

PART 1 - PUBLIC

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Decision Maker: **Audit Sub Committee**

Date: **23rd March 2010**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

Contact Officer: Mark Gibson, Assistant Director Resources (Audit and Technical)
Tel: 020 8313 4295 E-mail: mark.gibson@bromley.gov.uk

Chief Officer: Paul Dale, Director of Resources and Deputy 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.

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.**

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: £603,000 excluding the benefit fraud partnership costs.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 12 FTE
 2. If from existing staff resources, number of staff hours: 380 days per quarter
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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2006
 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 Outstanding matters

3.2 Mobile Phones

3.3 As previously informed, our original priority one recommendation arose from the audit report that called for an agreed mobile telecommunications policy covering responsibilities of officers and mobile phone users, the need for a mobile phone before issue to officers, usage for business purposes, retrieval of phones from leavers, procedure for lost and stolen phones, recovery for private calls, monitoring for fraud and abuse and communication of this policy to all officers.

3.4 A draft policy has been drawn up by the Procurement Section and has recently been reviewed by the Head of HR and also discussed at a departmental representative meeting. It is now with the staff side secretary. The policy should be in place by September 2010 to coincide with the new contract.

3.5 It has also been agreed that payment of allowances for officers to use mobile phones will be discussed by COE before referral to the E and R PDS.

3.6 Use of Cash Payments across the Council

3.7 Members wanted an update on the measures being taken to reduce cash usage across the Council by at least 50% over the next year. We had previously reported that petty cash expended across the authority for 2008/09 was about £443,800 of which £317,200 related to CYP through the Area offices.

3.8 In progressing the reduction of cash payments, in addition to increased use of BACS where appropriate, the use of pre-paid cards is being investigated for reducing the number of cash transactions and also for achieving process efficiency benefits. An assessment of the potential application areas has focussed on Leaving Care as these account for almost 60% of the yearly cash payments of around £252,000 per annum.

3.9 The assessment has concluded that there is the potential for 140 cards for Leaving Care ad hoc and regular payments which would be used over time to replace the currently estimated 3,300 cash transactions per year. This could result in significant process efficiency savings primarily due to negating the cash handling and associated processes. There are anticipated additional benefits available through such areas in reduction in cashier/handling costs, bank charges, insurance etc.

3.10 In addition to Leaving Care, there is the potential for pre-paid cards to be applied to payments relating to support for parents and this will subsequently be assessed. A further area that will be considered will be current BACS and cheque payment processes to see whether there are benefits available to using pre-paid cards as an alternative method.

3.11 In parallel to the above assessment work, we are currently reviewing the various supplier offerings and supplier presentations are currently in progress. It is anticipated that we should be in a position to select a preferred supplier in the near future.

3.12 Emergency Accommodation and Rents

3.13 Members had requested that an appropriate officer attend this committee to provide an update on the reconciliation process between the rent account system and Oracle financial systems. Rent accounts is designated as a managed audit by external audit and

we are currently auditing this area – our findings will be reported upon on conclusion of our audit.

3.14 Exchequer Services Management state that the Quarter 3 2009/10 reconciliation is now complete. The Quarter 2 reconciliation could not be completed due the new system being implemented, however HB & Cash reconciliations have been completed on a monthly basis and are up to date.

3.15 The 2008/09 £4k difference (0.2% of the 08/09 rent debit) has been put forward for write off as the discrepancy cannot be found as all differences between HB and Cash have been identified and subsequently actioned. As the rent debit on the Rent account agrees with Oracle the only conclusion at the moment is that the £4k is either a spurious figure or there are difficulties with the reports from the system.

3.16 Council Tax

3.17 A previous priority one finding found a 25% error rate in a sample selected in the recovery process and also a further 20% substantial delays in recovery action. Following a report on the finding to this committee in September 2009, members had requested a further report on council tax collection showing the percentage of payment by each method and the number of summonses issued over the past year. Members were still not satisfied and wanted further information on time elapsing between each stage of the collection process and the fact that the table showing payment breakdown had inaccuracies in the totals. Members wanted an amended table that showed the number of domestic payers, percentages of payment types, number of defaulters, the stages that summonses would be issued and the number of summonses that resulted in payment, the cost of issuing summonses and the total administrative costs involved. The following is the further information provided by management in response to the above request:

3.18 A revised table on council tax payment methods, number of domestic payers and percentages as at 31st January 2010 is shown below.

