

## **AUDIT SUB-COMMITTEE**

Minutes of the meeting held at 7.00 pm on 25 June 2014

### **Present:**

Councillor Neil Reddin FCCA (Chairman)  
Councillor Alan Collins (Vice-Chairman)  
Councillors Nicholas Bennett J.P., Ian Dunn,  
Simon Fawthrop and Peter Fortune

### **Also Present:**

Linda Pilkington and Luis Remedios

### **1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS.**

Apologies were received from Councillor Onslow.  
Councillor Peter Fortune substituted for Councillor Onslow.

### **2 DECLARATIONS OF INTEREST**

Councillor Fortune declared an interest as a Bromley school teacher, and as a member of the Board of Affinity Sutton Homes. Councillor Fortune also declared that his wife was a Bromley school teacher.

Councillor Fawthrop declared an interest as his wife was employed by Bromley Adult Education.

Councillor Reddin declared an interest as a governor of St Olave's School, and as the parent of a child at Warren Road Primary School.

Councillor Fawthrop declared an interest as the parent of a child attending a Bromley school.

Councillor Nicholas Bennett declared an interest as a member of the Scrutiny Board of Affinity Sutton.

### **3 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

No questions had been received.

**4 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 12th MARCH 2014--EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

**RESOLVED** that the minutes of the meeting held on 12<sup>th</sup> March 2014 (excluding exempt information) be confirmed.

**5 MATTERS ARISING REPORT**

Report CSD 14076

The matter concerning the play equipment at Hookwood Road, Pratt's Bottom had been fully investigated. It was found that the specification of the play equipment was compatible with the rural setting of the park. The matter could now be closed.

It was noted that the issue of placement waivers being scrutinised by PDS Committees had also been resolved subsequent to the Assistant Director for Commissioning forwarding details of the process to the Head of Internal Audit.

The matter of the Value for Money Study offered by CIPFA was ongoing, and the Committee would receive an update at the November 2014 meeting.

**RESOLVED**

**(1) that the Matters Arising report be noted**

**(2) that the matters arising concerning the placement waivers and the play equipment be closed**

**(3) that an update on the Value for Money study offered by CIPFA be provided to the Audit Sub Committee in November 2014**

**6 ANNUAL AUDIT REPORT**

This report was written by Luis Remedios, Head of Audit.

Commentary:

The Annual Report of Audit Activity in 2013/14 was written for Member information and was also intended to assist the Council in meeting the financial management and internal control requirements of the Accounts and Audit Regulations 2011. Part of the overall arrangements required the Chief Executive and the Leader to sign an annual governance statement. Included in this report were highlights of the performance of the Internal Audit function, a summary of the audits undertaken and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment based on this work and the Annual Governance Statement. Members noted that schools were now included within the report but there was an annual fraud report elsewhere on the agenda.

It was noted by the Committee that Internal Audit work and outputs had been reviewed by External Audit who concluded that Internal Audit were providing a satisfactory service. It was further noted by the Sub-Committee that Internal Audit had completed the high risk audit reviews that had been scheduled in 2013/14 and had received positive feedback from client departments.

The Committee was made aware that over the past year there had been five major investigations reported to the Committee. The resulting investigations, other fraud work, and monitoring the Greenwich partnership had used up a lot of officer time. The summary of audit work undertaken so far had resulted in 86 reports, including schools.

The Committee commented and noted Section 3.31 on page 23 of the agenda, "*Recommendations by Category*". It was noted that **Authorisation Issues** had increased by 6% from the previous year, from 1% to 7%. It was also noted that there was an increase in **Breach of Contract/SLA** issues from 4% to 6%. The Committee were impressed by the fact that **Breach of Financial Regulations or Procedures** had decreased from 11% to 3% which was good progress. The Committee expressed some concern that **Supervisory/Monitoring** issues were high at 27%. The Committee were impressed that there was good improvement concerning **School Primary Accounting Documentation**, with issues falling by 11%.

Members were satisfied about the outcome of the **Integration of Public Health Audit** that was referred to on page 45 of the **Annual Governance Statement**. The pre-integration check by Internal Audit had shown that the integration was progressing satisfactorily.

Councillor Fawthrop noted page 35 of the AGS (Annual Governance Statement) with reference to Bromley being a "value for money council." Councillor Fawthrop questioned how LBB could be a value for money council if no value for money audit had taken place. The Chairman pointed out that responsibility for ensuring value for money extended across the council and was not solely that of Audit.

Councillor Fawthrop remarked that there should be less reliance on external audits, and more reliance on internal audits.

