key risk within the Council and in particular with regard to change and transformation projects.

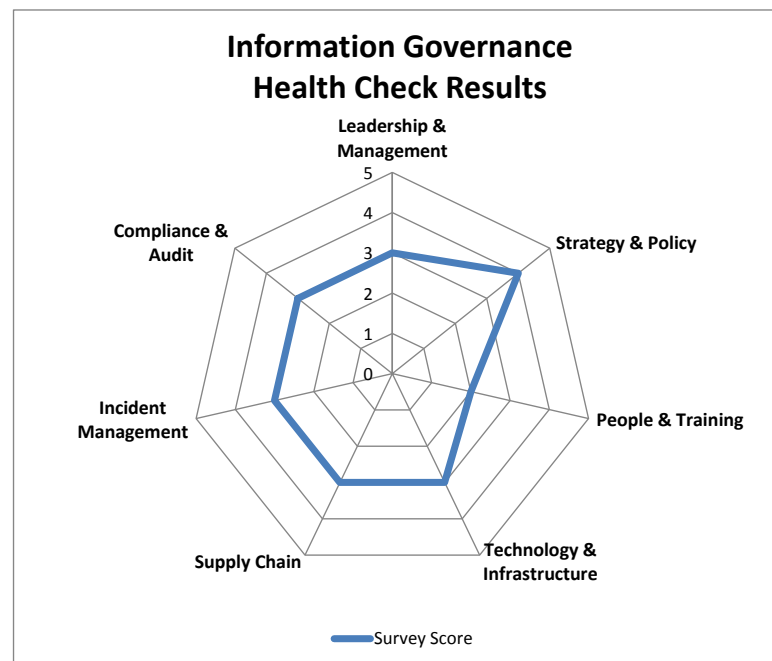
The Information Governance Health Check highlighted an Organisation with strong leadership and policy framework, with the building blocks of a fully effective information governance programme. In all areas the fundamental aspects of an effective information management programme have been established. While the Council scored at 'Level 2 – In Development' in one area, the actions required to improve are relatively easy to attain in the short to medium term.

Key areas for improvement identified in the report are:

1. Development of role based training programmes and compliance monitoring and escalation of mandatory training.
  2. Risk based action planning to ensure timely close out of information security assessments/audit reports.
  3. Further development of performance management metrics to measure effectiveness of the information security programme.
  4. Enhance business continuity and disaster recovery arrangements to improve resilience.
- Improve the management and security of physical records through enforcement of retention periods and clear desk arrangements.

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The following pages provide further detail around our conclusions together with recommendations for improvement.



# Observations & Recommendations



## Leadership & Management

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### ***How well do Senior Management understand and respond to Information Risks?***

This section considers:

- Communication and Stakeholder Engagement Strategy
- Clarity of Direction and Strategy
- Senior Level Buy-In and Ownership
- Board Agenda, Strategic Risk Register, Risk Appetite
- Resource Provision

This area is fundamental to setting and maintaining an information risk aware culture across the organisation. It is very difficult for an organisation to make significant progress on the other areas of Information Governance if they are not performing well in this area.

The organisation has all of key roles expected in place, (SIRO, Data Protection Officer, Head of Information Management and Caldicott Guardian). The SIRO and Data Protection Officer roles are held by the Director of Corporate Services and as a result holds a seat on the organisation’s leadership team. This also means that control can be deployed directly rather than needing to influence stakeholders on information governance.

The Director of Corporate Services chairs the Information Governance Board that is in place and the membership of the Board includes key individuals and has a focus on sharing experiences, data sharing protocols and training needs.

The organisation had a third party undertake a Data Protection Review in July 2017, from which a significant number of recommendations were made. The organisation has committed to implementing these recommendations and developed an action plan and monitoring process to do this.

### **Recommendations:**

- In light of the recent ransomware attacks that the Organisation has been impacted by, the increasing attack surface and business reliance on IT availability, consideration may wish to be given to including a cyber / data incident risk on the corporate risk register.
- A strong set of cybersecurity metrics should be developed to improve monitoring of the security programme. These could include, for example, (1) Mean time to detect and Mean time to respond, (2) Number of systems with known vulnerabilities, (3) Number of days to deactivate former employee credentials, (4) Percentage of business partners with effective cybersecurity policies, (5) Frequency of review of third party accesses (6) Number of outstanding high-risk findings from security/audit assessments and (7) Completion rates for training programmes.

## Strategy & Policy

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### ***How effective are the strategies and policies for managing information risks?***

This section considers:

- Strategy for managing information risks
- Policy for corporate security
- Policy for information risk management

The Information Strategy is currently under review. To be effective, the Strategy should be part of the Business Process Life Cycle and the Council must ensure there is a cooperative dialogue between business areas and information security experts to ensure the Strategy is aligned with Organisational objectives including risk management and corporate governance requirements.

A full range of expected policies are in place which are of good standard with evidence of regular review and update. However, the number of interrelated information policies could lead to confusion when officers are trying to determine which and how the policies relate to their area of responsibility. The approach could be improved by adopting a hierarchal approach to Policy development whereby Tier 1 is considered Organisational Level (e.g. Asset Management), Tier 2 Topic Level (e.g. Records Retention, Information Classification) and Tier 3 Application Level (e.g. Disposal of Records, Access Control).

Information from interviews indicates that the Information Retention and Disposal Process and Guidance is not consistently followed. As well as increasing processing and handling costs the Council is not meeting the Data Protection principle of personal data minimisation. Rationalisation of retention schedules and development of technological solutions to automate record archival and subsequent destruction should be considered.

### **Recommendations:**

Adopt a hierarchal approach to Information Security Policy development and presentation.



# Observations & Recommendations



## People & Training

Level 1 Aware	<b>Level 2 In Development</b>	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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***How well do individuals understand their specific responsibilities and what is the appetite for learning about information risk management within the organisation?***

This section considers:

- Culture within the organisation
- Skills and training
- Clarity of roles
- Risk awareness
- Induction for Starters and leavers

This use of information to drive maximum value for stakeholders is a desirable characteristic of organisations today. It is therefore important that employees are aware of their responsibilities and provided with the appropriate training and skills to meet the requirements of achieving this aim.

A key control for managing the human elements of information risk is the e-learning training package. Each of the eight modules is mandatory and should be completed and refreshed annually. The modules are currently being rolled out and the third module – “GDPR” is underway. Whilst training completion is monitored there is no formal follow up/escalation procedure for those that do not. This needs to be addressed to ensure compliance with the training programme.

### Recommendations:

- The Information Security Training Programme should include enhanced training for Information Asset Owners as they form a pivotal role in the information asset architecture and management. Line Managers should also receive enhanced training relating to the use and retention of employee records and data.
- Training for Contract Managers should be extended to include matters relating to the oversight of cyber, information and data protection risks in partners and suppliers.
- Information Security Training and Awareness Programmes are most effective at altering behaviours when the employee recognises personal benefit. The Organisation should therefore ensure that training messages highlight how information being provided will help protect employees at home as well as at work.
- Completion of training programmes should be formally monitored and reported on with follow up and escalation to address non-compliance with mandatory requirements.
- Metrics should be defined to assess the effectiveness of awareness training. This could include (1) number of reports of attempted email scams/phishing attempts and (2) number of queries from staff on implementing secure procedures.

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## Technology & Infrastructure

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### *How securely is information stored and how well is both digital and physical access to information managed?*

This section considers:

- Computer hardware management
- Secure disposal of IT equipment
- System and Physical site access controls
- Memory and data storage devices
- Email and Document classification / encryption
- Data storage, retention and disposal protocols

The management of day to day operations of the Council's technology and infrastructure is outsourced to BT. The Partner provides system security in a number of key areas including: risk based patch management; intrusion detection logging, password management for all users including system administrators; blocking of malicious and unsuitable internet sites and anti-virus on email exchange and servers. The principle of least privilege is adopted and access to key network infrastructure is suitably controlled. Data on laptops is protected through encryption and portable storage devices (USB) are also protected. USB ports on devices are not locked down, currently allowing both read and write access.

The position regarding the protection of data in transit was a little less clear when discussed with end-users. Egress, an email and file encryption software solution, is available however interviewees gave differing accounts of how and when this is utilised. The matter requires further investigation to determine whether this is a training or implementation issue.

IT and Application Assets are captured on an Asset Register. However the process of updating the Register in terms of new and disposed of assets is not fully effective. The Organisation does recognise these shortcomings and is looking to improve the position.

The storage, retention and disposal of physical records could also be improved. Whilst interviewees were generally aware of published retention schedules and document classifications there was limited confidence that the guidance was being consistently applied. The main concerns are: inappropriate classification of documents; documents retained beyond required retention periods and insecure storage of documents in the context of a clear desk policy.

