

PART 1 - PUBLIC

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**Decision Maker:**      **Audit Sub Committee**

**Date:**                      **16<sup>th</sup> September 2010**

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

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

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**Chief Officer:**              Paul Dale, Director of Resources and Deputy Chief Executive

**Ward:**                      All

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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 Outstanding Matters**

- 3.2    Use of Cash Payments across the Council
- 3.9    Debtors
- 3.21   Annual Audit Report
- 3.25   Direct Payments
- 3.27   Previous Priority One Recommendations
- 3.29   Progress and new issues since the last meeting
- 3.34   Academy Status

**3.35    Current Matters**

- 3.37   New Priority One Recommendations
- 3.39   FMSiS Assessment of Secondary School 2009/10
- 3.44   Emergency Accommodation & Rent Accounts
- 3.46   Housing Benefit Update
- 3.50   Waivers

**3.56    Other Matters**

- 3.58   Benchmarking
- 3.63   Partnership Working
- 3.65   Audit Commission
- 3.68   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. (para 3.45)**

### 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 Use of Cash Payments across the Council**

**3.3** Members requested a further 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 paid through the Area Offices. A substantial amount of the CYP expenditure related to Leaving Care clients

**3.4** We have examined the cash expended over the past year and correlated it to the use of purchase cards that started about a year ago (see appendix A). The graph at appendix A shows the usage of Petty Cash by month since April 2007. A general upward trend was reversed around the time of the introduction of Purchasing Cards. Total spend on Purchasing Cards by month is also shown on the graph.

**3.5** Around £11k a month (July 2010 figure) is currently being spent on purchasing cards (1,860 transactions, an average of around £6 per transaction). Petty Cash expenditure has fallen from an average peak of £36k in August 2008 to an average of £27k in July 2010. Whilst there is a correlation between the two, some purchasing card expenditure is likely to have replaced cheque expenditure rather than petty cash.

**3.6** The petty cash usage is likely to drop substantially on the introduction of pre-paid cards for Leaving Care, which currently accounts for approximately £12k a month of all petty cash.

**3.7** In progressing the reduction of cash payments, and also increasing the use of BACS where appropriate, the use of pre-paid cards has been investigated for reducing the number of cash transactions and also for achieving process efficiency benefits. An initial 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.

**3.8** As previously reported to Members an assessment of cash payments in CYP Leaving Care demonstrated the business case for their use. Subsequently a tender for pre-paid card service to replace cash payments to Leaving Care clients was issued through the OGC Framework. A supplier has been identified a Project Initiation Workshop will take place to start their work. This will include the set up of Client Zone, order cards, organise bank account, schedule training etc. The supplier has advised it takes some 6 to 8 weeks to implement to get to go-live point. Initially 36 cards will be issued to young people who receive regular and ad hoc payments resulting in an estimated reduction of cash payments of £1,000 - £1,250 per week or £52,000 to £65,000 per annum. During this first phase implementation, a plan will be developed to rollout the use of the cards to further clients as well as an assessment of their potential application to other CYP areas. 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 is to 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. Debtors**

**3.10** At the last cycle of this committee we had reported to Members that the outstanding debt over a year old amounted to £1,275,337 as at 31<sup>st</sup> January 2010, with a further

£1,231,971 for domiciliary care debts. The situation had not improved since the previous audit had highlighted a similar issue. Members wanted a further update specifically a trend analysis that identified changes and trends in long standing debts over a year old. We have extracted a trend analysis for non domiciliary care debt. The domiciliary care debts will be audited later in this financial year and any significant findings will be reported to this committee.

**3.11** Six graphs are attached as follows:

Appendix B Total Invoice Debt Over Time  
Appendix C Total Invoice Debt Over 1 Year Old Over Time  
Appendix D Total Number of Outstanding Invoices Over Time  
Appendix E Total Number of Invoices Outstanding Over 1 Year Old Over Time  
Appendix F Total Value of Write-offs Over Time  
Appendix G Total Value of Credit Notes Over Time

**3.12** Appendix B shows that total invoice debt was steadily decreasing until around September 2008, after which it has steadily increased.

**3.13** Appendix C shows that old debt (over 1 year old) was decreasing until around September 2008, after which it has steadily increased.

**3.14** Appendix D reveals that the total number of invoices outstanding has decreased and levelled off from September 2008.

**3.15** Appendix E shows that the number of invoices over a year old has steadily decreased until around September 2008, after which the number outstanding steadily increases again. This correlates to Appendix C which also shows that debts over a year old have increased steadily from September 2008.

