

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Thursday 6 June 2013**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

Contact Officer: Luis Remedios, Head of Audit
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Chief Officer: Chief Executive

Ward: (All Wards);

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
- 3.7 Audit Activity
- 3.9 Auditor of the Year Nominations
- 3.13 Public Audit & Future of Audit Committee
- 3.16 Public Sector Internal Audit Standards
- 3.22 Code of Corporate Governance
- 3.23 Housing Benefit Update
- 3.27 Whistleblowing Policy
- 3.32 Other Matters
- 3.35 Risk Management

2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the internal audit progress report.**
- b. **Make a decision on the nominations for auditor of the year.**
- c. **Approve the Internal Audit Charter.**
- d. **Approve the revised Corporate Code of Governance.**

- e. Note the continuing achievements of the counter fraud benefit partnership with Royal Borough of Greenwich.**
- f. Recommend the revised Whistleblowing Policy to the General Purposes and Licensing Committee for approval.**

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: Not Applicable:
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: ££552K including £250K net cost for fraud partnership
 5. Source of funding: General fund, Admin subsidy, Admin penalties, Legal cost recoveries, Provision of sold services to academies
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Staff

1. Number of staff (current and additional): 6.4 FTE including 0.5 FTE to cover risk management
 2. If from existing staff resources, number of staff hours: 208 days per quarter
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Legal

1. Legal Requirement: Statutory Requirement
 2. Call-in: Not Applicable:
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 150 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: Not Applicable

3. COMMENTARY

3.1 Priority One Recommendations

3.2 The latest list of outstanding priority one recommendations is shown in Appendix A. There have been no additions to the priority one list since the last meeting of this committee.

3.3 Implementation progress for Parks and Greenspace and Behaviour Services are expanded on in Part 2.

3.4 Direct Payments- Following the priority 1 recommendation in respect of Direct Payment monitoring a meeting was held with Finance and Assistant Directors for Care Services and Education to agree the procedures to terminate the direct payment if monitoring information is not received after two request letters. The Exchequer Manager issued these procedures for consultation in November 2012 and formally adopted in January 2013; the first batch of letters were sent out in April 2013.

3.5 A separate meeting was held in December 2012 with Children Services management to discuss the 12 cases that had been identified in the original audit report. It was agreed that the direct payment would be terminated unless the care worker could evidence exceptional circumstances that would have to be authorised by the Assistant Director (Education). The AD authorisation would be rolled out to Adult Services and will be included in the procedures update to be issued May 2013.

3.6 Follow up of the original 12 CYP cases in May 2013 identified that 9 clients were still receiving direct payments, despite no monitoring having been received. The AD Education has been asked to evidence that authorisation has been granted to waive monitoring to date. The AD Education had instructed that these payments be stopped and this will be effective from 3/6/13.

3.7 Audit Activity

3.8 We have spent most of our time since the last progress report in March 2013 completing the 2012/13 Internal Audit plan. The progress against this plan is included in the Annual Audit Report elsewhere on this agenda. Due to time spent on investigations and days lost as a result of vacancies in 2012/13 we had commissioned Deloitte through our framework agreement with Croydon, to complete a few audits from the 2012/13 plan. Deloitte carried out most of this work in quarter 4 and have issued draft reports. In addition we also carried out the following work:

- Internal audit work carried out for academies on a termly/quarterly basis
- Training of officers in respect of the Financial Regulations and Contract Procedure Rules and final preparation of the IT web based training package before it goes live in late May 2013.
- Fraud and investigation work reported in part 2.
- Audit of pre transfer arrangements for Public Health for which Internal Audit gave a substantial assurance opinion.
- Work has commenced on the 2013/14 plan but it is too early to report on progress

3.9 Auditor of the Year

3.10 This award was first introduced in 2010/11. As in previous years, Members of this committee have asked the Head of Audit to nominate auditors whom it was felt had provided a significant contribution to work that they had completed in 2012/13. The nominations have considered

audits and investigations that have identified matters resulting in material action being taken. After deliberations, the Head of Audit would like to put forward two auditors for consideration of this award.

