

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 12 March 2014**

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
 - 3.9 Audit Activity
 - 3.12 Waivers
 - 3.18 Publication of Internal Audit Reports
 - 3.24 Housing Benefit Update
 - 3.28 Other Matters
 - 3.39 Risk Management
 - 3.44 Risk –Annual Governance Statement
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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 waivers approved from October 2013 to February 2014, comment on the revised format for reporting waivers and reach a decision on the reporting of placements.**
- c. **Note the list of Internal Audit Reports publicised on the web and approve the reports where exemptions are sought.**
- d. **Note the continuing achievements of the counter fraud benefit partnership with the Royal Borough of Greenwich and impending changes.**

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 since the last meeting of this Committee.

3.3 Progress on implementation of recommendations for Parks and Greenspace (2 outstanding), Insurance (11 priority one recommendations), Learning Disabilities (12 priority ones), 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 **Primary School** –this school converted to Academy status in December 2013. A closedown audit in January 2014 showed that the two recommendations relating to controls over expenditure and petty cash i.e. orders raised, authorisation checks are carried out prior to payment, payments made in a timely manner and that petty cash receipts are retained for audit trail purposes were implemented.

3.5 Mental Health

3.6 As previously reported within the last cycle of this committee, a priority one finding was made within the Mental Health Audit for 2013-14, where Oxleas had confirmed in writing that one client should not have been S.117. The effect of this was that we had continued to fund a client unnecessarily. During the follow up review, Oxleas had since received an invoice for recovery of monies. Further evidence was then provided by Oxleas via a letter in November 2013, stating that the client was always S.117. The invoice has since been cancelled and the client advised that a contribution will no longer be required.

3.7 **Rent Arrears** -We had previously reported that the level of arrears in September 2013 stood at £2,017K which equated to a 60% increase in debt since September 2012. Although the Housing Benefit and cash collected had increased substantially, the upward trend in debt is attributable to an increase in numbers in temporary accommodation and the effect of welfare reforms. A detailed review was not possible in 2013/14 as part of the allocated planned time to temporary accommodation was utilised in assisting management in an investigation in that area details of which are in part 2 of this agenda.

3.8 The total rent arrears for former and current clients now stands at £2,103,193 at 31/12/13. However £183,327 will be deducted from this amount when adjustments are completed by a company who provide affordable housing, plus £280,000 is awaiting write-off as un-recoverable. The vast increase in the debt is due to a dramatic increase in homelessness and the difficulty in accessing a supply of affordable accommodation and nightly paid accommodation [and the associated costs] has risen significantly. The actual total of households living in temporary accommodation in 2012/13 was 764 and the mid year total for 2013/14 is 850, whilst the overall personal contributions from individual residents would have increased to reflect welfare reform changes mainly the 'benefit cap' (from April 2013).

3.9 Audit Activity

3.10 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 February 2014. Internal Audit have spent most of our time since the last progress report in November 2013 completing audit work from the Internal Audit plan, conducting fraud and investigation work and assisting management with their inquiries where some 266 days have been spent in this financial year –details of this work are in Part 2. We have also spent 509 days on the Audit plan, schools and sold services to academies from April 2013 to mid February 2014. Due to time spent on fraud, investigations

and audits where there were major findings, there has been some slippage on the 2013/14 Internal Audit plan and as a result we have commissioned work from LB Wandsworth who have completed two out of six audits allocated to them. Some audits that have not been started have been rolled forward to 2014/15 and are included in the proposed audit plan that appears elsewhere on this agenda. 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. This is expanded upon below.
- Advice and support on financial regulations, variations to change in system controls.
- Liaison role in assisting management inquiries that appear in part 2 of this agenda.
- Monitoring role of the Greenwich Fraud partnership.
- Liaison work with our external auditors in preparation of their audit of the 2013/14 accounts
- Committee work

3.11 The audit satisfaction questionnaires returned by auditees indicate a high level of satisfaction with an average score of 4.3 out of 5.

