

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 25 June 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
- 3.23 Audit Activity
- 3.26 Waivers
- 3.30 Publication of Internal Audit Reports
- 3.33 Auditor of the Year
- 3.36 Housing Benefit Update
- 3.40 Other Matters
- 3.48 Risk Management

2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the Internal Audit Progress report.**
- b. **Note the waiver process for exempted services 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. **Select auditor of the year from the two candidates**

- e. Note the continuing achievements of the counter fraud benefit partnership with the Royal Borough of Greenwich and impending changes.**

Corporate Policy

1. Policy Status: Not Applicable:
 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: £660k including £313K fraud partnership costs
 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): 6.5FTE including 0.5 FTE for a Risk Officer
 2. If from existing staff resources, number of staff hours: 221 audit days per quarter is spent on the audit plan and fraud and investigations but excluding RB Greenwich investigators time
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Legal

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected):
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? Approximately 150 including Chief Officers, Head Teachers and Governors
2. Summary of Ward Councillors comments: N/A

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 a number of additions detailed below since the last meeting of this Committee. There have also been some movement in priority one recommendations brought forward that are detailed below.

3.3 Progress on implementation of recommendations for Insurance (11 priority one recommendations), Learning Disabilities (12 priority ones), Care Manager Assistant Investigation (3 priority ones), Libraries Investigation (1 priority one) and the Mobile Phone Investigation (1 priority one) are all expanded on in detail in Part 2 of the agenda. Rent arrears – on the request of the Chairman and former Vice Chairman of this committee an analysis of the debt was supplied by the Deputy Director of Finance. However, we have yet to audit this area and will do so in 2014/15. We have therefore left the recommendation as outstanding.

3.4 New Priority One recommendations

3.5 **Looked After Children (LAC).** The 2013-14 planned audit for Looked After Children was undertaken by LB Wandsworth in quarter 4; managed by Bromley Internal Audit Section. The audit review identified two significant findings as follows:-

- **LAC-Payment Authorisation:** Controls for evidencing funding approvals had failed in 7/41 placement decisions tested i.e. evidence of the authorisation for the placement was not available to support the payments made. In one incident payments continued to be processed after the child had changed placement. As a result of the audit testing the team became aware of the overpayment and action taken to recover £11,336.

- **LAC-Timely completion of assessments and reviews:** The processes for ensuring that statutory requirements/deadlines (as specified within the Care, Planning, Placement & Case Review Regulations 2010) was not effective. Audit testing identified that 13/20 cases various elements of these regulations were not being achieved. In the absence of effective control, the risks of adverse comments from external inspections may give rise to reputational damage and/or sanction for failing to comply with requirements and that a care/placement package might not be appropriate are increased.

- Both recommendations have been accepted for implementation. There were two other lower priority recommendations. A limited assurance opinion was given in the audit report for this service.

3.6 **Creditors-** this audit was part of the 2013/14 internal audit plan that was commissioned from LB Wandsworth.

3.7 **Ordering and Commitment** 5/27 payments sampled (excludes Confirm payments from the sample of 35) had orders raised on the same day as or after the invoice date. However when a 'retrospective purchase order' report was run in May 2013, this showed 3,290 retrospective purchase orders had been made in the period 30/01/13 to 30/05/13, with 68% of these attributed to 30 officers. The effect of not raising orders until after receipt of invoices, was that commitment to expenditure is not reflected in the budget. This would reflect new results to identify areas of concern. Management have accepted this recommendation for implementation. There were five other lower priority recommendations. A limited assurance opinion was given in the audit report for this area.

3.8 Transforming Community Equipment Services (TCES) this audit was undertaken in quarter 4 from the 2012/13 audit plan and finalised in April 2014. There were three priority one recommendations as follows:

TCES-Verification of Invoices Submitted

The equipment invoices from the provider for October and November 2013 were reviewed. Ten lines were selected at random and were reviewed from the supporting documentation that is sent with the invoices.