Source	Amount £	Number	Percentage value	Percentage volume
Direct Debit	113,078,455.46	785,280	76.48%	75.56%
Internet	4,644,068	34,069	3.14%	3.28%
Touchtone	3,067,888	22,451	2.07%	2.16%
Via the Bank	7,033,082	54,583	4.76%	5.25%
Cash Receipting	12,511,487	86,947	8.46%	8.37%
Standing Orders	6,239,929	47,581	4.22%	4.58%
Bank Transfers	125,898	997	0.09%	0.10%
Paye.Net	973,140	5,389	0.66%	0.52%
Giro	177,209	1,982	0.12%	0.19%
Total	147,851,156.46	1,039,279		

3.19 The above figures are transaction based, the number of accounts with a charge at the last main billing run was 115,150. The number of accounts with no payments made at all from that main billing is currently 29 (0.02%). The number of the main billing accounts which

are PLC or Ltd Company rather than private individuals were 29 PLC & 310 Limited Companies.

3.20 The word “defaulters” has been interpreted as when a taxpayer has defaulted in making an instalment payment and the table below shows the resultant recovery outcome from those reminders through to cases which progressed to Summons, Liability Order and then to Bailiff, this process can take 3 months from reminder to Bailiff action. The table below shows the number of reminders issued and those where the missing instalment was paid, then the number of Summonses issued from unpaid reminders and those that paid on receipt of the summons followed by the number of cases where the 14 day letter is sent following receipt of the Liability Order from the Magistrates Court and the resultant payments from this and finally the number of cases that went to the Bailiffs.

3.21 See summons timetable below.

	Reminded	Reminder - Summons		Summons	Summons - L/O		Liability Order	% Paid	14 Day - Bailiff			To Bailiff
		Paid	% Paid		Paid	% Paid			14 Day Letter	Paid	% Paid	
Apr	7274	4685	64.41%	2589	694	26.81%	1895	27.55%	1373	790	57.54%	583
May	4519	2090	46.25%	2429	734	30.22%	1695	43.19%	963	334	34.68%	629
Jun	4267	2568	60.18%	1699	615	36.20%	1084	50.09%	541	218	40.30%	323
July	3764	2529	67.19%	1235	445	36.03%	790	41.52%	462	160	34.63%	302
Aug	3510	2387	68.01%	1123	447	39.80%	676	51.78%	326	169	51.84%	157
Sep	4178	2424	58.02%	1754	340	19.38%	1414	39.82%	851	288	33.84%	563
Oct	3378	2294	67.91%	1084	429	39.58%	655	47.63%	343	113	32.94%	230
Nov	3306	2143	64.82%	1163	522	44.88%	641	42.59%	368	102	27.72%	266
Dec	2933	1835	62.56%	1098	324	29.51%	774	37.21%	486	486	100.00%	
Jan	3568	2555	71.61%	1013	1013	100.00%				0		

3.22 The court is paid a fee of £3 per summons. The debtor is charged £75 for the cost per summons and £20 per liability order.

3.23 £75 per summons is charged and if not paid by the Court Hearing date a further £20 for the Liability Order is then charged plus any potential Bailiff fees/charges, or insolvency costs. Any recovery costs are met by Liberata as it currently receives 66% of all summons and liability Order costs paid.

3.24 Members had also requested more information about the time elapsing between each stage of the collection process. Appendix E gives a guide for a selection of cases on what stages are involved before referral to the bailiff.

3.25 The annual internal audit for council tax was completed for 2009/10. This showed that procedures and process mapping for recovery are currently being updated. The audit highlighted problems in a few cases in respect of the recovery process – although in percentage terms this was less than in the previous year’s audit that had led to the priority one recommendation.

3.26 Debtors

3.27 There was a priority one finding in relation to debt recovery and cases not being resolved in a timely manner. It was also identified that £1.21 million of the debt had been outstanding for over a year. Members wanted a breakdown of the old debt which was provided at the last meeting of this committee.

