

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **8th March 2012**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

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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 Priority One Recommendations
 - 3.4 Audit Activity and Performance
 - 3.10 Future of Internal Audit
 - 3.14 Housing Benefit Update
 - 3.18 Waivers
 - 3.21 Future of Public Audit
 - 3.25 Partnership Working
 - 3.27 Value for Money (VfM)
 - 3.32 Other Matters
 - 3.35 Risk Management
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2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the internal audit progress report and in particular the effects of the reorganisation of the Internal Audit service.**
- b. **Note the continuing achievements of the counter fraud benefit partnership with Greenwich Council. (paragraph 3.14)**

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): 10.7 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 – there were 9 recommendations made following an investigation into a project that is expanded upon in part 2 of this agenda.

3.4 Audit Activity and Performance

3.5 For the period ended 31st January 2012 we issued 114 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 investigative work.

3.6 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 4.1 out of 5 against the target of 3.

3.7 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%. Following the reorganisation of Internal Audit and change in management arrangements we will review aspects such as scoping of the audits, availability of the auditees and portfolio of work allocated to auditors given the ongoing non achievement of this target.

3.8 The planned schools audits that had been reinstated following a management request to do so.

3.9 **Audit activity 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 23 substantial assurances with 6 limited assurances. The rest of the reports are either at draft stage or work in progress.

3.10 Future of Internal Audit

3.11 We had previously reported that following the need to make a substantial cut in the audit budget of some £353K between 2011/12 and 2013/14 offset by expected income of £100K from sold services to the Royal Borough of Greenwich's Internal Audit team and Academies. The impact of such a reduction will be mainly through a reduction in salary costs with the direct and significant impact on available audit days and auditors to deliver the plan. As a result, the Internal Audit Section will reduce from 10.7 FTEs to 7 FTEs of which 2 FTEs will be utilised for sold services of about 330 days that will generate the £100K income. Therefore there will only be 4 FTEs plus a proportion of the Head of Audit time that will be utilised for the Bromley internal audit plan and investigation of fraud and malpractice.

3.12 The 2012/13 internal audit plan that is reported elsewhere on this agenda consists of 775 days and covers most high risk areas. Medium and lower risk rated audits will be deferred to later years and only covered on a cyclical basis. In addition, given the increase in time spent on fraud and investigations and the national fraud initiative data

matching exercise (245 days in 2011/12 to date) we have allocated 100 days for 2012/13.

3.13 The restructure when completed will result in the following :

- There will be just one manager i.e. the Head of Audit (down from 4) controlling 6 FTE's – 4 working on the Bromley audit plan and 2 on sold services.
- The audit planned days will reduce by some 36% from 1208 days to 775 days with only high risk audits being carried out. School days will reduce from 160 days to 60 days which although resource driven, also reflects conversation to academy status and the abolition of the financial management standard.
- The number of meetings of this committee will reduce from four to three. It is proposed to supplement the reduction with a couple of briefings to the Chair and Vice Chair of this committee. Last year we spent over 100 days servicing this committee and apart from the reduction in one meeting for 2012/13 we also propose to cut down on this time by having briefer reports that will be less time consuming to produce.
- Although we have allowed 100 days for fraud in 2012/13 we intend to fully utilise the services of the Royal Borough of Greenwich fraud team whenever possible and ensuring that management assist where appropriate with investigations but closely advised by internal audit.
- The restructured team should result in a leaner but efficient team.

3.14 **Housing Benefit Update**

3.15 Since the inception of the partnership in April 2002, through to January 2012, the Council has successfully prosecuted 288 claimants to date for benefit fraud; issued 268 court summonses; given 94 formal cautions; and administered 307 penalties. The full details and appendices on trends are shown in Appendices C, D and E.

3.16 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 was aired in January 2012. 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.

3.17 The proposal towards a single integrated fraud service SFIS for housing benefits under the control of the DWP is still scheduled for April 2013. We had previously reported that the DWP had confirmed on 01/12/2011 that the ministerial decision made by Lord Freud is to implement option one. Option one stated that the Local Authority staff will remain employed by LAs, but operate under SFIS powers, policies, processes and priorities. At this stage it is not known how this will work in respect responsibility for sanctions i.e. prosecutions, formal cautions and administrative penalties.

