

**Decision Maker:**       **AUDIT SUB-COMMITTEE**

**Date:**                   **Tuesday 4 April 2017**

**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:**        Director of Finance

**Ward:**                   (All Wards);

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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.
- 3.47 Audit Activity
- 3.50 Waivers
- 3.55 Publication of Internal Audit Reports
- 3.59 Housing Benefit Update on Referrals
- 3.62 Appointment of External Auditors
- 3.64 Head of Audit
- 3.65 Objection to the Accounts
- 3.68 HMRC Update
- 3.70 Training
- 3.72 Risk Management

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2. **RECOMMENDATION(S)**

- a) **Note the Progress Report and comment upon matters arising.**
- b) **Note the list of Internal Audit Reports publicised on the web.**
- c) **Note the list of waivers sought since October 2016.**
- d) **Note the latest on cases referred to the DWP.**

- e) **Note the latest position on the options to appoint a local auditor.**
- f) **Note the outcome of the recruitment process for Head of Audit.**
- g) **Note the final outcome of the objection to the accounts from the External Auditors.**
- h) **Note the launch of web based training for risk management, audit controls and focus on fraud.**
- i) **Note the latest update on high and significant risks and actions taken to improve the process and approve the revised corporate risk register.**

### Impact on Vulnerable Adults and Children

1. Summary of Impact: Some of the audit findings could have an impact on adults and children.
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### 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: £469K including £164K fraud partnership costs
  5. Source of funding: General fund, Admin subsidy, Admin penalties, Legal cost recoveries
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### Personnel

1. Number of staff (current and additional): 5.5 FTE
  2. If from existing staff resources, number of staff hours: 2016-17 -811 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich investigators time.
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### Legal

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

1. Summary of Procurement Implications: Some audit findings will have procurement implications
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100 including Chief Officers, Senior Managers, 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 The latest list of outstanding priority one recommendations is shown in Appendix A. There have been further additions detailed below since the last meeting of this Committee. There has also been some movement in priority one recommendations brought forward that are also detailed below.
- 3.2 The updates on previously recommended priority one recommendations are detailed below. Extra Care Housing (1 priority one recommendation made which has been implemented); Transition Team (1 priority one recommendation made which has been implemented); Learning Disabilities- (3 outstanding priority one recommendations not tested pending management report to Care Services PDS which is referred to below); Community Infrastructure Levy (2 priority one recommendations which are outstanding); Manorfields (2 priority one recommendations made which have been implemented); Document Storage and Retention (2 priority one recommendations which are outstanding); Temporary Accommodation (3 priority one recommendations made that will be followed up and reported to this Committee in June 2017); NNDR (1 recommendation made that will be followed up and reported to this Committee in June 2017).
- 3.3 There have also been audit reports with new priority one recommendations.
- Reablement Team audit that has identified 2 priority one recommendations detailed in Part 2 of this agenda.
  - Waivers report that has identified 2 priority one recommendations detailed below.
  - Leaving Care has identified 1 priority one recommendation detailed in Part 2 of this agenda
  - Waste Services audit that has identified 15 priority one recommendations detailed in Part 2 of this agenda.
- 3.4 **Extra Care Housing**
- 3.5 There was a priority one recommendation that care charges should reflect the actual care received on a weekly basis. Any increases or reductions in care should be reflected within the charges levied. Adjustments to the individual care accounts should be rectified without delay. The process for charging for care hours should be reviewed. A further follow up of this recommendation including an additional sample of cases checked showed no issues of concern. We therefore consider this recommendation to be implemented.
- 3.6 **Transition Team**
- 3.7 This related to progress on implementation of the recommendation in respect of overpayments and underpayments of direct payments. When this recommendation was followed up for the previous meeting of this Committee, a further case of overpayment was identified. A further follow up of this recommendation has shown that the overpayment and clawback on this case from ECDP has since been made and there has been no further activity on the account. The account balance is nil. We therefore consider the priority one to have been implemented.
- 3.8 **Learning Disabilities**
- 3.9 We had previously reported that there were three priority one recommendations following an audit. These were in respect of:

- Assessments- where in some instances core assessments had not been done, eligibility tests for public funding were not evident, annual client reviews were not carried out and three yearly core assessments were not done.
- Care and Support Plans- where it was identified that in some cases the care plan was not reviewed on an annual basis, that there were cases without a core assessment in place and cases where a care plan was not in place within 4 weeks of the core assessment being completed.
- Service Agreements- where it was identified that in some instances there was no evidence that the panel had authorised the agreements.

3.10 The above findings were referred to the Care Services PDS in January 2017. Management were asked to prepare a response on progress taken to implement the recommendations and report back to the PDS in March 2017. Their response is shown below. Given this we will test for implementation and report back to this Committee in June 2017.

3.11 The Joint Team Manager Integrated Service reports that:-

*“The interim manager has now been in post for 7 months and the priorities have been the service users, cultural changes and adherence to policy. There has also been a familiarisation of the service and the issues, including continuation to review the procedures within the Team and delivering efficiency savings. There is a good solid base of staff now to improve good practice, and ensure professional standards are adhered to. Supervision is provided on a regular basis both on a formal and informal basis to embed and improve good practice.*

*The interim manager is assured that new cases coming through the service are being assessed in accordance with the Care Act 2014 and that information is updated to Care First correctly and in a timely manner. All new assessments are scrutinised to ensure that eligibility assessments are contained within them and authorisation of the assessments are within a timely manner. We are continuing with older cases and data cleansing. Assessments are authorised within line management protocols, ensuring that there is a separation of duties*