**RESOLVED that:**

**(1) the Annual Audit Report 2013/14 be noted**

**(2) The Sub-Committee approved the Draft Annual Governance Statement**

## **7 INTERNAL AUDIT PROGRESS REPORT**

Report CEO 1409

The Internal Audit Progress Report was written by Luis Remedios, Head of Audit.

The report informed Members of recent audit activity across the Council and provided updates on matters arising from the last Audit Sub Committee. It covered:

- Priority One Recommendations
- Audit Activity
- Waivers
- Publication of Internal Audit Reports
- Auditor of the Year
- Housing Benefit Update
- Other Matters
- Risk Management

The Head of Audit introduced the report by explaining that this report covered the last two months of internal audit activity. There would be a further report written in September 2014, and this would be circulated to the Audit Sub-Committee Members by email in October 2014. Much time had been spent on completing work from the previous year, and much time had also been given to the investigation of the part two fraud investigations.

The Committee referred to Section 3.5 of the report on page 50 of the agenda—**Looked After Children (LAC)**. It was noted that two areas of concern had been identified by the London Borough of Wandsworth Audit Team. The first of these was that proper controls for evidencing funding approvals for placement decisions were not in place. In one instance it was identified that an over payment of £11,336.00 had been made; action had been taken to recover the over payment.

A secondary issue that had been identified with respect to LAC, was that the completion of assessments and reviews was often failing to take place within statutory timescales. If this was not rectified, there was a danger of both sanctions and reputational damage.

Recommendations to deal with these issues were being implemented.

The Committee referred to Section 3.7 of the report. This was another audit problem that had been identified by the LBW Audit Team. It was noted that there were problems in many services around the issue of **ordering and invoices**. There were many cases where orders had been raised after invoices had been received. This caused problems in that commitment to expenditure was not reflected in budgets. The Vice Chairman expressed surprise and concern at this, and stated that it was really an easy problem to solve. The matter had been raised by the Chief Executive, in recent

meetings with chief officers and senior managers and it was clear that this practice was not acceptable. Members had asked if the worst offenders were being targeted and the Head of Audit responded that they were but given the number of retrospective orders of 3,290 over a four month period it was a corporate problem. This recommendation was accepted by management for implementation.

The Committee noted Section 3.8 (page51) of the report, which related to **TCES** (Transforming Community Equipment Services). It was noted that there had been numerous problems with the verification of Invoices Submitted as outlined in the report. It appeared that there were no proper audit trails or challenges, no proper stock control, differences in the charge out rate for non-stock items stored to that specified in the contract, no analysis of speed rates charged, no challenge where the number of collection and deliveries charged on the invoice differed to that of the monthly statistics supplied by the contractor, and no challenge where the unit cost of the equipment supplied varied with the contracted specification rate. Performance measures specified in the contract were not being submitted by the contractor other than collections and deliveries. The Chairman commented that the report did outline a lack of competency on the part of the contractors and speculated if this was reflected in their general service levels. The Committee were assured that management had accepted that more detailed checks needed to be made on the monthly invoices before payment was made. In future, managers would be required to check a sample of transactions on the invoices.

The Committee considered Section 3.19 of the report. The introduction of the **FBM** (Full Budget Monitoring) system was noted. The Committee were informed that the budget monitoring review rates over the last five months, varied between 26% and 64%. The Committee were unhappy with these figures, and felt that they were not acceptable. The Committee considered possible reasons why the percentage compliance rates were low and below targets. Councillor Nicholas Bennett felt that middle management was not good enough, and that also there should be more involvement at Director Level to ensure compliance. Councillor Fawthrop commented that there would also be a failure to monitor cumulative spend on the part of budget holders by not engaging in the FBM process. The Committee intended to monitor the FBM compliance statistics, and to see what the figure was in November. Councillor Fawthrop proposed a motion that if the compliance rates were below 85%, then Directors should be called to account to the Sub-Committee. This motion was seconded by the Chairman.

The Committee next considered the matter of the **Waivers Procedure** as outlined in Section 3.27-3.30 of the report. The Committee was happy with the way that Care Services and Education PDS Committees undertook the scrutiny of placements. It was therefore agreed that placement waivers were no longer required to be reported to the Audit Sub-Committee.

The next matter that the Committee discussed were the nominations for "**Auditor of the Year**". The work of two Auditors (A and B) was outlined on the report. The Committee considered the work of both auditors, and they

were both highly commended. The Committee decided that Auditor B should receive the nomination.

The Committee noted that the DWP were in the process of setting up a **Single Fraud Integrated Service**, and that this would take effect in LBB from 1<sup>st</sup> July 2015. It was noted that LBB's fraud contract with RB Greenwich had previously expired in March 2014 and had been extended for a year. LBB were looking into any possibilities that may exist to continue to employ the services of RB Greenwich under the new arrangements subsequent to 1<sup>st</sup> July 2015.