3.12 Waivers

3.13 Members agreed at the last meeting of this committee that the Head of Audit should liaise with the Chairman and Vice Chairman of this committee over the format of the form used for reporting waivers to this committee. Following consultation, an agreed format was produced that is used for the first time as shown in Appendix B. The main differences are that there are two additional columns –to show number of previous waivers sought and value of these waivers. In addition we have expanded the details column to include specifically the particulars for seeking a waiver.

3.14 The list of waivers for the period October 2013 to February 2014 sought is attached as Appendix B. Members are asked to review the list and request any information prior to the Committee meeting on the 12th March 2014 so that these are available.

3.15 As required by the Contract Procedure Rules (CPR) 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 November 2013 and covered waivers sought up 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.

3.16 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.

3.17 Under CPR13.2 Chief Officers with Social Care responsibilities have specific exemptions provided to them under the Council's Scheme of Delegation. These powers are delegated down from the Council and the Leader. The advice we have had from the Head of Procurement is that CPR requirements apply to CPR 13.1 only and as a result these are not waivers that need to be reported to this Audit Sub Committee. From discussions at the last meeting of this committee it was indicated by ECH management that these placements go to the Portfolio Holder for information. Therefore there are two options- cease submitting the list of exempted placements to this Committee if Members are so minded; or provide a separate list to that of waivers sought under CPR 3 and 13.1. Members are asked to make a decision on what option is adopted.

3.18 Publication Of Internal Audit Reports

3.19 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 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.

3.20 At the last meeting of this committee Members indicated that this commence with all reports completed after the November 2013 meeting, but Members also sought publication of any reports from the previous three years that included issues where the Council had lost more than £100K.

3.21 We have trawled through the reports for the past three years where losses of £100k could have arisen through fraud, malpractice, error or where value for money could not be demonstrated. As a result we have identified six reports that could fall in to this category:

- Children and Family Centres- Investigation into Commissioning of Consultants-published
- Review of North Block Capital Project-published
- CDM Project – Not published –Exemption sought on the grounds of potential legal proceedings
- Parks and Greenspace- Not Published –Exemption sought on the grounds of contractual matters
- Behaviour Services- Not Published- Exemption sought on the grounds of potential legal proceedings
- Castlecombe Children and Family Centre-Not Published on the grounds of potential legal proceedings

3.22 Members had indicated that the large overpayment to a building contractor who subsequently went into liquidation should be in the above list of report. However the Internal Audit report was issued over three years old and therefore does not fall in to the publication category.

3.23 Since the last meeting of this committee in November 2013, the following reports have been finalised and publicised after redaction:

- Review of Early Years
- NNDR
- Pensions

- Registrars –Tell Us Once
- Staff Car Parking
- Waste Management
- Welfare Fund
- Alexander Infants Pre academy audit
- Malcolm Primary Pre academy audit
- Royston Primary Pre academy audit

There are no Internal Audit reports in this period where exemptions are sought.

3.24 Housing Benefit Update

- 3.25 Members had previously been informed that the proposed move by the DWP towards a Single Fraud Integrated Service (SFIS) was put back to April 2014. The DWP have now given a firm indication that sometime between April 2014 and March 2016 the housing benefit fraud service in all local authorities will transfer over to them under a SFIS. It appears that staff will be subject to TUPE. The transfer of the functions will be staggered. This has implications for our partnership agreement with RB Greenwich which is benefits driven and expires in March 2014. 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 during the period stated above we will have to seek a waiver in March 2014 to extend the partnership agreement up to the point of transfer.
- 3.26 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, staff related fraud, NFI data matching and any pro active exercises that could identify losses. We are keen to maintain the link with RB Greenwich that has lasted since 2002 and worked well and therefore at the point of transfer to the DWP we will seek to reach an agreement with them to investigate general fraud.
- 3.27 Since the inception of the partnership in April 2002, through to January 2014, the Council has successfully prosecuted 363 claimants to date for benefit fraud; issued 323 court summonses; given 100 formal cautions; and administered 395 penalties. The full details and appendices on trends are shown in Appendices C, D and E.

3.28 Other matters- Local Audit and Accountability Bill

- 3.29 On 30 January 2014, the Local Audit and Accountability Bill 2013-14 was granted Royal Assent and enacted as the Local Audit and Accountability Act 2014 (the Act). The Act:
- Abolishes the Audit Commission.
 - Sets out requirements for the auditing of the accounts of local authorities and other specified public bodies by local auditors, in a similar way to how company accounts are audited. Regulations may modify the accounting requirements for smaller local authorities.
 - Requires local authorities to appoint auditor panels to advise them on maintaining an independent relationship with their local auditor.