Printing is controlled in major office locations through the use of pin coded multi-function devices. For other locations, interviewees indicated that printers would be housed in secure or non-public areas. These arrangements are acceptable although further emphasis could be placed on challenging the need to print documents in the first instance.

# Observations & Recommendations



## Technology & Infrastructure (continued)

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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*How securely is information stored and how well is both digital and physical access to information managed?*

**Recommendations:**

- Procedures to ensure the IT Asset Register remains accurate and up to date should continue to be developed and reinforced and a process of compliance monitoring introduced.
- Guidelines and requirements for the use of email encryption (Egress) should be reinforced with end-users supported by additional training where required. The implementation of Egress should be reviewed to ensure functionality such as automatic encryption based upon keywords has been considered.
- The Organisation should develop and implement a USB security management system.
- Raise awareness of document classification requirements (as part of the ongoing IG Awareness Programme) to improve compliance with Policy.
- Review and rationalise retention schedules, aiming to reducing the number of retention periods to improve system usability.
- Raise awareness of the Clear Desk Policy and improve compliance through line management monitoring.

## Supply Chain

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### ***How well does the organisation understand how much data is shared with suppliers and how well is it managed?***

This section considers:

- Sharing data and requests for information including Freedom of Information and Data Subject Access Requests
- Contract management and supplier performance
- Tendering and procurement processes

The organisation has a dedicated consultant locum lawyer who joined in August 2017. A large amount of activity has been undertaken to address non-compliance in existing contract with new contracts drafted and issued to existing and new suppliers. A small number of suppliers have disputed the change wordings and these are being remediated by Legal Teams. There are 40 outstanding queries that are anticipated to be concluded by end December 2018. Progress and sign off needs to be monitored.

Whilst contracts have been updated to reflect changed requirements of revised Data Protection legislation there does not appear to be a process to ensure these have been returned or followed up where required. Arrangements need to be put in place to ensure timely return of contracts together with Organisational oversight of the position.

The Council needs to further develop procedures, guidance and awareness to ensure Contract Managers and Commissioners are obtaining sufficient assurance that third parties are meeting their information governance and business continuity contractual obligations.

Structures and processes are in place to respond to Data Subject Access Requests (DSARs). However some areas of weakness were have been identified - absence of training on redaction, no sign off requirement for completed DSARs and awareness of protocols for responding to requests from Law Enforcement agencies.

### **Recommendations:**

- On completion of the 40 outstanding queries from contractors, a review should be undertaken to ascertain the response rate and ensure that all of those signed are held on file.
- Redaction training to be provided to staff handling Data Subject Access Requests.
- Procedures need to be refined to ensure a risk based approach to supervisory sign off of Data Subject Access Requests.
- Awareness of protocols for responding to DSARs received from Law Enforcement Agencies needs to be improved.

## Incident Management

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### *How well is the process for identifying, escalating and responding to a data breach understood and embedded?*

This section considers:

- Reporting process
- Definition of incident / breach
- History of breaches
- Business Continuity and Recovery

The Information Security Incident Management Policy (as referenced in the Corporate Information Security Policy) articulates the process for reporting and investigating a breach. This includes the roles and responsibilities of individuals and steps that should be taken as a result. One particular area that was highlighted through the interviews is the lack of awareness of protocols for “out of hours” reporting and thus the potential to not meet the requirement to notify the Information Commissioners Officer of a personal data breach within 72 hours. Out of Hours breach reporting should be covered in Staff Awareness training

Where breaches do occur it is vital that an appropriate and proportionate investigation is undertaken and the lessons are shared and new working practices are established. Through the interview process it was evidenced that breaches are reported well and that key learning is reported at the Information Governance Board.

There are currently no disaster recovery arrangements in place (hot/cold site, mobile site, mirrored site etc) although an off-site backup regime is in place. This introduces a significant weaknesses in Organisational resilience although it is noted that there are plans to address this, subject to funding sign off. Business Continuity Plans have been developed although at Service/Department level they do not consistently respond to disruptive incidents involving the use of IT. It is important the Business Continuity methodology encourages Service areas to identify critical systems, applications and data which can be used to inform disaster recovery planning and also to consider whether alternative arrangements, such as manual workarounds, need to be implemented.

Two ransomware attacks have occurred over the last 18 months, both fully recovered from. However both were instigated through user error, where a users clicked on a link they shouldn't have.

### **Recommendations:**

- Implement and publicise procedures to ensure prompt internal reporting of data breaches when these occur “out of office hours”.
- Ensure that disaster recovery arrangements are properly aligned and strengthened to support business needs and risk management requirements.
- Ensure Business Continuity Management processes identify infrastructure, applications and data required to deliver critical Services and that those critical Service develop contingency arrangements to respond to a loss of IT.

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# Observations & Recommendations

## Compliance & Audit

Level 1 Aware	Level 2 In Development	Level 3 Working	Level 4 Integrated	Level 5 Transformational
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### ***To what extent does the organisation obtain assurance around the effectiveness of its information management processes?***

This section considers:

- Compliance standards
- Management Monitoring
- Internal Audit
- Undertaking improvement actions

Effective compliance and audit can strongly support a culture of continuous improvement and provide assurance on the effectiveness of the information risk controls.

As previously mentioned, the organisation was subject to a Data Protection Review in July 2017. The action planning that followed this review was subject to an internal audit in October / November 2018. The outcomes of this were that 18 recommendations of 51 that were initially identified are 100% compliant / fully implemented. A further 18 are awaiting further information. Partially implemented actions were also being reviewed.

Built into the 2019 Internal Audit plan is a cyber security gap analysis review against the guidance issued by the Cyber Security Centre. This will cover the configuring of devices and assigning user privileges amongst other elements. The Internal Audit Plan adopts a risk based approach to its programme and Information Governance will remain for the foreseeable period.

Contract management effectiveness on GDPR and information governance will also be included on 2019's plan. Part of this audit will be to ascertain how actively contract managers are assuring themselves that their suppliers / providers are adhering to their contractual requirements.

### **Recommendations:**

- Establish a programme of office walkthroughs to ensure that staff are following the Council's Clear Desk Policy and locking computer screens when leaving them unattended.
- A risk based action plan to address the outstanding actions from the 2017 Data Protection/GDPR Readiness Review should be implemented and progress reported to the Information Governance Board.
- Guidance should be developed to support Contract Managers in a risk based approach to ensuring compliance with Information Security and Data Protection requirements with Partners and Suppliers.

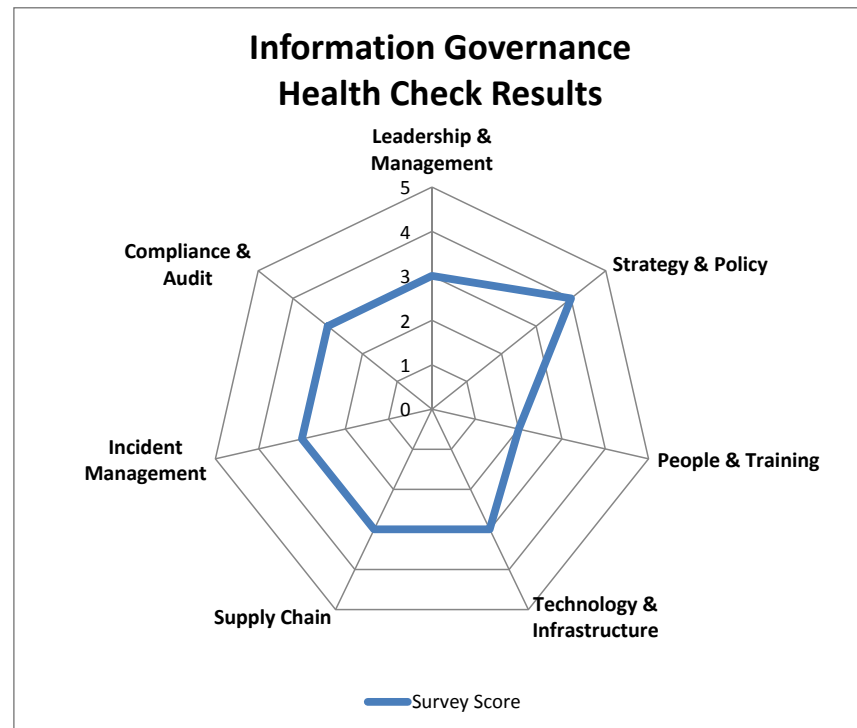
# Strengths & Development Areas

## Key Strength(s):

- ✓ Sound policies and procedures in place
- ✓ Clear roles and responsibilities
- ✓ Good level of understanding and awareness
- ✓ Framework and supporting documentation
- ✓ A considered risk based approach to Internal Audit
- ✓ Action planning and reporting on completion progress

