

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 6 November 2013**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

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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
- 3.18 Audit Activity
- 3.21 Waivers
- 3.26 Publication of Internal Audit Reports
- 3.37 Housing Benefit Update
- 3.41 Other Matters
- 3.45 Risk Management

2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the Internal Audit Progress report.**
- b. **Note the waivers approved from February 2013 to September 2013.**
- c. **Approve the proposed procedure for publication of Internal Audit Reports.**
- d. **Note the continuing achievements of the counter fraud benefit partnership with the 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: 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 33 additions to the priority one list since the last meeting of this Committee.

3.3 The new priority one recommendations are made in respect of Insurance (11 priority one recommendations), Learning Disabilities (12 priority one recommendations), Care Manager Assistant Investigation (5 priority ones) Libraries Investigation (2 priority ones) and the Mobile Phone investigation (1 priority one) are all expanded on in detail in Part 2 of the agenda.

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

3.5 **Direct Payments-** When the recommendation was initially made there were 53 cases on the monitoring spreadsheet where it appeared no monitoring had come in at all for 6months. From looking at these in detail and following conversation with management by the end of the previous follow up exercise there were 12 outstanding cases.

3.6 At the time of the second follow up, there were 33 cases where monitoring did not appear to have completed i.e. where nothing had come in at all. Upon looking at these 33 cases it was found that the following action had taken place:

- 11 cases have since been suspended due to no monitoring;
- 5 cases are now closed and ECH are awaiting final monitoring;
- 4 cases have been escalated and information come in to allow monitoring to be completed;
- 2 have now been escalated to Care Management;
- 1case has been transferred to a managed service.
- This left 10 cases where monitoring had not been completed. Management have informed Internal Audit that 6 cases will be taken up with Liberata, for them to complete or escalate; 1case has finished where it was just over a year and no monitoring had yet to come in; 1 case has been escalated to Care Management and is still on going with no response; 1 case has been allowed to carry on; and 1case is due to be suspended. Given the above this recommendation has been removed from the Priority One list.

3.7 **Primary School-** an audit report in October 2012 made two priority one recommendations in respect of control weaknesses identified in expenditure and petty cash. The School has employed the services of Bromley's Schools Finance Team who provide financial support twice a week. The priority one recommendations related to controls over expenditure and petty cash i.e. that orders are raised, payments are made in a timely fashion, invoices retained, authorisation checks are carried out prior to payment and that petty cash vouchers and receipts are retained to support petty cash expenditure. This has yet to be tested. As the School is due to convert to Academy status in December 2013 these recommendations will be followed up as part of the closedown audit.

3.8 **Rent arrears-** We had previously reported that the level of arrears in January 2013 stood at £1,554K. The current level of debt stands at £2,017K which equates to a 60% increase in debt since September 2012. Although the Housing Benefit and cash collected has increased substantially, the upward trend in debt is attributable to an increase in numbers in temporary

accommodation and the effect of welfare reforms. Internal Audit will review rent arrears as part of a planned audit of temporary accommodation due later on in this financial year.