- 3.28 Members had raised a query on charging schools interest on long standing debts in line with private companies being charged and wanted to know why a consistent approach was not adopted. They requested a further report on the practicalities for using the late payment of commercial debts legislation to the public sector e.g. schools including pursuit through the courts. The following is a response from debt management.
- 3.29 London Borough's were surveyed with none of those responding applying interest to schools on legal and practical grounds. It has been suggested to CYP Finance that they liaise with schools that have debts not only due to CYP but to other areas of the Council e.g. Property in view of the relationship and contacts that they have.
- 3.30 To apply the legislation correctly debts need to be looked at on an invoice by invoice basis and is only applicable to Business to Business debt. This is a very manual process and very time consuming. Applying interest will take a lot of time for possibly pennies with complexities on how it would be charged, invoiced and collected. Non payment will add to debt to LBB with no guarantee of collection. The new system is due by the end of May and it can't deal with the complexities of selective or de-selective cases. The best way forward is to continue to be selective and target those large companies where we expect payment and to manage interest manually.
- 3.31 A particular query was raised in respect of a long standing debt at a secondary school for £64,864 – outstanding since July 2008 and disputed by the school. On further investigation it appears that this amount was incorrect – the school should only have been invoiced for its share of the grant related works i.e. £55,000 and not £103,600 that it was invoiced for electrical upgrade work. The difference £48,600 was Bromley's share of the costs. The school previously paid in October 2007 and January 2008 £38,736 of this debt and therefore the true amount outstanding is £16,264. This amount is being pursued.
- 3.32 The 2009/10 audit of debtors has recently been completed. A draft report is to be issued shortly. The outstanding debt over a year old as at the 31st January 2010 stood at £2.66 million of which £1.59 million relates to domiciliary care debts that was not previously included £1.21 million mentioned in paragraph 3.22 above. If this is excluded the non domiciliary debt figure is £1.07 million – a reduction of £140,000.

3.33 Waivers

- 3.34 We had previously reported on all the waivers approved over a six month period to September 2009 as required by the contract procedures. Members had queried a waiver dated July 2009 from Property Division for £94,264 in respect of a remodelling of a classroom. Members had queried the comments column that stated 'reconfiguration and relocation of unit- best value consideration. New cost of £180,000'. There was a modular classroom unit that was originally located at Woodbrook Community School and was assessed to be in good condition. The manufacturers quoted £94,264 to relocate this unit to Princes Plain Primary School. Due to the specialist nature of the works it was proposed that only the manufacturer should undertake this work. A similar new unit would have cost £180,000 and so in effect £85,736 was saved by adopting this approach. The Directors of Resources and Legal Services both approved this waiver in accordance with financial regulations.

3.35 Previous priority one recommendations

- 3.36 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 17 priority ones. 9 have been implemented since the last report to this committee – Town Centre Management (1 out of 2); Primary

School A (1); Creditors (2); Extended Schools (1); Council Tax (1); Capital Schemes (2 out of 6); Domiciliary Care (1). These are all expanded on in this report.

3.37 Town Centre Management

- 3.38 Two priority one recommendations were previously made – there was a recommendation to tender the Christmas tree lights when the contract expired last year. The tendering process has commenced with 7 companies asked to tender. The results will be evaluated and reported to committee for decision. The other recommendation to produce comprehensive operating procedures will be undertaken on appointment of a Senior Town Centre Management that was approved by members as part of the restructuring. This will be tested in our next audit planned in 2010/11.

3.39 Primary School A

- 3.40 An audit of the school had identified shortcomings in the contract negotiated by the School that resulted in losses that contributed to their budget deficit. The risk was that these losses could continue in the future and therefore the School was advised to renegotiate the contract. This has been actioned and the company concerned has purchased stock back from the School, and has agreed to more favourable terms with the School. With the increase in take up of meals, the contract is now expected to break even.

3.41 Extended Schools

- 3.42 The priority one was in respect of an inability to demonstrate how extended funding was allocated to the secondary schools. A follow up of this recommendation showed that this has now been rectified with a spreadsheet produced to show how funding is allocated. Allocations are made on the basis of assessment criteria that include numbers of pupils, free school meals, looked after children, SEN, attendance figures and teenage pregnancy rates.

3.43 Domiciliary Care

- 3.44 The priority one recommendation related to the need to provide clients with timely and clear statements on charges for services that they received. A follow up to this recommendation has shown that timely and clear statements are now being sent out to clients.

3.45 Creditors

- 3.46 A full audit of creditors has recently been completed – both the priority ones have been implemented to our satisfaction. In the previous audit it was found that in a number of payments there were authorisation issues in respects of manual payments. The recent audit identified very few instances as a result of improved procedures including updating the authorised signatory list, improving form design to make signature identification easier and greater migration from manual to the I-proc system. In addition the Accounts Payable Section now monitors for duplicate payments on a regular basis and these have been effective. Our audit checks found only £2,500 duplicate payments relating to historical payments.