## Areas to focus development:

- Disaster recovery and contingency arrangements
- Training, Education and Awareness
- Embedding the process for the disposal of information assets





# Appendix 1 – List of Interviewees

Name	Role
Clive Sheldon	Information Lawyer
David Hogan	Head of Audit
Barrie Cull	Principal Auditor
Mark Bowen	Director of Corporate Services
Vinit Shukle	Head of IT / Senior Information Officer
Charles Obazuaye	Director of HR
Lucinda Bowen	Information Management
Denise Sullivan	Head of HR Business Services
Angela Huggett	Head of HR Strategy & Education
Mark Smeed	Strategic Business Support
Angus Culverwell	Assistant Director, Traffic and Parking
Amit Malik	Head of Deprivation of Liberty Service
Debi Christie / Jenny Macdonald	SEND / Education Welfare
Vicky West / Penny Davies	Head of Adoption and Fostering / Head of Quality Assurance

# Appendix 2 – Summary of Recommendations

Section	Recommendation
Leadership and Management	<ol style="list-style-type: none"> <li>1. In light of the recent ransomware attacks that the Organisation has been impacted by, the increasing attack surface and business reliance on IT availability, consideration may wish to be given to including a cyber / data incident risk on the corporate risk register.</li> <li>2. A strong set of cybersecurity metrics should be developed to improve monitoring of the security programme.</li> </ol>
Strategy and Policy	<ol style="list-style-type: none"> <li>3. Adopt a hierarchal approach to Information Security Policy development and presentation.</li> </ol>
People and Training	<ol style="list-style-type: none"> <li>4. The Information Security Training Programme should include enhanced training for Information Asset Owners as they form a pivotal role in the information asset architecture and management. Line Managers should also receive enhanced training relating to the use and retention of employee records and data.</li> <li>5. Training for Contract Managers should be extended to include matters relating to the oversight of cyber, information and data protection risks in partners and suppliers.</li> <li>6. Information Security Training and Awareness Programmes are most effective at altering behaviours when the employee recognises personal benefit. The Organisation should therefore ensure that training messages highlight how information being provided will help protect employees at home as well as at work.</li> <li>7. Completion of training programmes should be formally monitored and reported on with follow up and escalation to address non-compliance with mandatory requirements.</li> <li>8. Metrics should be defined to assess the effectiveness of awareness training. This could include (1) number of reports of attempted email scams/phishing attempts and (2) number of queries from staff on implementing secure procedures.</li> </ol>
Technology and Infrastructure	<ol style="list-style-type: none"> <li>9. Procedures to ensure the IT Asset Register remains accurate and up to date should continue to be developed and reinforced and a process of compliance monitoring introduced.</li> <li>10. Guidelines and requirements for the use of email encryption (Egress) should be reinforced with end-users supported by additional training where required. The implementation of Egress should be reviewed to ensure functionality such as automatic encryption based upon keywords has been considered.</li> <li>11. The Organisation should develop and implement a USB security management system.</li> <li>12. Raise awareness of document classification requirements (as part of the ongoing IG Awareness Programme) to improve compliance with Policy.</li> <li>13. Review and rationalise retention schedules, aiming to reducing the number of retention periods to improve system usability.</li> <li>14. Raise awareness of the Clear Desk Policy and improve compliance through line management monitoring.</li> </ol>

# Appendix 2 – Summary of Recommendations

Section	Recommendation
Supply Chain	<p>15. On completion of the 40 outstanding queries from contractors, a review should be undertaken to ascertain the response rate and ensure that all of those signed are held on file.</p> <p>16. Redaction training to be provided to staff handling Data Subject Access Requests.</p> <p>17. Procedures need to be refined to ensure a risk based approach to supervisory sign off of Data Subject Access Requests.</p> <p>18. Awareness of protocols for responding to DSARs received from Law Enforcement Agencies needs to be improved.</p>
Incident Management	<p>19. Implement and publicise procedures to ensure prompt internal reporting of data breaches when these occur “out of office hours”.</p> <p>20. Ensure that disaster recovery arrangements are properly aligned and strengthened to support business needs and risk management requirements.</p> <p>21. Ensure Business Continuity Management processes identify infrastructure, applications and data required to deliver critical Services and that those critical Service develop contingency arrangements to respond to a loss of IT.</p>
Compliance and Audit	<p>22. Establish a programme of office walkthroughs to ensure that staff are following the Council’s Clear Desk Policy and locking computer screens when leaving them unattended.</p> <p>23. A risk based action plan to address the outstanding actions from the 2017 Data Protection/GDPR Readiness Review should be implemented and progress reported to the Information Governance Board.</p> <p>24. Guidance should be developed to support Contract Managers in a risk based approach to ensuring compliance with Information Security and Data Protection requirements with Partners and Suppliers.</p>

Priority 1 list - February 2019

APPENDIX B

Report Number/Date	Title	Opinion	No. of Priority Ones	Details of original Recommendation	Implemented	Responsible Officer	Comments	Risk of fraud or loss
<p><b>CX/089/16/2016</b></p> <p><b>Finalised date</b> <b>17th March 2017</b></p>	<b>Review of Waivers</b>	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	<p>Chief Executive</p> <p>Director of Commissioning and all Chief Officers</p>	<p>June 2017 See Progress Report to be followed up for November 2017 Audit Sub Committee.</p> <p>November 2017, March 2018, May 2018 and November 2018 See Progress Reports</p> <p>February 2019 See Progress Report</p>	High
<p><b>CX/047/01/2016/17</b></p> <p><b>Finalised date</b> <b>23rd February 2018</b></p>	<b>Agency Staff</b>	Limited	3 1o/s	1) Process for extending the length of service of agency staff is not complied with.	In Progress	<p>Chief Executive</p> <p>Director of Human Resources</p>	<p>May 2018 See Progress Report</p> <p>November 2018 See Progress Report</p> <p>February 2019 See Progress Report</p>	High
<p><b>ECHS/08/2017/AU</b></p> <p><b>Finalised date</b> <b>29th May 2018</b></p> <p><b>Page 149</b></p>	<b>Review of Contract Management for the Agreement with Oxleas - Mental Health</b>	Limited	5 3o/s	<p>1) The 20 year agreement has been in place for 14 years with no evidence of review or variation.</p> <p>2) The performance measures specified in the agreement were obsolete and out of date and there were no defined monitoring arrangements in place.</p> <p>3) Management reports had not been provided to the Authority as specified in the Agreement</p>	In progress	<p>Deputy Chief Executive and Executive Director of Education, Care and Health Services</p> <p>Director of Adult Social Care and Interim Director Programmes</p>	<p>November 2018 See Progress Report</p> <p>February 2019 See Progress Report</p>	High

<b>ECHS/01/2017/AU</b> <b>Finalised date</b> <b>15th October 2018</b>	<b>Review of Leaving Care</b>	Limited	6 2o/s	Issues arose within the following areas :- 1) Individual service user finance records were found not to be up to date; 2) Grant sheet (Central Log) issues arose with a number of cases;	In progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services  Director of Children's Social Care	November 2018 See Progress Report  February 2019 See Progress Report	High
<b>ECHS/026/2017/AU</b> <b>Finalised date</b> <b>25th October 2018</b>	<b>Review of Home Tuition</b>	Limited	5 3o/s	Issues arose within the following areas :- 1) Core Panel decisions supported by the outcome letters; 2) Attendance Registers and 3) Procurement of Agency Tutors	In progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services  Director of Education	November 2018 See Progress Report  February 2019 See Progress Report	High
<b>CEX/02/2017/AU</b> <b>Finalised date</b> <b>26th October 2018</b>	<b>Review of Creditors</b>	Limited	1	The form for set -up to the creditors master file is not checked or signed off by the budget holder or other designated officer within that business service area	In progress	Chief Executive  Director of Finance	See Progress Report New addition to the P1 list Will form part of the the Creditors Audit scheduled to start March 2019	High
<b>ECS/07/2017/AU</b> <b>Finalised date</b> <b>23rd November 2018</b> Page 150	<b>Review of the management of Strategic Property</b>	Limited	4	Issues arose within the following areas :- 1) Verification of contract performance to support contract payments; 2) Issues with work commissioned from a sub contractor which is outside the scope of the contract; 3) Monitoring of KPIs; 4) Validation and Monitoring of £1m Income Generation Plan;	In progress	Executive Director of Environmental Services / Director of Regeneration	See Progress Report New addition to the P1 list	High
<b>CORP/05/2018/AU</b> <b>Finalised date</b> <b>18th January 2019</b>	<b>Review of Health and Safety</b>	Limited	1	A full suite of comprehensive Health and Safety Risk Assessments (Risk Assessment Universe) is not held. The Authority is not, therefore, able to demonstrate that it has assessed its Health and Safety risks and has action plans in place to implement controls	In progress	Director of Human Resources and Customer Services	See Progress Report New addition to the P1 list	N/A