- 3.9 **Building Maintenance** – The overall corporate building maintenance budget in 2012/2013 was £2,240,190 which reduced to £2,124,540 in 2013/2014. This budget is split between various planned maintenance and unplanned maintenance activities. The building maintenance budget for education buildings in 2012/2013 was £2,032,871 and £2,267,370 in 2013/14
- 3.10 A planned audit of this area resulted in a priority one recommendation on the need to comply with the Contract Procedure Rules.
- 3.11 A sample of 10 suppliers with highest cumulative spend were selected from cumulative spent report for property (covering Financial year 2011, 2012 and 2013) to ensure that the expenditure was subjected to a tender/ quotation exercise and a contract existed if appropriate. It was identified that expenditure with one supplier for unplanned reactive work in respect of boiler maintenance was £492K for a period from April 2010 to July 2013 where a contract should have been in place. There was a contract in place for boiler servicing only for £40K per annum. Management are currently in the process of tendering for this aspect of the service in compliance with the Contract procedure Rules. A sample of invoices was selected for each supplier to verify compliance with financial regulations. The main issues arising for one supplier were non compliance with Contract Procedures rules 1.2 and 8.1.3 which specifies that work (in this case electrical work) should not be sub divided and where possible similar work should be amalgamated for determining procurement procedures and ensuring value for money. Management have indicated that this will be addressed in future commissioning of electrical remedial and wire testing work.
- 3.12 There were 10 priority two findings in relation to tendering procedures; realistic budgets on planned maintenance work; pre tender estimation of works; more information on variation orders; allocation of work to preferred suppliers; fire risk assessments; reconciliation between systems; retention of documents; post completion of satisfaction surveys; and formal inspection and survey programme. All recommendations have been accepted by management for implementation. These will be followed up by Internal Audit. The audit resulted in a limited assurance opinion.
- 3.13 **Mental Health-** the mental health residential commitments budget (which includes S.117 clients) as at January 2013 was £2,989,100 for adults.
- 3.14 The planned audit concentrated on Section 117 clients. ' Section 117 is about ensuring that people detained under certain sections of the Mental Health Act 1983 do not leave hospital without a clearly thought out discharge plan based on decisions by both health and social care representatives. The intention is to achieve a safe discharge and to ensure that someone is supported in the community with minimal risk and so avoids a premature readmission to hospital on account of their mental health problems. Where such services are identified, and are based on the person's mental health needs, they are free of charge until it is assessed that such services are no longer needed'. There is an agreement in place with the Mental Health NHS Trust that commenced on 1st December 2004 for twenty years.
- 3.15 The priority one finding related to a check that the Trust confirms data held in respect of the sample of cases being tested and confirmation that clients were indeed S.117 and remained so. As a result of Internal Audit testing, it was revealed that in one case the Trust confirmed in writing that the client was not S.117. They also confirmed in writing that 'due to an error by a member of staff the case was misclassified. As a result, this Authority has continued to fund this client's care when we should not have been. Internal Audit asked for confirmation of the above and that a financial assessment has been undertaken urgently. The potential loss is difficult to quantify as it is not possible to know what the client's circumstances would have

been and at what level they may have contributed in previous years. However, this Authority has funded care packages for this client at the higher recorded rate of £289.52 per week and the lower rate of £177.32. There are services for this client that are not chargeable. It will not be possible to backdate these charges. This Authority has continued to fund this client, based on records in Carefirst since April 2011.

- 3.16 This Authority has continued to fund the care packages for this client for approximately £27,500 according to cost data on Carefirst but this figure is likely to be more. It is not known at what level this client's contributions would have been but currently it has been assessed at £115.20 per week. It was recommended that a full reconciliation is undertaken of all clients to ensure that there were not other similar issues. This has been completed with no other cases being identified. A full reconciliation is due in December 2013. The Trust are to be invoiced for the loss of income.
- 3.17 There was one other recommendation on the need for care management to ensure clients' Section 117 status before input in to the Carefirst system. This recommendation has been accepted by management. The audit resulted in a limited assurance opinion.

3.18 Audit Activity

- 3.19 Members of this Committee were recently updated by e-mail on all our activity both planned and unplanned work for the period April 2013 to September 2013. Internal Audit have spent most of our time since the last progress report in June 2013 completing outstanding audits from 2012/13 Internal Audit plan, fraud and investigation work where some 205 days have been spent in this financial year –details of this work are in Part 2 and working on the 2013/14 audit plan. Due to time spent on fraud and investigations there have been some slippage on the 2013/14 Internal Audit plan and as a result we will be commissioning at least six audits from another borough. In addition to audit planned work we also carried out the following :
- Sold services to academies.
 - Training-set up and monitoring of the web based training package for Financial Regulations and Contract Procedure Rules working with Procurement.
 - Advice and support on financial regulations, variations to change in system controls.
 - Liaison role in assisting management inquiries. Monitoring role of the Greenwich Fraud partnership.
- 3.20 The audit satisfaction questionnaires returned by auditees indicate a high level of satisfaction with an average score of 4.3 out of 5.
- 3.21 **Waivers**
- 3.22 The list of waivers sought is attached as Appendix B. Members are asked to review the list and request any information prior to the Committee meeting on the 6th November so that these are available.
- 3.23 As required by the Contract Procedure Rules this committee has to be updated on waivers sought across the Authority at six monthly intervals. The last update was reported to this Committee in March 2013 and covered waivers sought up to January 2013. See Appendix B for waivers approved from February 2013 to September 2013. 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.