3.18 **Waivers**

3.19 We are now submitting the list of waivers across the Authority since the last report in September 2011. See appendices F and G. The list is collated from the Heads of Finance for each of the Service areas and any information kept by the Chief Officers.

Members are asked to review this list and comment as necessary. The contract procedures require that these are reported on a bi-annual basis to Audit Sub Committee. The main provision relating to this is as follows;

3.20 There were no waivers sought in Renewal and Recreation and in Resources according to records kept by these directorates in the period from September 2011 to mid February 2012.

A decision to negotiate with one or more candidates on any arrangements required within the Procurement process shall not be made except in compliance with the following and any Public Procurement Regulations (see also Rule 3). Note - For the purpose of this Rule the establishment of a Service Level Agreement is treated as being a negotiated arrangement;

Estimated Cost (or Value)	Authorisation Requirement
£5,000 - £50,000	Chief Officer Agreement
£50,000 - up to £100,000	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources with a report of the use made of this exemption being made to Audit Sub committee on a bi-annual basis.
£100,000 – up to £1,000,000	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources and following Approval of the relevant Portfolio Holder, with a report of the use made of this exemption being made to Audit Sub committee on a bi-annual basis.
£1,000,000 and above	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources and the approval of the Executive or the Council as appropriate.

3.21 Future of Public Audit

Following the end of the consultation period with public authorities which we responded to and previously reported to this committee, the CLG published in January 2012 a 34 page document detailing appointment of an auditor from the register of local public auditors, on the advice of an Independent Auditor Appointment Panel

The Independent Audit Appointment Panel (IAAP) will have an independent chair and a majority of independent members. The Government will frame requirements in a way that will allow local public bodies to share appointment panels (and therefore independent members) to ease admin burdens and reduce costs. The Government intends to prescribe specific functions to the IAAP but it is envisaged that it would have a key role in the appointment of the auditor and monitoring the independence, quality and performance of external audit. The IAAP may also have a role in the removal of an auditor

3.22 The appointments process will be transparent. The document hints at demarcation of responsibilities between the IAAP and the audit committee and also the possibility of interface between the two bodies.

3.23 The document can be found at:

3.24 <http://www.communities.gov.uk/documents/localgovernment/pdf/2060619.pdf>

3.25 **Partnership Working**

3.26 The new Partnership agreement with the London Borough of Greenwich is working well and we have issued eight reports with four others as work in progress. We have now invoiced for £35,100 in respect of the work done. We have continued where possible, used the same auditor for carrying out similar audits in both authorities to promote consistency and knowledge of the area.

3.27 **Value for Money (VfM)**

3.28 Members of this committee had previously agreed a simple methodology for Internal Audit to use in assessing the value for money arrangements for designated areas covered in the audit plan. The audit team along with the organisational improvement team will be looking to provide help and advise on how best business areas can look to compare their performance with others using information and research that is made available.

3.29 In our report to this committee in September 2011 we had indicated 13 audits that would be subject to a review of VfM arrangements. Six of these audits will not now be reviewed - housing register, CCTV, libraries, street cleaning, property maintenance and parks and green spaces for reasons that they been cancelled, deferred, subject to shared services or have been subject to an audit investigation. A Waste VfM review was carried out a year ago by internal audit as part of this process. Two VfM studies have been completed i.e. legal costs and children's placements and are detailed below. This leaves four that are due a review - customer contact centre, CYP safeguarding, personal budgets and residential care placements.

3.30 **Review of legal costs VfM arrangements**

Based on the findings of the review for Value for Money (VfM) arrangements, Internal Audit has concluded that the service scored an overall 3 (Substantially met). This was on the basis of using a methodology agreed by members of the Audit Sub-Committee to review VfM in a scoring range of 1 – 4, with 1 equating to not met and 4 equating to fully.

1. Benchmarking rated as a 4. The benchmarking carried out centrally via CIPFA's Benchmarking Group compares information from 59 councils. In the main Bromley was performing just above average in the cost of legal services.
2. Customer surveys a rating of 3 based on customer satisfaction survey's issued in 2007 and 2009 and which we have an average score of 2.3 (close to good).
3. External assessments are rated as 3 based on the Lexcel assessment that was carried out in February 2011. This report highlighted 4 areas for minor improvement, 5 areas of minor non-compliance with standards but also 5 areas of good practice.
4. Budget as 3 based on the budget in the first six months monitoring which shows the budget is predicted a small overspend as at December 2011, due to a reduction in income being received.