<b>ECS/1/2018/AU</b>  <b>Finalised date</b> <b>8th Februray 2019</b>	<b>Review of Street Cleansing Contract Management</b>	Substantial	1	Invoices processed for payment without supporting documentation. The prices charged for some elements of the agreed programme of additional work could not be substantiated. (NB these had been in place over the length of the contract but no breakdown could be provided)	In Progress	Executive Director of Environmental Services / Assistant Director of Environment	See Progress Report New addition to the P1 list	High
<b>ECS/08/2018/AU</b>  <b>Finalised 16/1/19</b>	<b>Review of Parking Income</b>	Limited	2	Contract variations were found not to have been authorised as expected. Retrospective approval will need to be completed for the cases identified. KPI data was not readily available and staff had not been allocated responsibility for KPI monitoring. KPI monitoring table format had not been utilised for collection purposes. Key information was not held in a shared directory to be accessible by all relevant officers.	In Progress	Executive Director of Environmental Services / Director of Regeneration	See Progress Report New addition to the P1 list	High

**The following P1 recommendations have been implemented :**

St Olaves School - See Progress Report  
 Family Placements - See Progress Report  
 Reablement - See Progress Report  
 Children with Disabilities -See Progress Report  
 Direct Payments - See Progress Report

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# ANTI-FRAUD AND CORRUPTION STRATEGY

## 1. INTRODUCTION

1.1 The Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective Anti-Fraud and Corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.

1.2 This strategy defines the Council's approach to managing the risk of fraud and corruption ensuring best practice is embedded across all services, projects and partnerships. Any fraudulent or corrupt act committed against the Council effectively constitutes theft of taxpayers' money. It is unlawful and deprives the Council of resources which should be available to provide public services.

1.3 The threat from fraud and corruption is both internal and external. The Council's expectation is that Councillors and employees at all levels will lead by example to ensure the highest standards of probity and accountability are established and strictly adhered to, and that personal conduct is above reproach at all times.

1.4 The on-going development of the strategy will be based upon comprehensive on-going risk assessments in all areas of Council activity to reduce losses from fraud and corruption to an absolute minimum, through:-

- Reinforcing an organisational culture of zero tolerance to fraud and corruption
- Encouraging prevention
- Pro-actively detecting fraud and corruption
- The instigation of legal, disciplinary and recovery action against any individual found to have acted fraudulently or corruptly in their relationship and dealings with the Council.

## 2. DEFINITIONS

2.1 **FRAUD:** Is defined by The Fraud Act 2006 as follows:

A person is guilty of fraud if he is in breach of any of the following:

Fraud by false representation; that is if a person:

(a) dishonestly makes a false representation, and

(b) intends, by making the representation:

(i) to make a gain for himself or another, or

(ii) to cause loss to another or to expose another to a risk of loss.

Fraud by failing to disclose information; that is if a person:

(a) dishonestly fails to disclose to another person information which he is under a legal duty to disclose, and

(b) intends, by failing to disclose the information:

(i) to make a gain for himself or another, or

(ii) to cause loss to another or to expose another to a risk of loss.

Fraud by abuse of position; that is if a person:

- (a) occupies a position in which he is expected to safeguard, or not to act against, the financial interests of another person,
- (b) dishonestly abuses that position, and
- (c) intends, by means of the abuse of that position:
  - (i) to make a gain for himself or another, or
  - (ii) to cause loss to another or to expose another to a risk of loss.

The Fraud Act 2006 repeals certain offences that are detailed in the Theft Acts of 1968 and 1978. The term “fraud” is usually used to describe depriving someone of something by deceit, which might either be misuse of funds or other resources, or more complicated crimes like false accounting or the supply of false information. In legal terms, all of these activities are the same crime, theft, examples of which include deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

**2.2 CORRUPTION:** Is the deliberate use of one’s position for direct or indirect personal gain. “Corruption” covers the offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person to act inappropriately.

**2.3 THEFT:** Is the physical misappropriation of cash or other tangible assets. A person is guilty of “theft” if he or she dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it.

**2.4 MONEY LAUNDERING:** Money laundering is the process by which criminals attempt to 'recycle' the proceeds of their criminal activities in order to conceal its origins and ownership and which leaves them with money that cannot be traced back.

All employees are instructed be aware of the increasing possibility of receiving requests that could be used for money laundering and illicit requests for money through e-mails. Detailed guidance is set out in the Council’s Money Laundering Policy.

**2.5 BRIBERY:** The Bribery Act 2010 introduces four main offences, simplified as the following:

- Bribing another person: a person is guilty of an offence if he/she offers, promises or gives a financial or other advantage to another person.
- Offences relating to being bribed: a person is guilty of an offence if he/she requests, agrees to receive, or accepts a financial or other advantage. It does not matter whether the recipient of the bribe receives it directly or through a third party, or whether it is for the recipient's ultimate advantage or not.
- Bribery of a foreign public official: a person who bribes a foreign public official is guilty of an offence if the person’s intention is to influence the foreign public official in their capacity, duty or role as a foreign public official.
- Failure of commercial organisations to prevent bribery: organisations, which include the Council, must have adequate procedures in place to prevent bribery in relation to the obtaining or retaining of business.

Note: A ‘financial’ or ‘other advantage’ may include money, assets, gifts or services.

**2.6** For more information on exactly what constitutes bribery and the Council’s policy towards it, please refer to the Anti-Bribery Policy and procedure (Appendix 2).

**2.7** Prior to entering into any business arrangements, all Council officers and/or business units should ensure that they have taken all reasonable steps to identify any potential areas of risk relating to bribery or corruption.

### **3. SCOPE**

3.1 This document applies to:

- All Bromley Council Employees (including Agents and Agency Staff) and Councillors.
- Staff and Committee Members of Council funded voluntary organisations.
- Partner organisations.
- Schools.
- Council Suppliers, Contractors and Consultants.
- General Public.

### **4. AIMS AND OBJECTIVES**

4.1 The aims and objectives of the Anti-Fraud and Corruption Strategy are to:

- Ensure that the Council is protected against fraud and loss
- Protect the Council's valuable resources by ensuring they are not lost through fraud but are used for improved services to Bromley residents.
- Create an "anti-fraud" culture which highlights the Council's zero tolerance of fraud, corruption and theft, which defines roles and responsibilities and actively engages everyone (the public, Councillors, staff, managers and policy makers).
- To provide a best practice "counter-fraud" service which:
  - Proactively deters, prevents and detects fraud, corruption and theft.
  - Investigates suspected or detected fraud, corruption and theft.
  - Enables the Council to apply appropriate sanctions and recovery of losses.
  - Provides recommendations to inform policy, system and control improvements, thereby reducing the Council's exposure to fraudulent activity.

### **5. PRINCIPLES**

5.1 The Council will not tolerate abuse of its services or resources and has high expectations of propriety, integrity and accountability from all parties identified within this strategy.

5.2 All fraudulent activity is unacceptable, and will result in consideration of legal action being taken against the individual(s) concerned. The Council will also pursue the repayment of any financial gain from individuals involved in malpractice and wrongdoing. The Council will ensure consistency, fairness and objectivity in all its "counter-fraud" work and that everyone is treated equally.

5.3 This strategy encourages those detailed in section 3.1 to report any genuine suspicions of fraudulent activity. However, malicious allegations or those motivated by personal gain will not be tolerated and, if proven, disciplinary or legal action may be taken. Section 8 details the reporting arrangements in relation to incidents of fraud or irregularity.

5.4 The Council will work with its partners (such as the Police, other Councils and other investigative bodies) to strengthen and continuously improve its arrangements to prevent fraud and corruption.