3.11 Auditor A was asked to investigate whistleblowing allegations made in respect of Behaviour Services. This was a problematic audit that Auditor A pursued with professionalism and due diligence in circumstances where documentation was not available, files had minimal information and the audit trail was unclear. Auditor A had to produce a detailed report based on what information could be gathered from interviews with key staff, financial information and third parties. The report identified 7 priority one recommendations covering a number of issues that were discussed in detail both by this Committee and Education PDS. Members thanked Internal Audit for this investigative work. The report was well received by management as being fair and all the recommendations were accepted.

3.12 Auditor B was asked to investigate two areas of concern –the over spend on the North Block Capital Project and construction work at Castlecombe Children and Family Centre. Both investigations resulted in detailed reports produced by Auditor B that were discussed by this Committee. The North Block investigation involved detailed unravelling of the cause of the overspend which was done in the absence of key staff who had left the organisation. The report also identified lessons to be learnt for undertaking major projects in future. The Castlecombe Children and Family Centre was problematic due to a distinct lack of information available, key staff who had left the organisation and a lack of cooperation from third parties involved in the building work. The investigation was against a background where the auditor also had to attend a working group to ascertain the faults with the building, who was responsible for the repair/rebuild of the centre that was only built about three years before the onset of problems, tracking down information and a solution to put this right in the most efficient way. Members of this Committee asked for a detailed report which Auditor B produced and discussed in detail at the March 2013 cycle.

3.13 **Public audit and future of audit committees**

3.14 At the last meeting of this committee Members had tasked the Chairman of this Committee to write to the Secretary of State about non-elected members and to invite him to a future meeting of the Audit Sub-Committee. This is in progress.

3.15 However, there have been some developments from the Department for Communities and Local Government in response to the pre legislative Scrutiny Report by the Draft Local Audit Bill Committee that indicates there is no requirement to have independent members in Audit Committees but there will be a requirement where an audit committee is tasked with appointing external auditors. Should LB Bromley decide that the Audit Sub Committee be free of independent members, there appears to be two options open on the appointment of the external auditor in September 2017 (when the contract with PWC expires). The first is to have a separate panel or the second is to share a panel with other authorities which could keep costs down. Clarification of the above was sought from the Head of Audit of another London borough who confirmed that it was their understanding as stated. We have previously reported to this committee that a number of London Boroughs have opted to appoint independent members to their audit committees.

3.16 **Public Sector Internal Audit Standards (PSIAS)**

3.17 The new PSIAS came in to effect in April 2013. Many of the requirements of the previous standards are still relevant to the new standards. One of the requirements of the new standards is to have an Internal Audit Charter in place that should be approved by the Audit Committee. This committee had approved in June 2009 a 'Terms of Reference' document aspects of which are consolidated in the draft Internal Audit Charter- see Appendix B.

- 3.18 Its contents include Internal Audit's objectives; context; responsibilities; audit planning; delivery and due professional care; access to records and personnel; audit independence; reporting and liaison with external audit.
- 3.19 The standards also require an external assessment of the service every 5 years. Rather than employ a firm of accountants/auditors, the Society of London Treasurers felt that it would be more cost effective and useful if there was a London wide forum to undertake this task. Consequently we have joined a London wide external assessment group to undertake this assessment on a cyclical basis. To date 26 London Boroughs have joined and the proposal is for Heads of Audit to carry out peer reviews of about 6 or 7 boroughs each year.
- 3.20 In addition we are required to carry out an annual internal assessment of the service which could feed in to the annual audit report from 2014 onwards.
- 3.21 Members are asked to approve the draft Internal Audit Charter.

3.22 Code of Corporate Governance

As part of the Annual Governance Statement review we have taken the opportunity to update the Code of Corporate Governance.

Following a review of the *Delivering Good Governance in Local Government: Framework 2007*, to ensure that it remains 'fit for purpose', CIPFA/SOLACE has issued a revised guidance note which is intended to assist authorities in reviewing their governance arrangements.