3.24 The waiver procedure has been simplified by issue of a guidance procedure that forms part of the Contract Procedure Rules. This documents defines a **Waiver** as – **“the dispensation of the need for compliance with a particular requirement of these Contract Procedure Rules”**

Where the estimated value of this requirement is likely to exceed;

- **£50k** the Agreement of the Chief Officer needs to be obtained; The matter also needs to be included in the bi-annual report submitted to Audit Sub Committee:
- **£100k - £1m** The Chief Officer in Agreement with the Director of Corporate Services and the Director of Finance together with the Approval of the Portfolio Holder. The matter also needs to be included in the bi-annual report submitted to Audit Sub Committee:
- **£1m and Above** - The Chief Officer in Agreement with the Director of Corporate Services and the Director of Finance together with the Approval of the Executive or Council as appropriate.

3.25 Note under Contract Procedure Rule 13.2 Chief Officers with Social Care responsibilities have specific exemptions provided to them under the Council's Scheme of Delegation (which is included in the papers agreed at the AGM of the Council).

3.26 **Publication of Internal Audit reports**

3.27 Following consideration by the Executive and Resources PDS Committee, the Constitution Improvement Working Group at its meeting on 29th July 2013 had recommended that all Internal Audit reports should be published in full, except where particular exemptions applied. Even where there were exemptions, these would need to be justified to the Audit Sub-Committee and reviewed every six months.

3.28 At the meeting of the General Purposes and Licensing Committee (GP& L) on the 25th September 2013, it was resolved that all Internal Audits are published in full by default except where exemptions apply, when the Audit Sub Committee would have to be informed of the reasons for non publication that would be reviewed every six months.

3.29 In order to take this forward it is proposed that, subject to agreement of this Committee, all audit reports that have been finalised after the 6th November 2013 will be subject to publication except where exemptions are sought from Members of this committee.

3.30 Before publication all audit reports will be subject to redacting to ensure confidential data is not in the public domain. This process will be vetted by the Head of Audit and reviewed by the Director of Finance and the Director of Corporate Services before release. Prior to Audit Sub Committee, the reports will be released for publication through Democratic Services under modern.gov. A list of these reports will be reported to this committee.

3.31 Where it is deemed that finalised Internal Audit reports should not be publicised, a list of these together with the reason for exemption will be reported to Audit Sub Committee for approval. Agreed exempted reports plus any reports not agreed for exemption will then be reported to GP and L Committee.

3.32 There are seven categories of exempt information that under the Access to Information Act which apply to Council meetings and agendas:

- Information relating to any individual.
- Information which is likely to reveal the identity of an individual.
- Information relating to the financial or business affairs of any particular person (including the Authority holding that information).

- Information relating to any consultations or negotiations or contemplated consultations or negotiations, in connection with any labour relations, matters arising between the Authority or a Minister of the Crown and employees of, or office-holders under the Authority.
- Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.
- Information which reveals that the Authority proposes:
 - (a) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or
 - (b) to make an order or direction under any enactment.
- Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

3.33 There are also the exemptions in the following sections of Part 2 of the Freedom of Information Act. For example Section 30 Investigations: Section 36 Prejudice to the effective conduct of Public Affairs: Section 41 –Information provided in confidence.

3.34 Redacted reports which result in impact and meaning of the audit being lost could also be considered for exemption by this Committee.

