

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **15th December 2011**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

Contact Officer: Mark Gibson, Chief Internal Auditor
Tel: 020 8313 4295 E-mail: mark.gibson@bromley.gov.uk

Chief Officer: Doug Patterson, Chief Executive

Ward: All

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:-

- 3.1 Previous Priority One Recommendations
 - 3.5 Audit Activity and Performance
 - 3.11 Future of Internal Audit
 - 3.16 Housing Benefit Update
 - 3.20 Future of Public Audit
 - 3.22 Partnership Working
 - 3.24 Risk Management
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2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the internal audit progress report.**
- b. **Note the continuing achievements of the counter fraud benefit partnership with Greenwich Council. (paragraph 3.16)**

Corporate Policy

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

1. Cost of proposal: N/A
 2. Ongoing costs: Recurring cost.
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: £616,250.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 10 FTE(excluding Greenwich Fraud Partnership)
 2. If from existing staff resources, number of staff hours: 302 days per quarter
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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2011
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: None

3. COMMENTARY

3.1 Priority One recommendations

3.2 The latest list of outstanding priority one recommendations is shown in Appendix A. Since our last report to Audit Sub Committee there has been ongoing activity by management to implement these. Appendix A currently shows the original priority one recommendation made with an update where applicable.

3.3 New priority ones -This quarter only one priority one recommendation has been made in the finalised reports this is expanded upon in part two of this agenda.

3.4 Review of Debtors update - following concerns expressed by the Audit Sub Committee regarding the level of outstanding debt a part two report was made to Members of ACS in November 2011. The report included details of the debts and the actions being taken or proposed. As recommended in the Debtors Audit Report, a new monitoring report has now been produced to enable more robust monitoring of suppressed invoices with a view to resolving outstanding disputes in a more timely fashion and taking prompt recovery action. In addition, fortnightly arrears meetings are now in place to monitor progress. Also following a “debtors health check” undertaken by Liberata as part of the Exchequer Services contract Liberata have put forward a proposal to undertake additional income and debt recovery functions on behalf of the Council which would deliver an estimated savings of £46,000 per annum for the next three years. Liberata have advised they are confident that the approach using centralised revenue collection and recovery, dashboard reporting and tracking mechanisms, a bailiffs review and more robust tracing processes will deliver improved collection rates.

3.5 Audit Activity and Performance

3.6 For the quarter ended 30th September we issued 89 reports against the plan to either draft or final stage. These include full systems and probity audits, schools and follow up audits and carried forward audits. This leaves us behind our planned output due to the level of unplanned work.

3.7 89% of the audits have been completed within the agreed budgeted time allowed against a performance indicator requirement of 90% and the feedback from clients has remained very positive with an average score of 4.2 out of 5 against the target of 3.

3.8 The two month elapse time between commencement of field work and issue of draft report the performance indicator requires that 95% of the audits should be completed within two months of commencement of fieldwork we have achieved 82%. The fieldwork and associated consultation process is likely to be revised for next year given the ongoing non achievement of this target.

3.9 The planned schools audits that had been temporarily suspended due to resource constraints and the level of unplanned work are now scheduled to take place later on this year after a consultation with the Director of Children and Young People Services.

3.10 **Audit activity since in 2011/12** - A summary of the work undertaken to date is shown in Appendix B. Within the final reports issued against this year’s plan there have been 15 substantial assurances with 5 limited assurances. The rest of the reports are either at draft stage or work in progress.

3.11 Future of Internal Audit

3.12 A number of Aligning Policy & Finance reviews have now been undertaken which were commissioned by Cabinet since May 2011. Internal Audit was one of the areas that Members wish to be considered as part of Aligning Policy and Finance. The full report is available in the Members room and has been reported to the Improvement and Efficiency Sub Committee in October 2011. Subsequent to this review and as part of the intended budget savings the Internal Audit budget will be subject to a large reduction of some £353,000 between 2011/12 and 2013/14 of which £100,000 is forecast income from Greenwich. The impact of such a reduction will be felt in the main through a reduction in salary costs with the direct and significant impact on available audit days and auditors to deliver the plan.

3.13 The future audit plan will need to cover all areas deemed as high risk as well as a number of days in each directorate to cover management requests and those areas that though not high risk need to be covered on a cyclical basis the audit resource will be severely stretched. In addition, given the increase in time spent on fraud, investigations and the national fraud initiative data matching exercise extra time will be needed for this. Although it is recognised that with some schools electing to convert to academy status and the abolition of the schools finance standard there should be a significant reduction in time spent on schools audits there is still an acknowledged requirement for internal audit coverage to allow the yearly sign off to DfE by the Section 151 officer. Initial estimates allowing for 12 schools in a year (3 per quarter) over a five year cycle and up to 30 days for sold services to academies for the responsible officer role and follow up audits would require 70 days compared to 160 days allowed for in this year's plan.

3.14 The upshot is that with a restructure featuring one Head of Audit and 4 full time Bromley auditors only about 700 to 750 audit days would be achievable a reduction of some 40% from the current year. Approximately 300-350 days would be reserved for sold services to Greenwich and the academies to balance the budget through income generation. At this level of coverage the reporting and governance arrangements will need to be revisited as the servicing of the audit committee in the past has taken a significant amount of management time in producing the reports.

