

Decision Maker: **Audit Sub Committee**

Date: **6th June 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
- 3.6 Audit Restructure
- 3.9 Auditor of the year nominations
- 3.12 Housing Benefit Update
- 3.16 Financial Regulations
- 3.23 Future of Public Audit
- 3.26 Partnership Working
- 3.29 Value for Money (VfM)
- 3.34 Other Matters
- 3.37 Risk Management

RECOMMENDATION(S)

- **Note the report and comment upon matters arising from the internal audit progress report.**
- **Make a decision on the nominations for auditor of the year.**
- **Approve the changes in the Financial Regulations.**
- **Note the continuing achievements of the counter fraud benefit partnership with Royal Borough of Greenwich.**

Corporate Policy

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

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Recurring Cost:
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: £533K including £250K net for benefit fraud partnership
 5. Source of funding: Not applicable
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Staff

1. Number of staff (current and additional): 7FTE (including 2 FTEs on sold services)
 2. If from existing staff resources, number of staff hours: 190 days per quarter
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Legal

1. Legal Requirement: Statutory Requirement Accounts and Audit Regulations 2011
 2. Call-in: Not Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 160 including Chief Officers, Head Teachers and Governors
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
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 with two being removed from the listing – Primary School B (expanded upon in Part 2) and IT Disaster Recovery . Appendix A currently shows the original priority one recommendation made with an update where applicable. There have been two additions to the listing. Environmental Services –Parks and Greenspaces that is expanded upon in Part 2 and a priority one recommendation in respect of Penalty Charge Notices (PCNs) expanded below.

3.3. The priority one on PCNs initiated from a Freedom of Information request on write offs for these debts. There was a referral from the Head of Finance about the increase in the level of debts waived by Parking. Audit ascertained that the level debt waived had increased from £10K in 2008/09 to £429K in 2010/11 and that there was a corresponding decrease in write offs in the same period. In terms of PCN debt a waiver means that the Penalty Charge Notice was issued correctly but the Council is using its discretion to waive the charge; a write off means that the Penalty Charge Notice was also issued correctly but the Council is now unable to collect the debt and has no other alternative but to write off the outstanding debt. Given the substantial amount of debt being waived we recommended that a formalised procedure be approved by Environment Services PDS and this has been actioned.

3.4. Audit Activity

3.5. We have spent most of our time since the last progress report in March 2012 completing the 2011/12 Internal Audit plan. The progress against this plan is included in the Annual Audit report. Due to time spent on investigations and days lost through the reorganisation and reduction in resources in 2011/12 we had commissioned Deloitte through our framework agreement with Croydon, to complete a few audits from the 2011/12 plan. We also carried out the following work:

- Audits for RB Greenwich as part of our sold services agreement
- Responsible officer role work carried out for academies on a termly/quarterly basis
- Mandatory training of officers in respect of the Financial Regulations and Contract Procedure Rules
- Fraud and investigation work reported in part 2.
- Work has commenced on the 2012/13 plan but it is too early to report on progress

3.6. Audit restructure

3.7. In the last report to this committee we had stated that the restructure to downsize Internal Audit from 10.7 full time equivalents FTE's to 7 FTE's was in progress. The effect of this would leave an audit section made up of a Head of Audit, 4 FTE's to carry out Bromley audits and investigations and 2 FTE's working on providing sold services to RB Greenwich and 12 academies.

3.8. We can now report that the restructure was completed in mid April 2012 with effectively 4 auditors leaving Internal Audit. This leaves a structure of just under 7FTE's. The structure allows for 4FTE's plus an element of the Head of Audit time to complete the approved 2012/13 audit plan totalling 775 days (including 100 days for fraud and investigation work). The two FTE's will need to provide at least 330 days input on sold services for RB Greenwich and

academies that will raise some £100k in income for this financial year. However, attention is drawn to potential developments on the RB Greenwich work detailed in Partnership working below.

3.9. Auditor of the Year

This award was first introduced last year. Members of this committee asked audit management to nominate auditors whom it was felt had provided a significant contribution to work that they had completed in 2011/12. The nominations have considered audits and investigations that have identified matters resulting in material action being taken; and adapting to partnership working and sold services that will generate income. After deliberations, the Head of Audit would like to put forward two auditors for consideration of this award.