3.31 **Review of Children's Placements VfM arrangements**

Based on the findings of the review for Value for Money (VfM) arrangements, Internal Audit has concluded that the service scored an overall 3 (Substantially met). This was

on the basis of using a methodology agreed by members of the Audit Sub-Committee to review VfM in a scoring range of 1 – 4, with 1 equating to not met and 4 equating to fully

1. Benchmarking rated as a 3. The benchmarking carried out centrally via London council's compares information from 33 councils. In the main Bromley was performing above average in the commissioning areas however in the section on "Children's core assessments completed within 35 days" Our score was 61% which is below our performance indicator of 75%. This was due to problems outside the commissioning service and is improving. The commissioning Service also undertook a Gateway Review of various aspects of CCT commissioning activity in the past 12 months.

2. Customer surveys a rating of 3 based on Social Work teams using commissioning services being consulted as part of the Gateway Review process.

3. External assessments are rated as 3 based on the annual internal audit reports most recently giving the service "substantial assurance and the Social Care Ofsted inspection of Fostering dated 21/01/08 in which Bromley was rated "good" and the Key Ofsted inspection of Fostering dated 31/01/07 in which Bromley was rated "good".

4. Budget rated as 3 based on the first quarter budget monitoring which indicated a small overspend.

3.32 Other Matters

3.33 At the previous meeting members had raised a query about an insertion in one of the appendices to the report that implied only one oral quote was needed for expenditure up to £5,000. In fact this was not correct and both the financial regulations and contract procedure require one oral quote for expenditure up to £1,000 but one written quote from £1,000 up to £5,000.

3.34 The Vice-Chairman of this committee stated that he had concerns that where the Council put a charge on a property to recoup care costs there appeared to be no check to ensure that the money was received. It was noted that these charges would be picked up as part of any conveyance process, but officers undertook to check for the next meeting. From our enquiries we have been informed that for deferred payment agreements where a charge is placed, records are kept and annual statements sent out to clients detailing how much is owed. A copy of the building insurance certificate is also requested annually together with an annual valuation statement. Other cases that are not deferred such as those for care charges are also recorded. There is a spreadsheet recording all charges. When a property is sold, Bromley are notified as part of the conveyance process and when the money has been recovered the charge is removed.

3.35 Risk Management

3.36 Annual Governance Statement

The preparation and publication of an AGS in accordance with the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* is necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit (England) Regulations 2011. This requires a relevant body to 'conduct a review at least once in a year of the effectiveness of its system of internal control' and 'to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.'

The AGS explains how Bromley has complied with its own Code of Corporate Governance which reflects the following six core principles of good governance:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and Officers working together to achieve a common purpose with clearly defined function and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risks.
5. Developing the capacity and capability of Members and Officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.

3.29 As risk management features strongly in the AGS process this year's review is again being co-ordinated by the Risk Management Group. The purpose of the review is to provide assurance from a number of sources including Members, Chief Officers, internal and external audit, other review agencies and inspectorates that corporate governance arrangements are adequate and operating effectively; or where gaps are revealed, action is planned that will ensure effective governance in future.

The assurance gathering process (see Appendix H) includes a full review of the risk register, the completion of a checklist and the signing of assurance statements by the Assistant Directors and Chief Officers. Further guidance can be found on the Risk Management and Insurance page on onebromley:

<http://onebromley/HDol/ManKit/wikisite/Wiki%20Pages/Annual%20Governance%20Statement.aspx>

The AGS is signed off by the Chief Executive and the leader of the Council and accompanies the Annual Report and Statement of Accounts.

3.30 Given the scale of budget cuts and ongoing uncertainties as to future funding the following significant issues were identified last year for ongoing review:

- Capacity to achieve further budget savings
- Period of significant and continuing change across the Council, and our ability to continue to manage our resources well and minimise the impact on frontline services
- Uncertainty with the Council's major partnerships due to political changes and governance issues arising from shared services

In addition the Localism Bill, which has now been passed, contains a number of proposals which will impact on how the Council works.

We continue to monitor these issues in order that we can identify any resulting risks.

3.31 Although the risk register is currently being updated to reflect organisational change and to feed into AGS process we attach a copy of the current high risks (see Appendix I) and the cross-cutting corporate risks (see Appendix J) for the record.

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:	
Background Documents: (Access via Contact Officer)	