3.47 Progress and new issues since the last meeting

- 3.48 For the period April 2009 to mid February 2010 we issued 168 reports to either draft or final stage. This figure includes 48 reports that had to be completed in respect of the 2008/09 plan including follow up reports, investigation reports, systems and probity audits. At the time of writing this report 122 audit reports have been issued as draft and final against this year's plan with a further 25 audits that are work in progress. This equates to approximately 81% of the audit plan where work is complete or in progress as at mid February 2010. There has been some slippage primarily due to staff absences, but this period also covers summer holidays and also a concentration of resources in completing National Fraud Initiative work the results of which appear elsewhere on this agenda. Members should note that there has been some slippage against the annual plan as we have now seconded an Audit Manager for a six month period to the post of Performance Manager as this role now reports directly to the Assistant Director Audit and Technical Services.
- 3.49 92% of the audits have been completed within the budgeted time allowed against a performance indicator requirement of 90%. The feedback from clients has been very positive with an average score of 4.2 out of 5 against the target of 3.
- 3.50 One of the targets that has still not been met, is 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 whereas we have achieved 85%. This is a slight improvement on the 84% reported in the last cycle of this committee. As reported previously, there are a number of reasons for this including awaiting information from clients, extending the original scope where there are major findings, auditors being asked to carry out ad hoc work including investigations, secondment of an Audit Manager and sickness. Whilst the non achievement of this target is of concern there has been a gradual improvement from a low of 76% through to 85% currently. This improvement reflects measures by Internal Audit management including close monitoring of audits in conjunction with the auditors.
- 3.51 Secondary schools apart from the Priory are currently having their second Financial Management Standard in Schools (FMSiS) reviews having been initially reviewed three years ago. To date for 2009/10 only one secondary school has not met the standard. This appears elsewhere in the report. We have now completed the last tranche of primary school FMSiS. All primary schools reviewed to date this year have achieved the standard- two primary schools were being assessed at the time of this report and a further school was not FMSiS assessed due to the Head Teacher not being in post and the imminent formation of an interim governing body.
- 3.52 We have also carried out some investigations the results of which are reported elsewhere on the agenda, monitored the benefit fraud partnership and dealt with any fraud referrals as referred to in part two of this agenda.

3.53 New priority one recommendations

- 3.54 The table of new priority one recommendations is listed below:

Report Number	Title	Dept	No of Priority One's
ACS/935/01/2009	Review of Transition Team	ACS	1
CYP/SO6/01/2008	Secondary School	CYP	2

3.55 Transition Team

- 3.56 The 2009/10 budget for the transition team is £265,480. The team supports young people aged from 14 to 22 that have learning disabilities and their parents and carers. The team liaises with other service areas such as the Children with Disabilities Team and the Leaving Care Team amongst others.
- 3.57 A review of the above resulted in a few recommendations including one priority one. A sample test of 20 showed that three adult learning disabilities core assessments could not be located, with a further three unsigned. Additionally it was found that four referral cases had yet to be transferred over from the Children with Disability Team at the time of the audit with a further referral case that had not been transferred from the Leaving Care Team.
- 3.58 In addition to the priority one there were five other lower priority recommendations in respect of working conditions, transfer of all client related files, review of caseload and transfer of cases in line with the transfer protocol, updating policies and procedures and undertaking and agreeing transition plans for both 14+ and 16+ clients. This has resulted in a limited assurance opinion.
- 3.59 There has been a positive management response to implement these recommendations.

3.60 External assessment of a secondary school

- 3.61 One of the secondary schools assessed by internal audit has been deemed as not having met the Finance Management Standard. Amongst a number of recommendations were two that were deemed to be priority one issues.
- 3.62 The College could not demonstrate through a lack of documentation and the governor minutes that procedures and financial regulations had been followed in respect of two contracts selected for review and also the requirement for three quotes. It appears that part of this problem related back to the previous management. Cash flow statements were also not being completed.
- 3.63 There were also a number of lower priority recommendations in respect of the budget set on the system, approval of the finance manual, presentation of the benchmarking results to governors, submission of timely data to the Schools Finance Team, raising orders, updating the asset register, debt collection, reclassification of a lease.
- 3.64 We have met with management who have agreed to implement the recommendations with a view to reassessing the College in July 2010.