The guidance removes some of the duplication and more operational aspects previously attributable to the 'Role of the Chief Financial Officer' that is currently reflected in our own code approved by full Council in April 2011. We have also taken account of the key elements that should be included in the Annual Governance Statement when updating the code.

The revised code consists of four parts (Appendices C and D)

- An introduction
- The Code itself (showing changes)
- A glossary
- An appendix showing the key policies and processes that underpin Bromley's compliance with the Code

Members are asked to consider the revised Code for adoption by the Council.

3.23 Housing Benefit Update

- 3.24 Since the inception of the partnership in April 2002, through to April 2013, the Council has successfully prosecuted 331 claimants to date for benefit fraud; issued 302 court summonses; given 98 formal cautions; and administered 354 penalties. The full details and appendices on trends are shown in Appendices E, F and G.
- 3.25 We had previously reported a success in confiscating two properties in respect of a case where the benefit claimant was successfully prosecuted – the properties have been sold and we have received a share of the proceeds totalling about £39,000. Some of this money has been used to pay off the benefit overpayment (about £14K) and offset the legal costs of the case leaving a small surplus that will be clawed back in the closedown of the accounts.
- 3.26 Members had previously been informed of the proposed move by the DWP towards a Single Fraud Integrated Service (SFIS) was put back to April 2014. The reasoning behind this was to give the pilot authorities and DWP more time to assess the results of the exercise. From April

2014 investigations of welfare benefits will be under SFIS. We have yet to receive an update from the DWP on the effects of the transfer on staffing, prosecutions and ring fencing of our five current investigators to benefit fraud investigations. Our partnership agreement with RB Greenwich which is benefits driven expires in March 2014 and renewal or otherwise is dependent on what the DWP propose.

3.27 Whistleblowing Policy/Raising Concerns

3.28 We recently subscribed to an organisation specialising in public concern at work. Members will recall that some of the major investigations over the past two years have been as a result of whistleblowing allegations. Having attended one of their workshops it was evident that our current whistleblowing procedure attached as Appendix H needed to be updated. The proposed revised version is in line with current best practice and is attached as Appendix I. Previous debates on this subject, highlighted a need that there should be mechanism whereby staff could go to a nominated member/s possibly the Chairman or Vice-Chairman of Audit Sub Committee.

3.29 The current Confidential Reporting code (Raising Concerns) was last updated in July 2008. The current policy has been updated in line with best practice and will need to be further updated with key contact details which are now out of date.

3.30 A good policy is written from the point of view of the whistleblower and gives them confidence and encouragement to come forward and raise concerns openly. It should provide staff with a clear step by step guidance on who to contact, how to contact and a brief outline of the process. The updated version has been abridged so that it is less daunting and confusing for the whistleblower.

3.31 Members are asked to adopt the revised whistleblowing/raising concerns policy.

3.32 Other Matters

3.33 Value for money arrangements- there are no new reviews to report on since the last cycle of this Committee.

3.34 The IT Web based training package for Financial Regulations and the Contract Procedure Rules was delayed but is due to go live in late May 2013. About 400 officers will be required over a three month span, to go through the package and pass the tests to demonstrate competency and understanding of the Financial Regulations and the Contract Procedure Rules. Chief Officers have agreed to assess the results on conclusion of the training period.

3.35 Risk Management

The risk register is currently being updated as part of the Annual Governance Statement review. As requested by this Committee where a high risk has a financial impact departments have been asked to quantify this and provide a brief commentary e.g. high risk due to previous / current / forecast budget overspends, potential financial penalties etc.

This work continues and a full report will be provided at the next meeting.

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 except that the Whistle Blowing Procedure is consistent with the provisions of the Public Disclosure Interests Act.

7. PERSONNEL IMPLICATIONS

Staff in breach of financial rules and procedures or acting inappropriately against the Council's legal and financial interests may be subject to disciplinary actions or/and police investigations.

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	[Title of document and date]