**3.16** Appendix F shows amounts written off over the period April 2004 to April 2010.

**3.17** Appendix G shows the value of credit notes over the period July 2006 to July 2010. Credit notes include cancellations of debts raised in error.

**3.18** Officers are currently reviewing position on various categories of debt raised, the approach to management information and debt recovery in this area.

**3.19** Members had previously raised a query on the possibility of charging schools interest on long standing debts. This issue is currently being considered by CYP including consultation at the School Forum and Head Teachers. It may result in an amendment of the Scheme for Financing Schools.

**3.20** An audit of Debtors covering aged debts is currently in progress.

**3.21** **Annual audit report**

**3.22** At the last cycle of this committee Members wanted Appendix 1 of the annual audit report reformatted to include an update on priority ones made during 2009/10. Members requested that the charts in paragraph 3.20 of the report should include a breakdown by department as a comparative analysis for Chief Officers. The chart at Appendix 1 did already include departments, and Members requested that the table be re-formatted for the next meeting, and include details of any priority one recommendations which had not been implemented by management. This is now attached as Appendix H.

**3.23** Members had also requested a breakdown of recommendations by department. This is attached as Appendix I. The areas that attract the most recommendations across the departments are: insufficient accounting records; lack of supporting documentation; lack of or outdated procedures; lack of supporting documents; supervisory /monitoring/managing issues.

**3.24** Members had also asked that the Internal Audit 'Terms of Reference' be updated to include Value for Money. This has been done and is shown as Appendix J.

### **3.25 Direct Payments**

At the meeting of this committee in March 2010 Members had referred to a case where an amount of Direct Payments to a client's relatives could not be accounted for. This case was satisfactorily resolved but it transpired that the relatives were unclear about procedures. The minutes stated that: A further update was also provided in relation to case 219 – direct payments – in relation to concerns over the withdrawal of cash from a direct payment account by relatives of a client. Since the Sub-Committee's last meeting, management had concluded its enquiries into the discrepancies of the case. In the light of the report received, Members felt that an investigation was required by the Adult and Community PDS Committee into the procedures and training which existed for relatives who receive direct payments on behalf of the clients and that they fully understood what was expected of them. The exact wording of this referral was: **'the report in relation to case 219 be referred to the Adult and Community Services PDS Committee with a view to that Committee examining the procedures and training available for relatives who received direct payments on behalf of clients'**.

As a result this matter was discussed at ASCS PDS committee on the 27<sup>th</sup> July 2010. There was a query as why it had to be on the PDS agenda. It was felt that future referrals should be sufficiently detailed and of high importance for ACS PDS referral.

**3.26** The matter was discussed and is summarised below.

Since this incident the process of information giving and advice to service users and carers on the use of Direct Payments, and the requirements for record keeping have been reviewed and improved. People using Direct Payments sign an agreement about the use of the funds and their record keeping. It is in the nature of Direct Payments that the funds provided could be used for purposes other than those agreed. The Resources Department monitor the spend and records on a quarterly basis, and will do more frequent checks if there are concerns.

The process is being reviewed again as part of the Supporting Independence in Bromley programme and the issue of information and guidance to service users is a key part of this review. Work is also underway on a pre-paid card option, similar to a Visa card, which would offer additional protection against such mis-use.

There have been relatively few cases of mis-use of Direct Payments and recovery action has been taken effectively. There is a risk with Direct Payments, but the benefits to the users and carers, and to the Council, are far greater. The improvements listed above should ensure that the level of risk is kept low.

An audit of Direct Payments is due later on this year.

### **3.27 Previous priority one recommendations**

**3.28** The latest list of outstanding priority one recommendations is shown in Appendix K. Since our last report to Audit Sub Committee there has been ongoing activity by

management to implement these. Appendix K currently shows 10 priority ones. At the last cycle we had reported 11 of which 7 have been implemented - Capital Procedures (1); Fostering (1); FMSiS Secondary School (2); Review of Primary School (1); Cash & Banking (1); Transition Team (1). These are all expanded on in Appendix K.

### **3.29 Progress and new issues since the last meeting**

**3.30** For the period April 2010 to July 2010 we issued 56 reports against this year's plan to either draft or final stage. These include full systems and probity audits, schools and follow up audits. This equates to approximately 32% of the audit plan which is as expected for the 4 month period. The performance indicator for completion of the audit plan is 90%. There are 29 audits where there is work in progress at the time of writing this report. In addition, 16 audits were completed to draft and final stage in respect of the 2009/10 plan. The fraud partnership with LB Greenwich has also produced three reports following investigations - these are expanded upon in Part 2.