3.65 Housing Benefit Update

- 3.66 Since the last meeting of this committee a decision has been taken following scrutiny by E and R PDS to vary the partnership with effect from April 2010 thus enabling LB Greenwich to undertake investigation of non benefit fraud referred by Internal Audit and to extend the partnership by a further three years. The rationale behind this decision was reported upon in the previous meeting of this committee.
- 3.67 Since the inception of the partnership in April 2002, through to February 2010, the Council has successfully prosecuted 231 claimants to date for benefit fraud; issued 220 court

summonses; given 78 formal cautions; and administered 238 penalties. The full details and appendices on trends are shown in appendices B, C and D.

- 3.68 There are a few cases where the partnership is actively pursuing recovery through asset recovery procedures. We have had two previous cases where about £70,000 was recovered from convicted fraudsters.
- 3.69 It should be noted that £900,718 was identified as fraudulent overpayments for the ten months to February 2010 of which 40% is recoverable in rebate. A further £242,096 of this had been recovered at end of January 2010. (February figures not available at time of reporting)

3.70 Annual Governance Statement

- 3.71 Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, required audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control and publish a Statement on Internal Control each year with the authority's financial statements.
- 3.72 From 2007/08, the Annual Governance Statement (AGS) replaced the Statement on Internal Control and is now the formal statement that recognises, records and publishes an authority's governance arrangements.
- 3.73 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.
- 3.74 The AGS is signed off by the Chief Executive and the leader of the Council.
- 3.75 As risk management features strongly in the AGS process this year's review is again being co-ordinated by the Risk Management Group. 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.
- 3.76 One of the governance issues identified in last year's Annual Governance Statement was 'full implementation of a practical procurement strategy including strengthening contract management arrangements'. The following summarises the work carried out since then by Procurement:

- Corporate training on the use of New Contract Procedure Rules has been completed across all departments.
- The Foundation Review outcomes have been incorporated in to the Procurement Strategy and actioned.
- Cost savings activities - for example continuation of E auctions on IT and mobile devices and energy contracting strategies.
- New governance arrangements have been implemented with a COE Steering Group; Procurement Board and Commissioning / Procurement Liaison Group set up and meeting regularly.
- I Proc fully implemented and the feed between Confirm and CareFirst with Oracle Financials actioned.
- The acceptance of Print, Post and use of Multi Functional Devices projects and the opportunities of rationalisation and efficiencies presented to OneWay Programme.
- Endorsement of the use of Programme and Project Management processes and the Gateway process as specifically commented on in the Use of Resources Assessment.
- Overview and management support ACS and CYP – Contracting and Commissioning arrangements.
- Further work on sustainability; the use of whole life costing in decision making and SME engagement completed.

Future actions:

- Monitor changing relationship with PCT.
- Review changing legislation for agency staff.

Procurement and Commissioning activity scored a 3 (Performing Well) in the 2009 Use of Resources Assessment for KLOE 2.1 – Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?

3.77 Another governance issue identified in last year's Annual Governance Statement was Programme and Project Management – greater and consistent use of sound disciplines. The following summarises the work carried out since then by Improvement, Efficiency and Effectiveness:

- Programme & project management framework completed – and available to all via Managers toolkit on intranet.
- Training course developed and delivered in house.
- Various staff have also undergone assessed foundation training in programme management provided by external training agency.
- Corporate programmes all now rationalised under Chief Executives department.

- Further support tools e.g. business case development tool demonstrated to all senior managers, some teams and is also available and will be used in the corporate programme.
- Health check methodology completed and carried out on the OneWay Programme. Reported to Chief Officers and I&E Sub Committee.

Future actions:

- To ensure that the methods and support tools are used consistently.

3.78 Risk Management

- 3.79 As part of the continuing improvements to the quarterly performance monitoring report 'Are we on track?' we now include all the net high risks under the relevant portfolios. In addition the Corporate Risk Register is attached as an appendix to the report.
- 3.80 We are currently updating all risks as part of the 2009/2010 Annual Governance Statement review process. These will be reported to the next Committee.
- 3.81 We attach a schedule of the current net high risks (Appendix F) and the Corporate Risks (Appendix G) for information purposes.

4. POLICY IMPLICATIONS

None.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

None.

7. PERSONNEL IMPLICATIONS

None.

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	None