For October 2013, the total value of the equipment invoice was £118,100.46 (including VAT) and the following issues arose:-

- The invoice is not broken down into key elements such as delivery types (individual speed rates and costs), individual collection costs. There was just a sum of £6,500 for speed rates with no break down.
- Invoice period was not specified
- Credits not actioned for returned/collected items.
- Items not charged for by contractor.
- Standard stock items charged at almost double –it was not clear for the reason behind this..
- Listed items supplied but were not standard stock items.

For the November 2013 invoice, the total value of the equipment invoice was £132,870.10 (including VAT) and the following issues arose :-

- Items requested to be repaired, unable to repair. Collection and recycling cost charged. Additionally, new item ordered and new delivery cost at high cost rate. No detail recorded of fault with item.
- Items listed on the supporting documentation as a TCES Stock Item were not recorded on the Bromley Stock list. Actual charges were considerably higher.
- Stock storage costs. See P1 recommendation below-para 3.12.
- It was found that, over £9,000 was charged for the speed rates selected (not including the standard collection and delivery rates) there was an additional speed rate of Emergency Same Day. At the time of the audit it was unclear why these speed rates are being utilised, as there was a management instruction for both social care and health staff that these were not to be used in order to reduce the overspend.

3.9 No evidence of management checking of invoices had been provided to Internal Audit. The Head of Assessment & Care Management and other senior officers placed reliance on service users or staff highlighting negative issues. There is a Financial Regulation requirement that more detailed checks are carried out on invoices over £10K before payment. It is detailed that over £10,000 100% check should be undertaken.

3.10 The performance monitoring figures provided by the contractor for October and November 2013 were found not to reconcile to the actual delivery and collection charges detailed within the invoices for October and November 2013.

3.11 Management have accepted that more detailed checks need to be completed on the monthly invoices before payment is made. Each manager will be required to a sample of transactions on the invoice.

3.12 TCES-Stock Reconciliation/Stock Charges

Since July 2012, the Authority has stored equipment at a depot in Woolwich. The auditor was advised that LBB are not charged for the storage of standard stock items. LBB are charged 50p per week per item for the storage of special non stock item such as bespoke paediatric equipment for which details are listed on the monthly invoice. On the November 2013 invoice, the charges are itemised as Special Storage, (Per Product per Day as agreed). (No charges

were made for storage on the October invoice as this was missed off by the provider). There is no up to date schedule of non stock items maintained by LBB officers and reliance is placed upon the provider. Following a site visit an officer confirmed that items displayed on the TCES system could not be located at the depot. Also there were items in the depot that are not displayed on the TCES system and items that were then scrapped by the Senior OT's.

3.13 Management had agreed to review the whole process of charging for non stock items.

3.14 **TCES-Contract Monitoring**

3.15 The annual performance measures and quarterly performance monitoring reports were requested. Details of the collection and deliveries were supplied but the other performance measures are still awaited. Management have stated that these will be addressed going forward.

3.16 It was found that the Senior OT's do not regularly attend the operational meetings that are attended by the contractor. On review of the minutes, no evidence could be found of any discussion around individual cases with the provider.

3.17 There were complaints by service users that were not being addressed and also not being discussed at operational meetings. Management identified a processing issue which prevented complaints being investigated. Management has assured Audit that this has now been rectified.

3.18 There were 7 other lower priority recommendations and a limited assurance opinion has been given in the report.

3.19 **Main Accounting System**

3.20 To enhance budget monitoring and to make forecasting more effective a Full Budget Monitoring system (FBM) was introduced in 2011. The FBM procedure notes state that Budget Holders should be submitting their forecasts between days 1-5 of the month with their line managers, the Reviewer, confirming the budget holders' submission on days 6-7.

3.21 Although several reminders have been circulated recently, significant numbers of budget holders do not appear to be using FBM to evidence their review/forecast as an aid to effective budget management. Audit testing for January 2014 revealed that as at 25/02/14 (day 25) from a sample of 97 budget codes budget monitoring review had only been completed for 23 budget codes (24%).