**3.31** 92% of the audits have been completed within the agreed budgeted time allowed against a performance indicator requirement of 90%. The feedback from clients has been very positive with an average score of 4.1 out of 5 against the target of 3.

**3.32** A target that has been partially 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 88%. This is an improvement on the 83% 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 e.g. emergency accommodation and rent accounts and auditors being asked to carry out ad hoc work including investigations. This improvement reflects measures taken by Internal Audit management including close monitoring of audits in conjunction with the auditors. Audit management are actively monitoring progress against the plan to improve on the 88% performance against these targets in 2010/11.

**3.33** 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. All schools have now been assessed over a three year period. In addition we have undertaken a special audit at a primary school. This is reported upon fully in Part 2. We have reassessed a secondary school that had not previously met the FMSiS standard. This school has now met the standard. We have also rolled out the assisted audit methodology for carrying out audits at our secondary schools. This requires schools and colleges to assist in the audit process under the management of Internal Audit thereby increasing the auditees' perception of the audit process as well as saving on audit time. Two secondary schools Kemnal Technology College and Darrick Wood School will not be part of this process but will be subject to a closure audit as they are converting to Academy Status.

### **3.34 Academy Status**

On 26 May 2010 the Secretary of State for Education sent out letters to all outstanding schools inviting them to apply for Academy Status. Two Bromley secondary schools are in the process of converting to Academy Status, Kemnal Technology College on 1<sup>st</sup> September 2010 and Darrick Wood on 1<sup>st</sup> November 2010.

Guidance provided by the Department for Education states that there is no formal relationship between Local Authorities (LA) and Academies beyond LA statutory duties

such as SEN statementing, admissions co-ordination and provision of home-to-school transport. However, LAs are expected to play a key strategic role locally and there will be significant advantages to partnership working, for example planning 14-19 provision or sharing good practice locally. They also expect that many Academies will chose to keep existing LA representatives on their Governing Body.

- 3.35** An Academies operational group has been established and is meeting regularly to discuss how to assist schools in the transition to Academy Status and to establish which services including Internal Audit can be offered to them for purchase once they are Academies. Internal audit is represented on this group.

### **3.36 Current Matters**

### **3.37 New priority one recommendations**

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

<b>Report Number</b>	<b>Title</b>	<b>Dept</b>	<b>No of Priority One's</b>
CYP/S12/01/2009	FMSiS Assessment of Secondary School	CYP	2
ACS/068/01/2009	Emergency Accommodation & Rent Accounts	RD	4- Part 2

### **3.39 FMSiS Assessment of Secondary School 2009/10**

- 3.40** This secondary school was first assessed in January 2010. At the time of the audit the school was deemed not to have attained the standard as there were two priority one recommendations outstanding. These related to the leasing arrangements that the school had entered into and issues around the budget.

- 3.41** The school has a lease with a company where the lease payments were made from capital. In addition to this, at the time of the audit we were given information that this lease might be different to that encountered in other schools, in that the ownership of the assets would transfer to the school thereby indicating that it may not be an operating lease but a finance lease. Subsequent to the audit the lease has been renegotiated with the current leasing company and it is now regarded as an operational lease

- 3.42** The second priority one revolved around errors in the budget. The staffing budget had been increased from £5,396,789 to £5,584,588 and not changed on the schools financial system and the original budget for 6th form funding was overstated by £39,125. The result of this at the time of the audit would be to put the school into a budget deficit of £29,766 from the December 2009 surplus forecasted of £197,158. The school has since corrected the budget.

- 3.43** There were a number of lower priority recommendations covering whistle blowing policy, compliance with Financial Regulations in relation to tendering, invoicing, CRB checks, asset register to be updated, raising orders, approval of the budget and the need for comprehensive information on the list of leases and contracts. All recommendations have been agreed by management for implementation.

### **3.44 Emergency Accommodation & Rent Accounts**

- 3.45** There were four priority ones in this area that are covered in detail in part 2 of this agenda.



### **3.46 Housing Benefit Update**

**3.47** Since the inception of the partnership in April 2002, through to July 2010, the Council has successfully prosecuted 246 claimants to date for benefit fraud; issued 224 court summonses; given 81 formal cautions; and administered 252 penalties. The full details and appendices on trends are shown in appendices L, M and N.

**3.48** Members will be note that we have had some notable successes in tackling fraud including that of an asylum seeker who received three years imprisonment for defrauding Bromley Council, Lambeth Council and a couple of banks of over £700,000 fraud. This case attracted national paper interest – an extract appears as Appendix O. This case was first identified by an observant and diligent officer following an application for a student loan.

