

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **10th June 2010**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

Contact Officer: Mark Gibson, Assistant Director Resources (Audit and Technical)
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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. It covers matters outstanding from the last meeting, implementation progress on previous priority one recommendations, details on new priority one recommendations, housing benefit update and risk management.

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: £587,520 excluding the benefit fraud partnership costs but subject to reduction.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 10 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 Members of this committee requested that this matter be referred to the Executive and Resources PDS Committee and General Purposes and Licensing Committee to include costs of the existing provision of Council mobile phones, policy regarding use and eligibility and the feasibility of offering an annual allowance to officers to use their own phones. We have therefore not expanded further on this matter as these have been reported to the above committees.

3.4 Use of Cash Payments across the Council

3.5 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.

3.6 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 that focussed on Leaving Care as these account for almost 60% of the yearly cash payments of around £252,000 per annum concluded that 140 cards could be used to replace 3,300 cash transactions.

3.7 An assessment of cash payments in CYP Leaving Care has demonstrated the business case for their use. Subsequently a tender for pre-paid card service to replace cash payments to Leaving Care clients has been issued through the OGC Framework with the tender results still to be evaluated at the time of this report.

3.8 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.

3.9 The purchasing card pilot has been completed and has been rolled out corporately -50 cards have been issued with more requests to be processed. For the period mid June 2009 to mid May 2010 £77,841 was spent in total against these cards. The impact of its use on the level of petty cash reduction has yet to be assessed.

3.10 Emergency Accommodation and Rents

3.11 Members had requested an update on our internal audit report of rent accounts and temporary accommodation. This matter is reported upon in Part 2.

3.12 Previous priority one recommendations

3.13 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 11 priority ones. 10 have been implemented since the last report to this committee – Review of Mobile Phones- see paragraph 3.2 above (1);Capital Schemes (5 out of 6 implemented) Review of Primary School A (2);Town Centre Management(1); Review of

Transportation Strategy (1). These are all expanded on in Appendix A. The old debtors recommendation is superseded by the new recommendation detailed in para 3.31 below.

3.14 Progress and new issues since the last meeting

3.15 For the period April 2009 to March 2010 we issued 189 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 141 audit reports have been issued as draft and final against this year's plan with a further 12 audits that are work in progress. This equates to approximately 82% of the audit plan where work is complete or in progress as at mid February 2010. The performance indicator for completion of the audit plan is 90%. There has been some slippage primarily due to staff absences, investigations that are reported elsewhere on this agenda, requests from management to put back audits and the secondment of 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.

3.16 90% 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.

3.17 A target that has 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 83%. This is slightly down on the 85% 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% previously reported. This improvement reflects measures by Internal Audit management including close monitoring of audits in conjunction with the auditors. Audit management are actively reviewing strategies to improve performance against these targets in 2010/11.

3.18 The planned schools audits have all been achieved i.e. all the secondary schools apart from the Priory have been assessed against the Financial Management Standard in Schools (FMSiS) reviews having been initially reviewed three years ago. The last tranche of the small primary schools have also been assessed. Therefore all schools have in effect been assessed by Internal Audit over a period of time. In addition we have undertaken full audits of three schools –The Priory, Glebe and James Dixon Primary. We have also undertaken a special income and expenditure audit of a primary school that is expanded upon below. An annual report on school audits for 2009/10 is reported in this agenda.

3.19 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.

3.20 New priority one recommendations

3.21 The table of new priority one recommendations is listed below:

Report Number	Title	Dept	No of Priority One's
ENV/004/01/2009	Parking Income 2009/10	ENV	1
RD/005/01/2009	Debtors	RD	1
CYP/P50/02/2009	Primary School	CYP	1
ACS	Care Management- Part 2	ACS	1
RD/002/01/2009	Cash & Banking – Cashiers Audit 2009/10- Part 2	RD	1

3.22 Parking Income 2009/10

- 3.23 This is an annual managed audit i.e. those audits designated by external audit where reliance is placed on internal audit work in respect of certain key controls that have to be covered. The 2009/10 budget for car parking – on and off street parking is £5,597,360 expected income. Most of this is cash collected from machines.
- 3.24 There was a priority one recommendation in respect of a lack of reconciliations for a period from October 2009 to the commencement of the audit in mid February 2010. The amounts collected for parking income recorded on the daily collection spreadsheet from LBB cashiers had not been reconciled to cash reports from the Parkeon system and the amounts input onto Oracle. The reconciliation process is classified as a key control by external audit.
- 3.25 The process has now been undertaken but any shortfalls from this period are still to be investigated.
- 3.26 From a random sample of 25 collections examined it was identified that one collection was not stated on the cash collection report from the Parkeon system. This was due to communication error between a particular machine and the Parkeon software. There was also a lack of reconciliation between parking income banked per the Central Cashiers deposit to actual receipts of parking income received from the bank.
- 3.27 There was no reconciliation of parking income received via credit card into LBB's account since September 2009. The recommendation was made that parking income received via cash, credit card and mobile phone should be reconciled regularly.
- 3.28 Management have agreed to implement procedures and new operations manual will be actioned for all types of income.
- 3.29 There were four other recommendations covering reconciliations of season ticket kiosk income, lack of reconciliation procedures and advertising on our website that top up cards are available to make payments.
- 3.30 As a result of our findings a limited assurance audit opinion was issued.