## 6. RESPONSIBILITIES

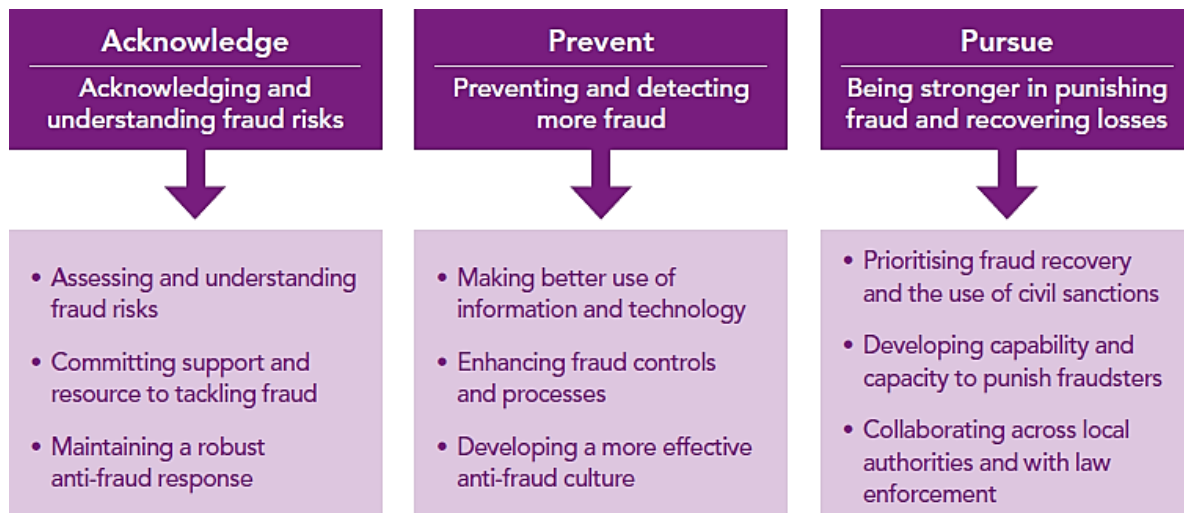
<b>STAKEHOLDER</b>	<b>SPECIFIC RESPONSIBILITIES</b>
<b>Chief Executive</b>	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
<b>Director of Finance</b>	To ensure the Council has adopted an appropriate anti-fraud and corruption strategy, there is an effective internal control environment in place and there is an adequately resourced and effective Internal Audit service to deliver "counter-fraud" work.
<b>Director of Corporate Services</b>	To advise Councillors and Officers on ethical issues, standards and powers to ensure that the Council operates within the law and statutory Codes of Practice.
<b>Audit Sub-Committee</b>	To monitor the Council's strategies and policies and consider the effectiveness of the arrangements for Whistle-blowing and Anti-Fraud and Corruption Procedures.
<b>Councillors</b>	To comply with the Code of Conduct and related Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns accordingly.
<b>External Audit</b>	Statutory duty to ensure that the Council has adequate arrangements in place for the prevention and detection of fraud, corruption and theft.
<b>Internal Audit</b>	Responsible for developing and implementing the Anti-Fraud and Corruption Strategy and monitoring the investigation of any reported issues. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this strategy and that action is identified to improve controls and reduce the risk of recurrence. LBB has a partnership working arrangement with the Royal Borough of Greenwich to investigate allegations of fraud and corruption.
<b>Directors, Assistant Directors, Heads of Service and Service Managers</b>	To promote staff awareness and ensure that all suspected or reported irregularities are immediately referred to Internal Audit. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption and theft and to reduce these

	risks by implementing strong internal controls.
<b>STAKEHOLDER</b>	<b>SPECIFIC RESPONSIBILITIES</b>
<b>Staff</b>	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns to management, Internal Audit or via the Whistleblowing Procedures.
<b>Public, Partners, Suppliers, Contractors and Consultants</b>	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns / suspicions.

## 7. APPROACH TO COUNTERING FRAUD

CIPFA's code of practice on managing risk of fraud and corruption was published in 2014 to provide support to organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption. It is a voluntary code that can be applied in any public service organisation. The Council will continue to review its counter fraud arrangements and align its approach to the best practice advice in the code.

The Council aims to reduce fraud and corruption to an absolute minimum through a strategic approach consistent with that outlined in the Local Government Fraud Strategy 'Fighting Fraud Locally'. The three key themes of this approach are Acknowledge, Prevent and Pursue:-



### 7.1 How will we *Acknowledge* and *Recognise* fraud and corruption/the risk of fraud and corruption?

#### 7.1.1 Accessing and understanding the fraud risks –

The ongoing development of this strategy will be informed through gaining a clear understanding of the threat, emerging risks, trends and the savings that can be achieved by investing in countering fraud and corruption. This will focus on greater use of technology and interrogation of data to assess vulnerability and proactively target higher risk areas. We will also be focusing on raising

staffs awareness of the risks of fraud and corruption and what they can do to prevent or identify it.

### **7.1.2 Committing support to tackling fraud and corruption -**

We will continue to work in partnership with the Royal Borough of Greenwich to investigate allegations of fraud and corruption.

### **7.1.3 Maintaining a robust Anti-fraud response -**

Whistle blowing remains the most common way that fraud and corruption is detected in large organisations. The Council will raise awareness and continually promote its whistle blowing policy: - [http://onebromley/BA/Pub\\_LandDS/Pub\\_LSD/Pages/RaisingConcerns.aspx](http://onebromley/BA/Pub_LandDS/Pub_LSD/Pages/RaisingConcerns.aspx) and other associated policies and procedures ensuring all reports of suspected fraud or corruption are treated seriously and acted upon. Thereby developing a robust and proportionate response to counter any threats

## **7.2 How will we prevent fraud and corruption?**

### **7.2.1 Enhancing fraud and corruption controls and processes –**

The best way to fight fraud and corruption is to prevent it happening in the first place. The Council will continually work towards realigning counter fraud resources away from enforcement towards prevention; ultimately, aiming to deter all would be offenders.

An effective internal control framework covering all the Council's systems both financial and non-financial is essential in the fight against fraud and corruption. The governance and risk management arrangements form an integral part of this arrangement.

Preventative measures will be supported by the ongoing assessment of those areas most vulnerable to the risk of fraud and corruption, in conjunction with risk management arrangements and risk based audit reviews. The annual CIPFA Fraud and Corruption Tracker survey provides details of the key fraud risks faced by local government. The Council will undertake a review of the high risk areas identified in the publication.

### **7.2.2 Making better use of technology**

A key feature in the drive towards preventing fraud and corruption at the outset will be the ongoing use and development of information sharing as well as better use of data to verify and validate transactions.

The sheer diversity of the services the Council and its partners provide and the multiplicity of systems used to manage them generate huge volumes of records and data. The Council will reengineer its fraud detection processes by comparing data from a variety of its systems, as well as, partners systems to identify anomalies, improve information sharing across services and inform the risk management process.

We will continue to participate in the bi-annual National Fraud Initiative data matching exercise. We will also carry out proactive exercises in key areas susceptible to fraud.

### **7.2.3 Anti-fraud culture**

The Council is resolute that the culture and tone of the authority is one of honesty with zero tolerance towards fraud and corruption, this is already demonstrated through its codes of conduct for employees and members. The right organisational culture will be continually reinforced by:-

- Raising awareness of fraud with new and existing employees
- Publicising the results of all proactive work, sanctions and recovery of losses due to fraud and corruption increase and maintain general public awareness of the facilities available to report concerns about fraud and corruption.

### **7.3 How will we pursue fraud and corruption?**

#### **7.3.1 Prioritising fraud recovery and the use of civil sanctions**

Fraud must not pay, where fraud or corruption is discovered the full range of sanctions will be deployed, including civil, disciplinary and criminal action. Every effort will be made to recoup losses and confiscate assets gained as a result of criminal activity.

#### **7.3.2 Developing capability to punish fraudsters**

Criminal prosecutions deter offenders and reinforce a culture of zero tolerance towards fraud. Successful prosecutions require cases to be professionally investigated ensuring all evidence is collected within the law. Investigative staff must be adequately trained with the appropriate skills and access to specialist resources to secure effective prosecutions.

#### **7.3.3 Collaborating across local authorities, other organisations and with law enforcement**

Organised fraud has no respect for boundaries and can cross a range of organisations and services. Effective cooperation and joint working between local authorities and with other agencies including the Police will be essential in the ongoing development of the Council's strategic response.

## **8. REPORTING, ADVICE AND SUPPORT**

8.1 The Council's expectation is that Councillors and managers will lead by example and that employees at all levels will comply with the Council Policies, Financial Regulations, Contract Procedure Rules and departmental Procedures.

8.2 The Council recognises that the primary responsibility for the prevention and detection of fraud rests with management. It is essential that employees of the Council report any irregularities, or suspected irregularities to their line manager and if this is not appropriate then to the Head of Service or Service Manager. The Council will provide all reasonable protection for those who raise genuine concerns in good faith, in accordance with Grievances and Whistle-blowing policies.

8.3 The line manager, Service Manager or Assistant Director/Head of Service who receives the allegation (whether from a Councillor or a Council employee) must refer the matter to the following people, to determine how the potential irregularity will be investigated:

- Chief Executive & Director of Finance (Section 151 Officer)



- Relevant Director.
- Head of Audit
- Head of Human Resources.
- Operational HR Manager.

8.4 Where appropriate, the Monitoring Officer should inform the Leader and relevant portfolio holder where the irregularity is material and/or could affect the reputation of the Council.

8.5 The investigating officer will follow the Guidelines in Fraud Protocol for investigating irregularities (Appendix A), which includes the need to:

- Deal promptly with the matter.
- Record all evidence received.
- Ensure that evidence is sound and adequately supported
- Ensure security of all evidence collected.
- Contact other agencies if necessary e.g. Police.
- Notify the Council's insurers.
- Implement Council disciplinary procedures where appropriate.