3.22 The submission/budget monitoring review rates for the past five months were 45% (Sept), 26% (Oct), 30% (Nov), 49% (Dec) and 64% (Jan). The increased submission rate for January was achieved as at 12/03/14, 6 weeks after the January month end.

3.23 Management have agreed to implement this recommendation which probably requires Directors having to take responsibility to ensure that budget holders engage in the process. There were two other lower priority recommendations and a substantial assurance opinion has been given in the report.

3.24 **Audit Activity**

3.25 Internal Audit activity for 2013/14 is summarised under the Annual Audit Report of this agenda. Internal Audit have spent most of our time since the last progress report in March 2014 completing audit work from the 2013/14 Internal Audit plan, conducting fraud and investigation work and assisting management with their inquiries-(details of this work are in Part 2) and providing sold services work to academies. Given the short period of time to report on 2014/15 activity i.e. just one month, we will as in previous years inform Members of this committee our

half yearly progress in October 2014. In addition to audit planned work we also carried out the following:

- Sold services to academies.
- Ongoing 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.
- Fraud and investigations.
- Advice and support on financial regulations, variations to change in system controls.
- Liaison role in assisting management inquiries and other fraud cases 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

3.26 The audit satisfaction questionnaires returned by auditees continue to indicate a high level of satisfaction with an average score of over 4 out of 5.

3.27 Waivers Procedure

3.28 At the last meeting of this committee we had reported that under CPR13.2 Chief Officers with Social Care responsibilities have specific exemptions provided to them under the Council's Scheme of Delegation. These powers were delegated down from the Council and the Leader. The advice we had from the Head of Procurement was 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. 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. The Portfolio Holder for Education had stated that education placements get reported to Education PDS. There was uncertainty about what reports go to the Care Services PDS Committee, and therefore it was agreed that verification be sought that the said Committee scrutinise placement waivers and if this was the case, to be reported back to Audit Sub Committee to allow members to decide if care services placements need to be included on the waiver list in future.

3.29 The Assistant Director for Commissioning has confirmed by way of a procedure note that the Care Services PDS is informed on waivers authorised by the Portfolio Holder as part of the budget monitoring process.

3.30 Members are therefore asked to consider whether exempted placements are reported on in future to this committee.

3.31 Publication of Internal audit Reports

3.32 At the last meeting of this committee we reported our first batch of Internal Audit reports finalised since November 2013 that was published on the web. Members also sought publication of any reports from the previous three years where losses of £100k could have arisen through fraud, malpractice, error or where value for money could not be demonstrated. Six were identified under this category of which two were published with exemptions sought for the other four reports- CDM Project; Parks and Greenspace; Castlecombe Children and Family

Centre; and Behaviour Services. Members had requested that the reasons for these exemptions be given in more detail in Part 2 and is on this agenda.

3.33 Since the last cycle of this committee we have published a further 12 redacted final reports with no exemptions sought:

- Contract and Commissioning (Public Health)
- Coroner and Mortuary Service
- Creditors
- Debtors
- Looked After Children
- Main Accounting System and Budgetary Control
- TCES audit
- Payroll
- Street Lighting-Invest to Save
- Farnborough Primary-closure audit
- Manor Oak-closure audit
- Perry Hall- closure audit

3.34 Auditor of the Year- this is an annual award made to an auditor by Members of this committee. There are two auditors being put forward for this award in respect of notable pieces of work carried out in 2013.

3.35 Auditor A –this auditor was redeployed back to audit following a period of two years. The first audit assignment was Learning Disabilities that uncovered major findings including 12 priority one recommendations and a nil assurance opinion. The audit was carried out with professionalism and due diligence in circumstances where documentation was not readily available, 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 came under intense scrutiny from management given the significant findings, that Auditor A handled with confidence. The findings of the report were reported on in detail in November 2013 to this committee and the follow up work is also reported elsewhere on this agenda. In addition auditor A was also assigned the TCES audit that was also complex resulting in three priority one findings expanded upon in this report. The report was also challenged and accepted by management. All recommendations in both reports were accepted for implementation.