3.31 Debtors

- 3.32 The 2009/10 debtor audit has again highlighted problems in the collection of old debts.
- 3.33 The aged debt analysis report for non-domiciliary care as at 31 January 2010 identified that the outstanding debt owed to the authority over a year old amounts to £1,275,337. The previous audit reported this to be £1,210,973 as at 31 January 2009. In addition, the domiciliary care breakdown report shows a balance of £1,231,971 owed at 8 February 2009, with £4,019,790 of charges made up to 31 January 2010, £3,642,283 payments

received and balance of £1,609,477.94 remaining. Furthermore, appropriate debt recovery actions had not been evidenced in all instances sampled and procedures in this area need to be updated.

3.34 There were also a number of lower priority recommendations in respect of raising timely and accurate invoices, proper treatment between cancelling and writing off debts, ensure that the advanced collections debt management system is in operation promptly.

3.35 As a result of our findings a limited assurance audit opinion was issued.

3.36 Primary School

3.37 This School had met the financial management standard in 2008/09. Following a request from the new governors of this primary school to undertake an income and expenditure audit it was found necessary to make a priority one recommendation in respect of payments made to an IT company that exceeded the limit where quotes would be required.

3.38 A payment to an IT company was reviewed. An order was raised for the work after it had been carried out. The maintenance agreement which commenced in April 2006 was reviewed and found to be for £180 per quarter (£720 per annum). Additional work and site visits showed that the total spend with this company in the last 12 months was £16,162. This would have required the school to have at least obtained quotes in compliance with the schools financial regulations. The school have recently compiled a list of all contracts which includes two contracts with this company. One said 'out to tender' the other gave an annual value of £379. As a result we recommended that the school review the maintenance agreement with the company and ascertain whether it provided value for money. We also carried out a company search but could not find any conflict of interest issues.

3.39 The school carried out a review of the agreement with the IT Company and as a result terminated their services. The list of contracts will be reviewed by the Head Teacher and governors.

3.40 There were two other priority two recommendations in respect of the need to raise orders and check the charges on the energy statement. A limited assurance audit opinion was given.

3.41 Care Management

3.42 See Part 2 of this agenda.

3.43 Cash and Banking Cashiers Audit 2009/10

3.44 See Part 2 of this agenda.

3.45 Housing Benefit Update

3.46 Members will be aware that since April 2010 the scope of the partnership has been extended from benefit fraud to include general fraud cases referred to LB Greenwich. The partnership has now been extended to March 2014 to reflect its success in relation to sanctions achieved and value for money.

3.47 Since the inception of the partnership in April 2002, through to April 2010, the Council has successfully prosecuted 237 claimants to date for benefit fraud; issued 223 court summonses; given 80 formal cautions; and administered 246 penalties. The full details

and appendices on trends are shown in appendices B, C and D. (Please note that appendix C only covers the period April 2002 to March 2010).

3.48 There are three 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.

3.49 £804,125 was identified from the Academy system as fraudulent housing benefit overpayments for 2009/10. 40 % of this is recoverable in rebate. An amount of £285,784 has been recovered in the year. In addition £209,013 was identified by the partnership as fraudulent council tax benefit that is recoverable through the individuals' council tax accounts.

3.50 Annual Governance Statement

3.51 At the previous meeting Members were advised that the Risk Management Group was co-ordinating this year's Annual Governance Statement (AGS) review.

3.52 The preparation and publication of an annual governance statement in accordance with the CIPFA/SOLACE Framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations (2003), as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 which requires authorities to "conduct a review at least once a year on the effectiveness of its systems of internal control" and to prepare a statement on internal control "in accordance with proper practices".

3.53 To reflect compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) we are now required to include a specific statement on whether the authority's financial management arrangements conform with the Statement. CIPFA's Statement sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance/organisational arrangements needed to support them.

We have detailed these core principles in section 7 of the AGS and confirmed that Bromley's financial management arrangements conform with the Statement.

The additional requirements from the CFO Statement will need to be incorporated in the Code of Corporate Governance and a revised and updated Code will be presented to Standards Committee in due course.

3.54 No significant governance issues have been identified during the review and the control issues identified in previous years are no longer considered significant given the work carried out during the year.

Bromley scored a 3 – 'performing well' for the theme 'Governing the business – focussing on strategic commissioning and good governance' in the 2009 Use of Resources assessment, which supports the progress we have made.

3.55 The wording of the AGS has been approved by Chief Officer's Executive and has been signed off by the Chief Executive and the Leader of the Council (Appendix E).

3.56 Risk Management

3.57 As part of the planned actions this year we will be revising and updating the risk management strategy and expanding the Risk Management and Insurance site on onebromley.

3.58 We attach a schedule of the current net high risks (Appendix F).

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