3.10. Auditor A- was handed responsibility for investigating allegations made in respect of the CDM 2007 project. Auditor A pursued this task with professionalism and due diligence in difficult circumstances where documentation was not available and the audit trail was unclear. Auditor A had to painstakingly piece together the history of the project and in the process identified significant shortcomings in the project resulting in a thorough report where there were 9 priority one recommendations. The outcome of the findings led to a management inquiry to which Auditor A provided an input and a detailed report to this committee and subsequently the Executive both of which he attended. The report was well received by management as being fair and all the recommendations were accepted.

3.11. Auditor B- was given a routine 5 day audit in Environmental Services from the 2011/12 internal audit plan. Using knowledge gained from previous enquiries, a cumulative spend report was run on the division that indicated concerns over compliance with the Financial Regulations and Contract Procedure Rules. Further audit work requiring a lot of understanding of contract procedures indicated significant findings that are now reported elsewhere on this agenda. The audit required a great deal of investigative skills resulting in a substantial report and eight priority one recommendations accepted by management.

3.12. Housing Benefit Update

3.13. Since the inception of the partnership in April 2002, through to March 2012, the Council has successfully prosecuted 293 claimants to date for benefit fraud; issued 270 court summonses; given 94 formal cautions; and administered 308 penalties. The full details and appendices on trends are shown in Appendices B, C and D.

3.14. We have been successful in legal action to confiscate two properties in respect of a case previously successfully prosecuted – offers for these two properties have now been received and allowing for mortgage debt, 75 % of the proceeds going to the Home Office and HCMS and receiver fees, we stand to gain £30 K.

3.15. The Single Fraud Integrated Service (SFIS) is due to come into effect in April 2013. We still do not have a clear view on how Option one (that the Local Authority staff will remain employed by LAs, but operate under SFIS powers, policies, processes and priorities) will work. At this stage it is not known how this will work in respect of responsibility for sanctions i.e. prosecutions, formal cautions and administrative penalties.

3.16. Financial Regulations

3.17. The Financial Regulations for this authority was last updated in April 2009. It needed to be updated given the feedback received from officers that it was too long (160 pages) and not user friendly and confusing in relation to limits for authorising payments and orders.

- 3.18. The Contract Procedure Rules sit outside of financial regulations and are accessed separately. As a result of the investigations various best practice notes, aides and guidance have been produced by Procurement to assist officers. These include a quick guide to the procedures, and guidance on the use of consultants, waivers and variations and exemptions.
- 3.19. The Financial Regulations have now been updated and a draft has been made available to members of this committee.
- 3.20. The main changes proposed are:
- Deletion of Financial Procedures – Part one. This document detailed 50 pages of responsibilities for Chief Officers across financial management, financial planning, risk management, system and procedures and external arrangements. Apart from this being a long, text book lifted and unwieldy part of Financial Regulations, a lot of this was already covered by the financial regulations strategic responsibilities section. As part of our review process of procedures part one, we incorporated some elements of relevance within the top level strategic part of the Financial Regulations.
 - We have also introduced a new document covering authorisation of limits for orders and payments (section 5 of the financial procedures). This has been approved by the Finance Director, Deputy Finance Director and Heads of Finance. The limits proposed are in line with I-proc limits and contract procedure rules. The document also contains listed exemptions that could be covered by a department's scheme of delegation.
 - The Financial Regulations have been amended to include changes in the organisation.
 - This leaves just two parts to the Financial Regulations that have been revised as indicated above – Financial Regulations (strategic) aimed at members and chief officers and Financial Procedures which is the document that most officers would need to make reference to. This contains procedures to be followed across a number of key areas of control such as budgetary control, salaries and payroll, ordering for goods and services, payment of accounts etc as well as appendices sitting at the bottom of the Financial Regulations covering fraud and corruption, gifts and hospitality and retention of documents.
- 3.21. We are also in the process of loading the Financial Regulations on the web as part of a video training package that officers can access that will take about 30 minutes to go through. This will contain two modules to include the Contract Procedure Rules. It is envisaged that officers will be required to have completed the two modules to authorise future payments.
- 3.22. The draft revamped financial regulations will be shorter (about 110 pages) and easier to navigate by using the document map facility in the 'view bar'. Members are asked to comment and approve the Financial Regulations.
- 3.23. Future of Public Audit**
- 3.24. At the last meeting of this committee we had given information on CLG thinking in appointing the external auditors. Since then the Audit Commission has informed us of their proposal to appoint our current external auditors PWC for a further period of 5 years from 1st September 2012. Authorities can object to this appointment but the grounds are restrictive and only on the grounds of independence issues not previously known to the Commission, there are joint working arrangements with other authorities that may warrant use of their auditors or we can demonstrate a history of inadequate services from PWC which is not the case.
- 3.25. The government is in the process of legislating for local authorities to appoint their own auditors after the current contract expires.