**3.49** We have also had a spate of prosecutions resulting in 8 people being prosecuted over a short space in time in August 2010. The partnership is also in the process of recovering overpayments by confiscation of assets in some cases where there are large amounts involved by use of Proceeds of Crime legislation.

### **3.50 Waivers**

**3.51** We are now submitting our second list of waivers across the Authority for the period September 2009 to July 2010. See appendix P. 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.

**3.52** Rule 3 of the contracts procedure state that where there is the need to Waive the requirements for Competitive Bids pursuant to rule 13.1 or any other provision of these Contract Procurement Rules because of an unforeseeable emergency involving immediate risk to persons or property or serious disruption to Council services or significant damage or potential damage to the image or reputation of the Council (including circumstances which require a Strategic Performance Centre Manager to invoke a Business Continuity Plan) a Chief Officer may exercise such Exemption or Waiver subject to the following:

**3.53** Where the value of a relevant contract (or proposed contract) exceeds £50,000 the Agreement of the Director of Legal, Democratic and Customer Services shall be obtained.

**3.54** Where the value of a relevant contract (or proposed contract) exceeds £100,000 the Agreement of the Director of Legal, Democratic and Customer Services, the Director of Resources and the Agreement of the relevant Portfolio Holder shall be obtained

**3.55** Where the value of a relevant contract (or proposed contract) exceeds £1 million the Agreement of the Director of Legal, Democratic and Customer Services, the Director of Resources and the Agreement of the relevant Portfolio Holder shall be obtained.

**3.56** Negotiated contracts are covered by contracts procedure rule 13.1. 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;

**3.57 Other Matters**

**3.58 Benchmarking**

**3.59** We have recently completed a benchmarking exercise through the Cipfa benchmarking club. In terms of cost we are competitive against other London Boroughs – Appendix Q shows that we compare favourably at £310 net cost per chargeable day against other London Boroughs average of £360.

**3.60** When compared to other London Boroughs with an in house team our costs for 2010/11 show up as £57,000 per annum per auditor compared to a London average of £68,000 per annum. -Appendix R. However, if Bromley's overheads of £22,000 – mainly recharges, are excluded we are the cheapest Internal Audit in house team in London.

**3.61** When we review time allocated on the 2010/11 plan to cover fundamental systems such as payroll, debtors, creditors, we show up as above average in London in allocating 0.45 days per million Bromley turnover of £688 million which equates to 310 days of our plan i.e. almost two auditors.- Appendix S.

**3.62** When we compare chargeable days i.e. days available from each employee to carry out planned work we come out in line with the average of 176 days in comparison with other London Boroughs - Appendix T.

**3.63 Partnership Working**

**3.64** With uncertainty over future funding/budget cuts not only in Bromley but elsewhere in London we are faced with exploring working with other Boroughs to maximise efficiency or risk cutting experienced/qualified staff. Members are aware of the undoubted success of our fraud partnership with LB Greenwich. We are currently looking to extend this to audit coverage whereby LB Bromley will assist LB Greenwich in completion of their audit plan in this year by undertaking three or four audits. Looking forward, discussions are at an early stage but the intention is to have a formal agreement in place for 2011/12 onwards. This may affect low and medium risk audits coverage in Bromley in the future, depending on member decisions on allocations of any financial benefits, but not audits deemed as high risk. Another advantage in sharing services is an exchange of skills and use of common documentation e.g. we can use the same control matrices recommended by Cipfa to carry out system audits.

**3.65 Audit Commission**

**3.66** Members will be aware of the demise of the Audit Commission. We are not certain of the ramifications of this decision but Cipfa have come out with some interesting information summarised in appendix U.

**3.67** There may be implications for audit committees in respect of appointing the external auditors with councils able to appoint their own external auditors from 2012/13 onwards; governance and accountability issues; monitoring good practice; counter fraud role and specifically responsibility for the National Fraud Initiative; and link into the Local Government Ombudsman.

### **3.68 Risk Management**

**3.69** Given the need for service reduction planning as a result of the pending Spending Review we will be asking all managers to review their existing risks and identify any new risks. To assist in this process we have produced a one page 'Instant Guide to Risk Management' - Appendix V.

**3.70** We attach a schedule of the current net high risks - Appendix W. The full risk register can be accessed via the Managers' Toolkit in Onebromley. See following link to the Risk Management and Insurance site:  
<http://onebromley/HDol/ManKit/wikisite/Wiki%20Pages/Risk%20Management%20and%20Insurance.aspx>

## **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.

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