8.6 The Council will also work in co-operation with the following bodies that will assist in scrutinising our systems and defences against fraud and corruption:

- Local Government Ombudsman
- External Audit
- Cabinet Office for the National Fraud Initiative
- HM Revenue and Customs
- UK Border Agency
- Department for Work and Pensions
- Police

8.7 The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015. The Code sets out key principles for local authorities in creating greater transparency through the publication of public data. The Government believes that local people are interested in how their authority tackles fraud and have introduced a mandatory requirement in respect of fraud data. Information on London Borough of Bromley counter fraud work is published on the Council's website annually to meet the Local Government Transparency Code 2015 requirements.

8.8 We rely on the local community to help us detect fraud. All information is treated in the strictest confidence. We have developed a new counter fraud App for Apple and Android mobile devices called 'Bromley Fraud Reporter' which can be used to quickly and efficiently report fraud. The App is available on App Store and Google play for free download.

Download the App 'Bromley Fraud Reporter' on Apple and Android mobile devices from;



In addition to the fraud app, fraud can be reported by calling the fraud hotline 0800 169 6975, [report fraud online](#), or email [audit@bromley.gov.uk](mailto:audit@bromley.gov.uk).

8.9 We work in partnership with the Royal Borough of Greenwich to investigate allegations of fraud relating to:

- Housing (except housing benefit fraud. This is now the responsibility of the DWP)
- Council tax
- Business rates
- Disabled Parking / Blue Badge
- Grant claims
- Help with social care costs
- Fraud or corruption by employees, Councillors, suppliers, contractors
- Other types of fraud

## **9. FURTHER INFORMATION**

9.1 Further information on Council policy can be found in the following documents:

- Codes of Conduct (Councillors and Officers).
- Whistle-Blowing Policy.
- Bribery Act Policy
- Gifts and Hospitality Policy.
- Policy on Declaring and Registering Interests.
- Financial Regulations.
- Contract Procedure Rules and the Contract Procedure Rules - Exemption Procedure.
- Money Laundering Policy.
- Regulation of Investigatory Powers Act (RIPA).

## **10. STRATEGY REVIEW**

**10.1** The Audit Committee will continue to review and amend this strategy as necessary to ensure that it continues to remain compliant and meets the requirements of the Council.

Responsible Officer: Head of Audit

Date: 30/01/2019

Review Date: 30/01/2022

## **Appendix A - Fraud Protocol**

### **Introduction**

This protocol specifies how the Director of Finance and other Chief Officers should manage alleged cases of fraud or corruption. It clarifies responsibilities for carrying out investigations and advises on action to be taken.

All employees have a responsibility for the security of both the Council's assets and clients' assets where Council employees may have some involvement. Any employee who suspects any irregularity should immediately inform their Chief Officer, normally through their line manager. If for any reason an employee feels unable to raise their concern through line management, then they should go through a nominated officer under the Council's Whistleblowing Procedure. The Chief Officer may, if he then considers it appropriate, conduct an independent investigation.

The Council will take legal and/or disciplinary action in all cases of fraud or irregularity where it is considered appropriate.

### **Initial Allegation or Suspicion**

Internal Audit and the appropriate Chief Officer should be promptly informed of any allegations or suspicions of fraud or irregularity. To facilitate a speedy and appropriate response to any concerns expressed, initial information provided should, where possible, outline the following:

- The nature of the potential or actual loss to the Council, or Council's client.
- When and how the matter came to light
- Officers and /or other parties alleged to be implicated (names and designations where appropriate). Organisation structure showing the position and responsibility of the person(s) allegedly involved
- Identify those who are aware of the potential fraud/irregularity.

Care needs to be taken to ensure that officers or members who may be involved in the suspected irregularity do not become aware of the situation. Staff should not carry out their own investigation prior to notifying Internal Audit as this can affect any subsequent investigation.

Internal Audit will advise if the circumstances demand immediate action to safeguard evidence or to avoid further loss to the Authority. This may include removing documentation from the site and /or the suspension of employees.

Internal Audit will also advise on whether, and if so when, the Police should be informed. The Council has nominated contacts in the Metropolitan Police who can provide advice and, where appropriate, carry out their own investigations. Initial contact with them should be made by Internal Audit.

As a general rule the Council can carry out its own investigations regardless of any police involvement. (Note: there may be instances where it is not possible to contact Internal Audit promptly e.g. weekends or evenings. At such times, for cases of identified theft rather than suspected fraud or irregularity, it is more appropriate for the matter to be reported immediately to the local police station and a crime reference obtained. In these instances Internal Audit, line management and the Insurance Manager should be informed of the details the next working day.)

### **Investigation**

Responsibility for carrying out independent investigations lies with Internal Audit who may involve officers from the Royal Borough of Greenwich Fraud Team with whom it works in partnership. In some cases, however, it may be more appropriate for staff in the relevant Department to carry out the investigation with Internal Audit acting in an advisory capacity. In such cases, staff undertaking the investigation will liaise with Internal Audit at intervals agreed at the point of referral, to ensure that evidential requirements continue to be met and that the Local Authority is kept fully informed at all stages. The most appropriate approach will be decided by Internal Audit following the initial contact and may be revised during the investigation.

Any investigation should be carried out promptly and thoroughly. To do this staff may need to be interviewed and documentation reviewed. All stages of the investigation should be thoroughly documented. The investigation should involve, as a minimum, the following:

- A clear understanding of the allegation/suspicion
- A review of all relevant documentation. Note that documents may need to be retained during the investigation
- Identification and interviews with all appropriate staff/individuals to determine such things as relevant procedures and practices
- Consideration of alternative explanations for the situation
- An evaluation of all the evidence
- A conclusion based on the findings

The findings of the investigation could be used during disciplinary or legal action. Consequently care needs to be taken to ensure that evidence is safeguarded and that the investigation is thorough and the conclusions reached are valid. The findings of the investigation should be treated as confidential.

During the investigation it may be necessary for individuals to be interviewed under caution. In such instances the rules laid down in the Police and Criminal Evidence Act and Criminal Justice and Public Order Act 1994 must be adhered to. Advice on this is available from Internal Audit.

There will be instances where documentation is taken away by Internal Audit or the investigating officer for safeguarding during the investigation. The originals should be removed rather than copies. These should be kept secure and a statement prepared stating how, when and who removed the documents and where they will be stored. A decision on the removal of documents needs to be made early on in the investigation to avoid the risk of removal or tampering.

The appropriate Chief Officer and Head of Audit should be kept informed of progress during the investigation. This can be done verbally and/or by preparing written progress reports. At the end of the investigation a report should be prepared for the appropriate Chief Officer and Head of Audit. This should include all the issues listed above together with any other relevant information. This should form the basis of a decision for any further action to be taken.

### **Action**

It is for the appropriate Chief Officer to take appropriate action where there is evidence to support instances of fraud or irregularity. The Head of Audit should be kept informed of action taken and relevant outcomes. These could include referral to the police, disciplinary action and/or recovery of any amounts involved.

The Chief Officer is also responsible for ensuring that any system weaknesses identified during the investigation are addressed.

## Appendix B – Raising concerns (Whistleblowing Policy)

### INTRODUCTION

1. Employees are often the first to realise that there may be something wrong within the Council. Usually these concerns are easily resolved. However, when the concern feels serious because it is about a possible fraud, corruption or misuse of position that might affect others or the Council itself, it can be difficult to know what to do.
2. You may be worried about raising such a concern and may think it best to keep it to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or to the Council. You may decide to say something but find that you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do next.
3. The Public Interest Disclosure Act provides workers with protection from dismissal or other damage as a result of making a disclosure of information in the public interest about wrongdoing at work. The Chief Executive, Chief Officers and Members are committed to adhering to the Public Interest Disclosure Act and to provisions contained therein. Provided you are acting honestly and reasonably believe it to be in the public interest, it does not matter if you are mistaken.
4. The Council is committed to running the organisation in the best way possible and to do so we need your help. We have introduced this policy to reassure you that it is safe and acceptable to speak up and to enable you to raise any concern you may have about malpractice at an early stage and in the right way. Rather than wait for proof, we would prefer you to raise the matter when it is still a concern.
5. This Raising Concerns Policy is intended to encourage and enable employees and members to raise serious concerns. This policy applies to all those who work for us; whether full-time or part-time, employed through an agency, contractors or as a volunteer. If you have a concern, please let us know.
6. These procedures are in addition to the Council's complaints procedures and other statutory reporting procedures applying to some departments. If, however, you wish to make a complaint about your employment or how you have been treated, please use the grievance procedure - which you can get from One Bromley or HR officer. This Raising Concerns Policy is primarily for concerns where the interests of others or of the organisation itself are at risk. These include:
  - conduct which is an offence or a breach of law
  - disclosures related to miscarriages of justice
  - health and safety risks, including risks to the public as well as other employees
  - the unauthorised use of public funds
  - possible fraud and corruption
  - sexual, physical, verbal or financial abuse of clients

**If in doubt - raise it!**

### OUR ASSURANCES TO YOU

7. The Chief Executive, Chief Officers and Members are committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result. We will not tolerate the

harassment or victimisation of anyone raising a genuine concern. Provided you are acting honestly and reasonably believe it to be in the public interest, it does not matter if you are mistaken or if there is an innocent explanation for your concerns. Of course we do not extend this assurance to someone who maliciously raises a matter they know is untrue.