- Applies to county, London borough, district and parish councils, clinical commissioning groups and other public bodies.

3.30 The current contract with our external auditors expires in September 2017 and two issues will need to be addressed – the appointment of an audit panel that will advise the local authority on the selection and appointment of external auditors and maintaining an independent relationship with their local auditors. The second issue is that local authorities may be able to jointly procure external audit services action that could lead to economy of scale savings. This will be explored with other London Boroughs.

3.31 Other Matters -LB Wandsworth

3.32 As mentioned above we have commissioned LB Wandsworth to carry out six audits –two have been completed with draft reports under discussion with management. A third is work in progress and three more audits will be completed in this quarter four. Our initial appraisal on the methodology adopted, operation, reports produced and feedback of this arrangement has so far been positive.

3.33 Other Matters – Web Based training

3.34 Members were previously informed following a series of investigations that there was 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.

3.35 619 officers were required to complete the training package. To date 564 or 91% have completed the training; a further 20 or 3% have partially completed and 35 or 6% have yet to engage the process.

3.36 Going forward the intention is to further update the training package and use this for new starters, staff who had transferred/redeployed in to roles that now had financial input. We have yet to discuss a refresher course.

3.37 Other matters- Review of VfM arrangements

3.38 There have been no reviews of value for money arrangements on the 4 designated audits in the 2013/14 Internal Audit plan- Temporary Accommodation –no review to date as time was allocated to investigating allegations –VfM arrangements will be reviewed on completion of this work; Fostering and Adoption- audit rolled over to 2014/15 when VfM arrangements will be included; Parks and Greenspace –review concentrated on follow up audit work – see part 2 of this agenda. No plan to review VfM arrangements; and Planning –audit rolled over to 2014/15 when VfM arrangements will be included.

3.39 Risk

3.40 In response to previous comments by this Committee that the risk register was too general and did not do enough to put financial values against the risks we have undertaken a review of the high risks.

3.41 Although it is accepted that some risks are difficult to value departments have been asked to consider the following criteria when trying to put a financial value against a risk:

- Risks where a prior event has occurred and we know what the direct cost was

- Risks which are currently materialising and where overspends have already been identified and reported as part of the budget process
- Risks that may materialise in the future with the caveat that this is our best estimate on a worst case scenario

3.42 As risks classified as 'non-financial' are equally likely to incur monetary loss the review considers the financial implications of all the high risks where possible (see Appendix F)

3.43 We have also asked departments to extend this work to all medium risks classified as 'financial' as part of the AGS review process.

3.44 Risk -Annual Governance Statement (AGS)

3.45 The preparation and publication of an AGS in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2007 is necessary to meet the statutory requirement set out in Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011.

3.46 This requires a relevant body to 'conduct a review at least once in a year of the effectiveness of its system of internal control' and 'to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

3.47 The AGS explains how Bromley has complied with its own Code of Corporate Governance which reflects the following six core principles of good governance:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined function and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risks.
- Developing the capacity and capability of Members and Officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability

3.48 The Code of Corporate Governance was updated and approved by full Council on 23 September 2013 to incorporate revised guidance issue by CIPFA/SOLACE.

3.49 As risk management features strongly in the AGS process, this year's review is again being coordinated by the Risk Management Group. The purpose of the review is to provide assurance from a number of sources including Members, Directors, internal and external audit, other review agencies and inspectorates that corporate governance arrangements are adequate and operating effectively; or where gaps are revealed, action is planned that will ensure effective governance in future.

3.50 The assurance gathering process includes a full review of the risk register, the completion of a checklist and the signing of assurance statements by the Directors and Assistant Directors.

3.51 The AGS is signed off by the Chief Executive and the Leader of the Council and accompanies the Annual Report and Statement of Accounts.

3.52 The AGS will be presented to the next meeting of this Committee for approval.

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:	Policy
Background Documents: (Access via Contact Officer)	None