3.35 There will be some time resource implications as a result implementing this policy.

3.36 Members are requested to approve this procedure to be adopted from November 2013.

3.37 Housing Benefit Update

3.38 Since the inception of the partnership in April 2002, through to April 2013, the Council has successfully prosecuted 354 claimants to date for benefit fraud; issued 317 court summonses; given 98 formal cautions; and administered 390 penalties. The full details and appendices on trends are shown in Appendices C, D and E.

3.39 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. The DWP have now indicated that subject to HM Treasury agreement, sometime in 2014/15 the housing benefit fraud service will transfer over to them under as a SFIS. It appears that staff will be subject to TUPE. This has implications for LB Bromley. Our partnership agreement with RB Greenwich which is benefits driven expires in March 2014 and under the requirements of our contract, we have already given notice to terminate the agreement. If as seems likely, the transfer occurs at some point in during the financial year 2014/15 we will have to seek a waiver to extend the partnership agreement up to the point of transfer.

3.40 After the transfer we will still need resources to cover all the other potential areas of non housing benefit fraud e.g. council tax exemptions, single person discount, social fund, blue badges, fraud referrals from the public, referrals from management, NFI data matching and any pro active exercises that could identify losses. There are a couple of options –recruitment of 1 or 2 fraud investigators who are suitably trained and experienced or alternatively reach an agreement with RB Greenwich. These discussions are still to be had well before the transfer to the DWP.

3.41 Other Matters -Training

3.42 Members were previously informed that following a series on investigations that clearly indicated a need for officers to be made aware of the requirements of the Financial Regulations and the Contract Procedure Rules. Consequently, a web based training package was developed which was compulsory for any officers who had roles that involved finance or

decisions that had financial implications. Chief Officers were tasked with nominating officers who had such a role.

3.43 625 staff were tasked with undertaking one or both of the CPR or FR e-training courses as requested by their management based on day to day working activities of trainees. As of October 8th 2013, the following completion rates are noted:

- 90% of officers had either completed or in the process of completion.
- 10% have until early November 2013 to complete this and if not, further action may be considered by management.

3.44 **Other Matters- Review of VfM arrangements**-There have been no further reviews of value for money arrangements on the 4 designated audits in the 2013/14 Internal Audit plan- Temporary Accommodation, Fostering and Adoption, Parks and Greenspace and Planning. The Parks and Greenspace follow up of recommendations is currently ongoing with the other three yet to start.

3.45 **Risk Management**

3.46 The dismissal of the Insurance and Risk Manager, and subsequent lengthy investigation, has interrupted the co-ordination of risk management activities since our previous review. The Risk Management Group has also lost a couple of long-standing members due to internal re-organisations. The Group met recently and the Head of Audit was appointed as chair to re-focus on future work strands. We are also seeking to expand our membership to include a corporate person with an overview of the work Bromley is doing on becoming a commissioning body.

3.47 As part of the future work strands we are still due to follow up Members' comments that the Risk Register did not do enough to put financial values against risks. It is acknowledged that most risks, should they occur, involve loss. This loss does not necessarily have to be monetary, but more often than not, either directly or indirectly, monetary loss occurs.

3.48 Our initial work focused on the high net risks categorised as 'financial' which evidenced that in some instances the risk category did not always reflect the true underlying risk. It is also clear that other risks categorised as 'non-financial' are equally likely to incur significant monetary loss, and as such would not be captured by this exercise.

3.49 Currently we have some 20 high risks and we seek guidance as to whether we should try to calculate financial values on all of these.

To an extent there will be 3 elements:

- Risks where a prior event has occurred and we know what the direct cost was e.g. Banking failure (Heritable Bank)
- Risks which are currently materialising and where overspends have already been identified and reported as part of the budget process e.g. homeless costs
- Risks that may materialise in the future with the caveat that this is our best estimate on a worst case scenario basis e.g. commissioning agenda.

3.50 There will be a further update on risk will be submitted to the next meeting of this Committee.

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

There is a statutory requirement to provide an internal audit function through the Accounts and Audit Regulations 2011.

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:	
Background Documents: (Access via Contact Officer)	