8. With these assurances, we hope you will raise your concern openly. However, we recognise that there may be circumstances when you would prefer to speak to someone in confidence first. If this is the case, please say so at the outset. If you ask us not to disclose your identity, we will not do so without your consent unless required by law. You should understand that there may be times when we are unable to resolve a concern without revealing your identity, for example where your personal evidence is essential. In such cases, we will discuss with you whether and how the matter can best proceed.
9. Please remember that if you do not tell us who you are it will be much more difficult for us to look into the matter. We will not be able to protect your position or to give you feedback. Accordingly you should not assume we can provide the assurances we offer in the same way if you report a concern anonymously.
10. If you are unsure about raising a concern you can get independent advice from Protect- *formerly Public Concern at Work* which is an independent charity on 020 3117 2520 or by email at [whistle@protect-advice.org.uk](mailto:whistle@protect-advice.org.uk) . Their lawyers can talk you through your options and help you raise a concern about malpractice at work.

#### **HOW TO RAISE A CONCERN INTERNALLY**

11. As a first step, you should normally raise concerns with your immediate manager or team leader. This depends, however, on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice.
12. If you are unable to raise the matter with your manager, for whatever reason, please raise the matter with:

**Mark Bowen**

Director of Corporate Services

Bromley Civic Centre,

Stockwell Close,

Bromley, Kent.

T: 020 8313 4355

F: 020 8290 0608

[mark.bowen@bromley.gov.uk](mailto:mark.bowen@bromley.gov.uk)

**OR**

**David Hogan**

Head of Audit

Bromley Civic Centre,

Stockwell Close,

Bromley, Kent.

T: 020 8313 4886

[david.hogan@bromley.gov.uk](mailto:david.hogan@bromley.gov.uk)

13. If these channels have been followed and you still have concerns, or if you feel that the matter is so serious that you cannot discuss it with any of the above, please contact

**Ade Adetosoye OBE**

Interim Chief Executive

Bromley Civic Centre,

Stockwell Close,

Bromley, Kent.

T: 020 8313 4652

[ade.adetosoye@bromley.gov.uk](mailto:ade.adetosoye@bromley.gov.uk)

**Neil Reddin** -Chairman,

**OR**

**William Huntington Thresher**

Audit Sub- Committee  
c/o Members' Room,  
Bromley Civic Centre,  
Stockwell Close,  
Bromley, Kent.

BR1 3UH

T: 07850 921767

[neil.reddin@bromley.gov.uk](mailto:neil.reddin@bromley.gov.uk)

-Vice Chairman,  
Audit Sub- Committee  
c/o Members' Room,  
Bromley Civic Centre,  
Stockwell Close  
Bromley, Kent.

BR1 3UH

T: 07733116799

[william.huntington-thresher2@bromley.gov.uk](mailto:william.huntington-thresher2@bromley.gov.uk)

14. The concern could be raised verbally or in writing. If you want to raise the matter in confidence, please say so at the outset so that appropriate arrangements can be made.

#### **HOW THE COUNCIL WILL RESPOND**

15. Once you have told us of your concern, we will assess it and consider what action may be appropriate. This may involve an informal review, an internal inquiry or a more formal investigation. We will tell you who will be handling the matter, how you can contact them, and what further assistance we may need from you.
16. If you ask, we will write to you summarising your concern and setting out how we propose to handle it and provide a timetable for feedback. If we have misunderstood the concern or there is any information missing please let us know.
17. When you raise the concern it will be helpful to know how you think the matter might best be resolved. If you have any personal interest in the matter, we do ask that you tell us at the outset. If we think your concern falls more properly within our grievance, bullying and harassment or other relevant procedure, we will let you know.
18. Whenever possible, we will give you feedback on the outcome of any investigation. Please note, however, that we may not be able to tell you about the precise actions we take where this would infringe a duty of confidence we owe to another person.

#### **MONITORING / OVERSIGHT**

19. The Monitoring Officer (who is the Director of Corporate Services) has overall responsibility for the maintenance and operation of this policy. That officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Council.

#### **HOW THE MATTER CAN BE TAKEN FURTHER**

20. While we hope this policy gives you the reassurance you need to raise such matters internally, we recognise that there may be circumstances where you can properly report matters to outside bodies, such as regulators or the police. Public Concern at Work (see paragraph 10) or your union will be able to advise you on such an option and on the circumstances in which you may be able to contact an outside body safely.



## Appendix C

### ANTI BRIBERY POLICY AND PROCEDURES

#### Objective of this policy

This policy provides a coherent and consistent framework to enable the Bromley's employees to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

#### Scope of this policy

This policy applies to all of Bromley's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within Bromley the responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, Members, volunteers and consultants.

#### The Bribery Act

The Bribery Act 2010 came into force on the 1<sup>st</sup> July 2011 taking a tougher stance on bribery and corruption.

**Bribery** is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

The Bribery Act 2010 <http://www.legislation.gov.uk/ukpga/2010/23/contents> makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation (and which the Council is considered to be for the purpose of the Act) to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place **adequate procedures** designed to prevent bribery by or of persons associated with the organisation.

#### Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months (six months in Northern Ireland), or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

### **Policy Statement – Anti Bribery**

Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance throughout the Council.

Allegations of bribery involving Council employees will be dealt with under the Disciplinary Procedure as “gross misconduct”; employees found guilty of such gross misconduct will usually be dismissed without notice.

### **Bribery is not tolerated**

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- Engage in activity in breach of this policy.

### **Bromley’s commitment to action**

We commit to:

- Setting out a clear anti-bribery policy and keeping it up to date
- Making all employees aware of their responsibilities to adhere strictly to this policy at all times

- Training all employees so that they can recognise and avoid the use of bribery by themselves and others (Fraud Toolkit)
- Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

### **What are “adequate procedures”?**

Whether the procedures are adequate will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the organisation. It is for individual organisations to determine proportionate procedures in the recommended areas of six guiding principles below. These principles are not prescriptive. They are intended to be flexible and outcome focussed, allowing for the different circumstances of organisations. Small organisations will, for example, face different challenges to those faced by large multi-national enterprises. The detail of how organisations apply these principles will vary, but the outcome should always be robust and effective anti-bribery procedures.

### **The guiding principles**

#### ***Proportionate procedures***

Bromley’s procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the organisation’s activities. They are also clear, practical, accessible, effectively implemented and enforced.

#### ***Top level commitment***

The top-level management including Chief Officers and Members are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

#### ***Risk Assessment***

Bromley assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage.

#### ***Due diligence***

Bromley applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

#### ***Communication (including training)***

Bromley seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

### ***Monitoring and review***

Bromley monitors and reviews procedures designed to prevent bribery by persons associated with it and make improvements where necessary.

Bromley is committed to proportional implementation of these principles.

### **Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

### **Public contracts and failure to prevent bribery**

Under the Public Contracts Regulations 2015, mandatory exclusion applies from competing for public contracts where it is convicted of a corruption offence, including bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. Bromley has the discretion to exclude organisations convicted of this offence.

### **Staff responsibilities**

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its control. All staff are required to avoid activity that breaches this policy.

We require that all personnel, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the organisation's resources for which they are responsible
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the organisation operates, in respect of the lawful and responsible conduct of activities

You must:

1. Ensure that you read, understand and comply with this policy
2. Raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

If you have any questions about these procedures, please contact the Head of Audit on 020 8313 4886.

## Appendix D

### MONEY LAUNDERING PROTOCOL

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#### **ANTI –MONEY LAUNDERING POLICY**

##### 1 INTRODUCTION

- 1.2 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force on 26 June 2017. They implement the EU's 4th Directive on Money Laundering. In doing so, they replace the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force.
- 1.3 A key difference is that relevant persons are obliged to adopt a more risk-based approach towards anti-money laundering, in particular in how they conduct due diligence. Determining the appropriate level of due diligence requires analysis of risk factors based on the EU Directive and which are set out in MLR 2017.