3.26. **Partnership Working**

- 3.27. We have continued to complete 2011/12 audit work commissioned by RB Greenwich as part of our agreement to provide audit services. This will generate £75k income on completion. It is envisaged that this agreement will continue for 2012/13. However, it should be noted that RB Greenwich have advertised for auditors and there is a risk that they may need less of our services going forward. We will monitor this situation as it unfolds especially as this income funds two FTE's auditors.
- 3.28. We have also continued to provide services to 12 academies (mostly responsible officer roles) that will generate about £19k this financial year.

3.29. **Value for Money (VfM)**

- 3.30. 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 advice on how best business areas can look to compare their performance with others using information and research that is made available. We had indicated four audits that were due a review - customer contact centre (see below), personal budgets (see below), CYP safeguarding, personal budgets and residential care placements. Safeguarding is work in progress and will be reported upon at a future meeting. Residential care placements – due to staffing resources and investigative work in 2011/12 this audit has been carried forward to this year.
- 3.31. In the 2012/13 plan, we have provisionally highlighted the following audits that could be subject to VfM arrangements: Debtors; Domiciliary care; Residential and Nursing care; Early Years; SEN and Inclusion; Car Parking (PCNs). We had previously reported on VfM arrangements in parking income and waste that had a scoring of substantially met and fully met respectively.

3.32. **Review of customer contact centre**

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 met.

- Benchmarking rated as a 4. The benchmarking carried out centrally via the Local Authority Benchmarking Group compares information from 21 councils. In the main Bromley was performing just above average in the terms of performance.
- Customer surveys - a rating of 3 based on customer satisfaction surveys as carried out by the UK Customer Service Institute and which we have an average score of 59.2 against a Public Services average of 72.3 (we are below average).
- External assessment is rated as 3 based on the IE&E assessment that was carried out in June 2011. This report highlighted areas for improvement, such as moving the planning reception into the Main reception.
- Budget as 3 based on the budget in the first nine months monitoring which shows the budget is on budget as predicted at December.

3.33. Personal Budgets

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 met.

- Benchmarking rated as 3 based on a yearly benchmarking and a monthly LGA exercise. Comparison against other authorities is good.
- Customer surveys is rated as 3 based on a recent survey in adult social care completed and published in November 2011.
- External assessments surveys is rated as a 3 - there have been no recent surveys of Personal Budgets, however, a safeguarding inspection was carried out that has led to improvements in the Safeguarding Policy and production of the annual safeguarding report.
- Budget is rated as a 3. There is regular budget monitoring with reports to committee.

3.34. Other matters

3.35. The Head of Internal Audit and the Head of Procurement have trained upwards of 200 officers in a series of mandatory training sessions on lessons learnt from our recent investigations specifically in relation to the Financial Regulations and the Contract Procedure Rules. There are two or three sessions left before we conclude this exercise. As part of this training we have given a demonstration on how budget holders and senior officers will monitor cumulative spend and members of this committee will be shown how this works.

3.36. We are also required to start gathering data for the 2012 NFI data matching exercise that will take place later this financial year.

3.37. Risk Management

3.38. As part of the Annual Governance Statement review we have been updating the risk register. We attach a schedule of the current net high risks (Appendix E). The full risk register can be accessed via the Managers' Toolkit on onebromley. See following link to the Risk Management and Insurance site:

<http://onebromley/HDol/ManKit/wikisite/Wiki%20Pages/Risk%20Management%20and%20Insurance.aspx>

Currently there are 155 risks of which 22 are high (14%), 77 are medium (50%) and 56 are low (36%). Although the number of risks has reduced from 175 since last year (mainly through consolidation and removal of old LAA performance related risks) the percentages remain in line.

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:	
Background Documents: (Access via Contact Officer)	