3.36 Auditor B-was assigned to carry out the Insurance investigation that was reported in detail to this committee in November 2013. The investigation resulted in the Insurance Manager being dismissed for fraud and being successfully prosecuted. The investigation had to be carried out with professionalism and due diligence in the absence of documentation, procedures and clear audit trails. The officer had to work in a liaison role with the investigators from RB Greenwich, the police and management going through some 3000 payments to clear further incidences of potential fraud. A comprehensive audit report was produced with 11 priority one recommendations accepted by management for implementation. The same officer had also

investigated two other cases of fraud in which both officers were dismissed for fraud and successfully prosecuted. These cases were reported to this committee –Care Manager Assistant and the Purchase Card investigation.

3.37 Housing Benefit Update

3.38 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 date that the Bromley housing benefit fraud service will transfer over on the 1st July 2015. By March 2016 all local authorities would have been transferred over to SFIS. Staff will be subject to TUPE. 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 had already given notice to terminate the agreement. We have now sought a waiver in March 2014 to extend the partnership agreement up to 31st March 2015 and thereafter to the point of transfer.

3.39 Senior management have already met to discuss post transfer arrangements to cover LB Bromley related fraud such as council tax exemptions, single person discount, social fund, blue badges, direct payment cases, fraud referrals from the public, referrals from management, staff related fraud, NFI data matching and any pro- active exercises that could identify losses. As we have previously stated, we are keen to maintain the link with RB Greenwich that has lasted since 2002 and worked well and will explore this further.

3.40 Since the inception of the partnership in April 2002, through to May 2014, the Council has successfully prosecuted 369 claimants to date for benefit fraud; issued 346 court summonses; given 101 formal cautions; and administered 402 penalties. The full details and appendices on trends are shown in Appendices B, C and D.

3.41 Other Matters

3.42 **Other Matters- Web based training** –we had previously reported that following a series of investigations there was clearly 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.

3.43 647 officers were asked to complete the training – to date 90% have completed with a further 3% partially completed. 48 officers or 7% have yet to complete the training.

3.44 We are expecting that this training package, subject to some updating will be used for further promoting awareness of the Financial Regulations and Contract Procedure Rules.

3.45 As stated in the Annual Audit report elsewhere on this agenda, there has been a marked decrease in the number of recommendations made in 2013/14 in respect of breach of Financial Regulations and Contract Procedure Rules at could be attributable to this officer training.

3.46 **Other Matters-Review of Value for Money arrangements** - in 2013/14 we did not carry out reviews of VfM arrangements due to time spent on investigations. As a result we have rolled over three of the audits with a requirement to review VfM arrangements using the methodology agreed by this committee . Two of these Temporary Accommodation and Fostering and Adoption are currently being audited and will include VfM arrangements and be reported to the next cycle of this committee. The third audit, planning, will be completed later at a later in 2014/15.

3.47 **Other Matters-Working arrangements with LB Wandsworth** – six audits were commissioned from Internal Audit services of the London Borough of Wandsworth. These have been

completed with three finalised- Looked After Children, Creditors and Main Accounting/Budgetary Control all reported upon within this report as they had priority one recommendations. Parking is at draft stage and Procurement and Leaving Care is at pre-draft stage. The quality of the reports has been satisfactory.

- 3.48 **Other matters- Local Audit and Accountability Bill** – we had reported on the requirements of the new bill for local authorities to appoint their own external auditors through the medium of an audit panel and for negotiating joint procurement of external audit services. There has been no further developments on both matters to report on.
- 3.49 **Risk Management** –at the last cycle of this committee we had reported that where possible the exercise to evaluate the financial impact on high risks had been completed by the departments. We had requested through the Risk Management Group that this exercise be extended to medium financial risks. We will report on the progress at the next cycle of this committee.
- 3.50 Other risk matters are covered in the Annual Governance Statement that forms part of the Annual Audit Report that appears on this agenda.

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