3.15 Against this backdrop the Chief Executive is undertaking a consultation exercise with the staff affected which is essentially all the audit staff. The results of this will be known early in 2012 with an implementation date for a phased restructure into next financial year to achieve the savings target. The Chief Executive appreciates that this will be very tight to run a comprehensive audit service and will seek to buy in additional support in the event of significant fraud cases or unpredicted levels of unplanned work.

3.16 Housing Benefit Update

3.17 Since the inception of the partnership in April 2002, through to October 2011, the Council has successfully prosecuted 282 claimants to date for benefit fraud; issued 260 court summonses; given 91 formal cautions; and administered 303 penalties. The full details and appendices on trends are shown in Appendices C, D and E.

3.18 In the case reported to the last meeting which began in 2008 resulting in recovering fraudulent overpayments by confiscation of assets using the Proceeds of Crime legislation it has now become the subject of a BBC programme highlighting notorious frauds and scams which is due to be aired in January next year. In this case the Police and others have acknowledged the diligence of the Investigators which led to the successful prosecution which may well have failed had it not been for the initial

vigilance of Bromley staff member and the determination of the Greenwich investigating officer both of whom have been subsequently recognised for this work.

3.19 The proposal towards a single integrated fraud service SFIS for housing benefits under the control of the DWP is still scheduled for April 2013. The working assumption is that option one included in the CLG consultation will receive the go ahead and so the initial impact will not be to endanger the current partnership arrangement which still has two years to run although working practices are likely to change. In summary most Councils have taken the view that SFIS as originally proposed would undermine the ability to investigate effectively for three main reasons: removal of local knowledge; removing councils' ability to work across a range of possible fraud areas and not just benefits; and loss to councils of the powers to investigate they currently hold. The DWP have confirmed on 01/12/2011 that the ministerial decision made by Lord Freud is to implement option one. Option one stated that Local Authority staff remain employed by LAs, but operate under SFIS powers, policies, processes and priorities.

3.20 Future of Public Audit

3.21 Previously Members have been informed about the proposals. The LBB response to the CLG consultation back in the Summer 2011 is attached for information (Appendix F). the CLG are due to publish their response soon. There is also a wider briefing included elsewhere on this agenda.

3.22 Partnership Working

3.23 The new Partnership agreement with the London Borough of Greenwich is working well and we have issued four reports with three others as work in progress. We have now invoiced for the work done. Where possible and appropriate, Internal Audit are looking to streamline working practices and benefit from undertaking core audits at both London Boroughs where services are similar and lessons can be learnt from any mutual control weaknesses identified. We have also where possible, used the same auditor for carrying out similar audits in both authorities to promote consistency and knowledge of the area.

3.24 Risk Management

3.25 The Risk Management Group continues to monitor the potential risks emerging from the Localism Bill which was given Royal Assent on 15 November 2011, becoming an Act. The Act will shift power from central government back into the hands of councils, communities and individuals.

The Department for Communities and Local Government has provided an updated plain English guide to the Localism Act:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1896534.pdf>

As the Government will still need to set out further details and hold public consultations on different parts of the Act the current aim is that many major measures will come into effect in April 2012.

3.26 As part of improvements to the quarterly performance monitoring report 'Are we on track?' COE agreed that the corporate risks (Appendix G) needed to be linked to named officers. In addition we have been tasked with developing one risk register to be owned by the new Corporate Management Team from January 2012. COE will provide updates to this, including new risks as a result of national changes. To this end risks relating to Public Health and the transfer of responsibilities need to be included in the risk register.

3.27 Work on putting a value on each high risk is continuing as this has not proved to be an easy exercise. Most risks, should they occur, involve loss. This loss does not necessarily have to be monetary but, more often than not, either directly or indirectly, monetary loss occurs. Where losses are covered by insurance it is worth bearing in mind that that for each £1 of direct loss, the cost of indefinable, indirect losses can be anything between 8 times and 36 times greater e.g. management time, impact on service delivery, performance, reputation.

The risks can be split as follows:

Risks where a prior event has occurred and where we know what the direct cost was. For example the impact of snowfall on winter maintenance and waste collection was c£800k last year.

Risks which are currently materialising and where overspends have already been identified. For example the rising use and cost of bed and breakfast accommodation where there is a projected end of year overspend of c£500k.

Then there are the risks that may materialise in the future but where we have difficulty in putting a value on them. We currently have £217m placed on deposit with various financial institutions. Although it is difficult to predict, another financial meltdown could, on a worse case basis, result in another Heritable Bank scenario where funds are locked-in for several years.

We are asking the departmental SMTs to review and sign-off our final report on this for the March meeting.

3.28 As part of the Management Essential Programme we have produced a combined training module incorporating Risk, Health and Safety, Emergency Planning and Business Continuity to provide an overview of 'Managing Risk' and why it is essential.

4. POLICY IMPLICATIONS

4.1 None.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

6.1 None.

7. PERSONNEL IMPLICATIONS

7.1 None.

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	