##### 2 SCOPE OF THE POLICY

- 2.2 This Policy applies to all employees and elected members of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.
- 2.3 The Policy sits alongside the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy.
- 2.4 Failure to comply with the procedures set out in this Policy may lead to further action being taken, including disciplinary action.

##### 3 WHAT IS MONEY LAUNDERING?

- 3.2 Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:
- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
  - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
  - acquiring, using or possessing criminal property (section 329);
- 3.3 These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.
- 3.4 Potentially any person could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

3.5 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. ***The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO).***

#### 4.1 WHAT ARE THE OBLIGATIONS ON THE COUNCIL?

4.2 Whilst Local Authorities are not directly covered by the requirements of the Money Laundering Regulations 2017, guidance from finance and legal professions, including the Chartered Institute of Public Finance and Accountancy (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

4.3 The Regulations apply to “relevant persons” acting in the course of business carried on by them in the UK. Not all of the Council’s business is “relevant” for the purposes of the legislation. It is mainly accountancy and financial, company and property transactions undertaken by Legal Services. However, the safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council; therefore, all staff are required to comply with the reporting procedure set out in the policy.

4.4 The obligations on the Council are to establish and maintain appropriate and risk-sensitive policies and procedures. Organisations must:

- appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.
- Conduct a money laundering and terrorist financing risk assessment and adopt appropriate internal controls.

#### 5.1 THE MONEY LAUNDERING REPORTING OFFICER

5.2 The officer nominated to receive disclosures about money laundering activity within the Council is the Head of Audit who can be contacted as follows:

David Hogan,  
London Borough of Bromley  
Room S214, 2<sup>nd</sup> Floor,  
Stockwell Block, Civic Centre,  
Stockwell Close  
Bromley  
BR1 3UH

Email: [david.hogan@bromley.gov.uk](mailto:david.hogan@bromley.gov.uk)

5.3 In the absence of the Head of Audit, Barrie Cull, Principal Auditor is authorised to deputise.

## 6.1 DISCLOSURE PROCEDURE

### Cash Payments

- 6.2 No payment to the Council will be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £5,000.

### Reporting to the Money Laundering Reporting Officer (MLRO)

- 6.3 Any employee who suspects money laundering activity is taking place, or an employee who becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, must disclose this promptly to the MLRO.
- 6.4 The disclosure should be made to the MLRO or deputy using the proforma report attached at Appendix 1. The report must include as much detail as possible.
- 6.5 The employee must follow any subsequent directions from the MLRO or deputy and must not make any further enquiries themselves into the matter. Additionally, they must not take any further steps in the transaction without authorisation from the MLRO or deputy.
- 6.6 The employee must not disclose or otherwise indicate their suspicions to the person(s) suspected of money laundering. They must not discuss the matter with others or note on a file that a report has been made to the MLRO in case this results in the suspect becoming aware of the suspicion.

### Consideration of the disclosure by the Money Laundering Reporting Officer

- 6.7 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency ("NCA") <http://www.nationalcrimeagency.gov.uk/>.
- 6.8 The MLRO or deputy must, if they so determine, promptly report the matter to the NCA through the NCA website. Alternatively a SAR can be made via the SAR Online System: <https://www.ukciu.gov.uk/saronline.aspx> NCA can be contacted 24 hours a day on 0370 496 7622.
- 6.9 All disclosure reports referred to the MLRO or deputy and reports made to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 6.10 The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

### Customer Due Diligence

- 6.11 Where the Council is carrying out certain regulated business (accountancy, audit and tax services and legal services re financial, company or property transactions) and as part of this
- a) forms an ongoing business relationship with a client
  - b) undertakes a one off or occasional transaction amounting to €15,000 or more whether carried out as a single transaction or several linked ones
  - c) suspects money laundering or terrorist financing;

then the Customer Due Diligence Procedure must be followed before any business is undertaken for that client.



6.12 Customer due diligence means:

d) Identifying the customer and verifying the customer's identity on the basis of information obtained from a reliable and independent source e.g. conducting a search at Companies House.

e) Obtaining information on the purpose and intended nature of the business relationship.

6.13 The Regulations regarding customer due diligence are detailed but the following questions help determine whether it is necessary:

- Is the service a regulated activity?
- Is the Council charging for the service?
- Is the service being provided to a customer other than another UK public authority?
- If the answer to any of these questions is **no then there is no need to carry out customer due diligence.**

6.14 If the answer to all these questions is yes then customer due diligence needs to be carried out prior to conducting business for that client.

6.15 Where the "relevant business" is being provided to another UK public sector body then written, signed instructions on the body's headed paper should be obtained prior to the transaction being completed.

6.16 The requirement for customer due diligence applies immediately for new customers and should be considered on a risk sensitive basis for existing customers. Customer due diligence means that the Council must know its clients and understand their businesses. This is so that the Council is in a position to know if there is suspicious activity that should be reported; clearly it is only by the Council knowing its clients and their businesses that it can recognise abnormal and possibly suspicious activity

6.17 The 2017 Regulations require that the Council identifies its customers and verifies that identity on the basis of documents, data or information obtained from a reliable source. Where there is a beneficial owner who is not the customer then the Council must identify that person and verify the identity and where the beneficial owner is a trust or similar then the Council must understand the nature of the control structure of that trust. Finally the Council must obtain information on the purpose and intended nature of the business relationship. The MLR 2017 introduces the need for the Council to consider both customer and geographical risk factors in deciding what due diligence is appropriate.

6.18 The checks described in the paragraph above must generally be undertaken by the Council before it establishes a business relationship or carries out an occasional transaction, or if it suspects money laundering or terrorist funding or doubts the veracity of any information obtained for the purposes of identification or verification. However, the Council is not required to undertake these checks if its customer is another public authority, unless it suspects money laundering or terrorist funding.

6.19 The Council is also obliged to maintain ongoing monitoring of its business relationships which means it must scrutinise transactions throughout the course of the relationship to ensure that the transactions are consistent with

the Council's knowledge of the customer and keep the information about the customer up-to-date.

### **Enhanced Customer Due Diligence and Ongoing Monitoring**

- 6.20 It will in certain circumstances be necessary to undertake what is known in the Regulations as Enhanced Customer Due Diligence. In summary, this will be necessary where:
- The customer has not been physically present for identification purposes; or
  - In any other situation which by its nature can present a higher risk of money laundering or terrorist financing.

**Where this applies, the Council will need to take adequate measures to compensate for the higher risk. For example, this will mean ensuring that the customer's identity is established by additional documents, data or information.**

- 6.21 Similarly, where the Council is in an ongoing "business relationship" with a customer, the Regulations impose a special obligation to carry out ongoing monitoring. This means that the Council must: scrutinise transactions undertaken throughout the course of the relationship to make sure that these transactions are consistent with the Council's knowledge of the customer, his/her business and risk profile; and keep documents, data or information obtained for the purpose of applying Customer Due Diligence measures up-to-date.

#### 7.1 RECORD KEEPING

- 7.2 Where the "relevant business" is carried out then the customer due diligence identification evidence and the details of the relevant transaction(s) for that client must be retained for at least five years.

- 7.3 The precise nature of these records is not set down in law but should be capable of providing an audit trail during any subsequent investigation.

#### 8.1 RISK MANAGEMENT AND INTERNAL CONTROL

- 8.2 The risk to the Council of contravening the anti money laundering legislation will be assessed on a periodic basis and the adequacy and effectiveness of the Anti Money Laundering Policy will be reviewed in light of such assessments.

#### 9.1 FURTHER INFORMATION

- 9.2 Further information can be obtained from the MLRO and the following sources:

- Website of NCA – <http://www.nationalcrimeagency.gov.uk/>
- Proceeds of Crime (Anti Money Laundering) – Practical Guidance for Public Service Organisations – CIPFA
- Anti Money Laundering (Proceeds of Crime and Terrorism) – Second Interim Guidance for Accountants – CCAB – [www.ccab.org.uk](http://www.ccab.org.uk)
- Money Laundering Guidance at [www.lawsociety.org.uk](http://www.lawsociety.org.uk)

**CONFIDENTIAL Report to Money Laundering Reporting Officer**

**Re: Suspected money laundering activity**

**To: Money Laundering Reporting Officer, (Head of Audit) London Borough of Bromley**

From: .....  
*[insert name of employee]*

Directorate: .....  
*[insert post title and Business Unit]*

Ext/TelNo:.....

**Details of suspected offence:**

**Name(s) and address(es) of person(s) involved:**  
*[if a company/public body please include details of nature of business]*

**Nature, value and timing of activity involved:**  
*[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]*

**Nature of suspicions regarding such activity:**

*[Please continue on a separate sheet if necessary]*

**Signed:**.....

**Dated:**.....

***Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.***

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of the Local Government Act 1972.

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