The Committee next turned their attention to Section 3.46 of the report, which was a review of **Value for Money Arrangements**. The Head of Audit stated that due to conflicting pressures the work had not yet been completed and that two of these audits were outstanding. Councillor Bennett stated that he felt that such matters should be for Departmental Finance Officers to deal with, and not Audit. The Chairman suggested that value for money should be the responsibility of every officer, and that it was a matter for audit to scrutiny. Councillor Bennett averred that each department should be responsible for approximately four reviews per year, and that ultimate responsibility for this should rest with departmental heads. He also felt that the findings of these reviews should be conveyed to PDS Committees. The Vice Chairman (Councillor Collins) agreed with this. Councillor Bennett advocated that the matter of departmental value for money reviews should be referred to the Executive and Resources Committee.

Councillor Bennett stated that when reviewing VFM arrangements departmentally, consideration should be given by department heads as to what assistance could be given to managers, what sort of targets they should be working to, and how processes could be streamlined. These were matters that should be adopted without compromising financial regulations. Councillor Fawthrop asked how VFM studies could be pursued in conjunction with commissioning, and suggested that perhaps there should be benchmark clauses. The Chairman stated that it may be a good idea if contracts had KPI's (Key Performance Indicators). Councillor Fawthrop suggested that it may be a good idea to audit contracts for KPI's. The Vice Chairman suggested that it may be prudent to appoint a delegated person to look at VFM issues for three departments. The Chairman declared that it may be advisable to request the Executive and Resources Committee to set up a Working Party to report on VFM.

It was agreed by the Committee that a referral be made to the Executive and Resources Committee to make provision for a Working Group to consider the matter of how departments could review VFM arrangements.

**RESOLVED that:**

**(1) the Internal Audit Progress Report be noted**

**(2) a referral be made to the Executive and Resources Committee to make provision for a Working Group to consider the matter of how departments could review VFM arrangements**

**(3) an email update be sent from the Head of Audit to Committee Members in October 2014 to provide an update on the progress of internal audit activity**

**(4) if the compliance rate with respect to the Full Budget Monitoring system was below 85%, then Directors should be called to account to the Sub-Committee.**

**(5) placement waivers were not required to be reported to the Audit Sub-Committee**

**(6) the list of internal audit reports publicised on the web be noted, and the reports approved where exemptions were sought**

**(7) auditor B was nominated to receive the award of auditor of the year**

**(8) the continuing achievements of the counter fraud benefit partnership with the Royal Borough of Greenwich be noted**

**(9) the impending changes to the counter fraud partnership with RB Greenwich be noted.**

**8 INTERNAL AUDIT PROGRESS REPORT INFORMATION BRIEFINGS**

**RESOLVED that the publicised internal audit reports be noted.**

**9 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**

**RESOLVED that the press and the public be excluded during consideration of the items of business referred to below, as it is likely in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press or public were present—there would be disclosure to them of exempt information.**

**10 EXEMPT MINUTES OF THE MEETING HELD ON 12th MARCH 2014**

**RESOLVED that the exempt minutes of the meeting held on 12<sup>th</sup> March 2014 be agreed.**

**11 INTERNAL AUDIT FRAUD & INVESTIGATION REPORT**

Report CEO 1410

This report was written by Luis Remedios, Head of Audit.

This report informed Members of recent Internal Audit activity on fraud and investigations across the Council and provided an update on matters arising from previous Audit Sub Committee meetings. The report detailed updates on previously reported cases, expanded on cases of interest, detailed cases on the fraud register, provided a further update on the results of the 2012 National Fraud Initiative (NFI) and detailed the reasons given for exemptions sought for not publicising four investigation reports.

**RESOLVED that the Internal Fraud and Investigation Report be noted.**

**12 ANNUAL INTERNAL AUDIT FRAUD & INVESTIGATION REPORT**

Report CEO 1407

This report was written by Luis Remedios, Head of Audit.

This was the fourth annual fraud report that summarised all fraud and investigations undertaken for 2013/14. The report informed Members of all the fraud and investigation activity for 2013/14. It summarised all the allegations of fraud that had been received, investigations of matters not fraud related but breach of financial regulations/procedures, results of the housing benefit partnership with the Royal Borough of Greenwich and findings from the National Fraud Initiative (NFI) data matching exercise. The report also referenced other matters such as trends in fraudulent activity, training staff in fraud awareness, proactive exercises in council tax, addressing key fraud risks, the fraud training toolkit for staff and future arrangements for the investigation of benefit fraud.

**RESOLVED that the contents of the Annual Internal Audit Fraud and Investigation Report be noted.**

The Meeting ended at 8.45 pm

Chairman