*Performance reports are generated from Care First which enables the interim manager to target outstanding reviews, and assessments requiring authorisation. These reports are shared with the management staff in the team to ensure a cohesive approach to good practice and support within the team. The interim manager authorises agreed service agreements, as there is a better understanding that these need to be processed as a priority. Current good practices from the Complex Care East Team have been incorporated within the Learning Disability Team to build upon current good practice within the team.*

*Work continues to ensure that Care Plans are in place within 4 weeks of a completed assessment. Staff are reminded via supervision and team meetings of the need to review and update Care Plans at annual reviews, or re-assessments outside of the review timeline. This is monitored through the authorisation process. It has to be said that this is a work in process and there are positive signs of improvement.*

*Moving forward, all services can only be authorised as a service agreement once the Practice Review Group sheet has been completed and authorised. Prior to the authorising of associated service agreements, reference is always made to the PRG sheet to confirm agreement. If, in an emergency, a service needs to be set up and agreed outside of PRG then Review Group members are consulted, an observation recorded on Care First, and presentation made to the PRG at the earliest opportunity. There is also work in progress to identify where services have been entered on the system historically without agreement or assessment. These are identified through the weekly reports generated from Care First.*

*It is unclear why there is reference to Core Assessments being reviewed every three years. It is standard practice across the Adult services that Core Assessments are only completed on entrance to a service or when there are changes to care needs that may identify a change in service provision outside of the Annual Review schedule. This is referred to in the Assessment and Care Management Practice Guidance (revised 2012), Section 10 Care Management Review, 10.1.1. This should also apply to the Learning Disability Service, as part of Adult Social Care in Bromley.*

*Some challenging staff issues have been inherited including staff sickness, and high turnover, which has improved since the introduction of the current interim manager, and there has been a positive effect on the Team. It has been important to develop and build the morale, performance, and skill set of the team. Regular team meetings are effective with guest speakers invited to attend. Complaints have reduced. Staff are expected to own the information on their Care First Desktops, and to work with their supervisors to ensure timely authorisation of quality assessments to be put forward to the PRG.”*

- 3.12 Internal Audit will be carrying out the follow up review in quarter 1 2017/18 and report the progress to implement the three priority 1 recommendations to Members at the June 2017 meeting.
- 3.13 Community Infrastructure Levy (CIL)**
- 3.14 There were two priority one recommendations previously reported to this Committee.
- 3.15 When a planning application is received, it should be identified whether or not CIL is liable, with the relevant ‘Y’ or ‘N’ in the CIL liability box on UNIFORM ticked accordingly and confirmation that the measurements submitted are correct. There were several cases where CIL liability has not been identified, which would have resulted in a loss of income to the Council and TfL. It was difficult to quantify numbers in previous years. Our testing has shown that there have been discussions between the CIL team and Planning Development Control team, resulting in training to identify CIL liable applications being given to Planners. A report has now been run from the UNIFORM system to identify cases since April 2015 where liability has not been assessed or recorded. There were 48 cases where liability should have been recorded. These are being progressed and the action taken will be considered as part of the follow up audit to be carried out in May 2017. This recommendation is outstanding.
- 3.16 Spot check visits have recently been carried out by the CIL team visiting properties which found that in three cases building work has already commenced but the Council has not been notified by the developer. Internal Audit also carried out spot check visits and found one property where building work had commenced and had been completed without notification to the Council. Where a chargeable development has commenced but LB of Bromley has not been notified, a surcharge equal to 20% of the chargeable amount payable or £2,500 can be imposed, whichever is the lower amount. Demand Notices and surcharges amounting to a total of £39,483 have been issued to the developers by the CIL team for the properties referred to above. A formal programme of spot checks by the CIL team has now been put in place to identify where building work has commenced but the Council has not been notified. Initially, visits were made to five specific areas of the Borough to check approximately sixty properties. Currently, periodic checks are carried out, utilising mapping information to improve efficiency by identifying local clusters of properties to visit. The results of these checks and the action taken will also be considered as part of the follow up audit to be carried out in May 2017. In the original four cases identified, recovery action is continuing. This recommendation is outstanding.
- 3.17 A Member of this Committee had also raised a query at the last meeting about what checks are undertaken when an applicant applied for a waiver, such as self-build relief and should the property be subsequently rented out. Following discussions with management there was a

weakness in checking for properties where a CIL exemption had applied but the property was rented out within a three year period following exemption. It was established that there were 138 properties i.e. new builds/ replacements and extensions with exemptions given, totalling £975K. Possible ways to ensure that there were no breaches would be with the co-operation of other departments checking Electoral, Housing Benefit and Council Tax databases on an annual basis. This has been explored by management and will be checked by the CIL Team going forward. Work has started on checks for the cases identified and 'read only' access to the Academy system has now been given to the CIL team to enable checks to be made against Housing Benefit and Council Tax data. Contact has also been made with the Electoral Team. This will be followed up for the next meeting of this Committee.

### **3.18 Manorfields**

3.19 We had previously reported on Manorfields capital project relating to the refurbishment work in converting to a temporary accommodation establishment and the contractual arrangements with Orchard and Shipman (OS).

3.20 As a result of the audit findings, we made two priority one recommendations relating to retention of documents and compliance with Contract Procedure Rules and Financial Regulations. In respect of retention of documents Internal Audit treated this as a general issue and considered it corporate action, launching a training awareness package 'Audit Controls', reporting contractual issues to the Contract Sub Committee and subsequently E& R PDS. A report on Contract Monitoring and Contract Management issued by the Director of Commissioning Services would suffice in promoting awareness at both officer and member level and therefore the recommendation was considered to be addressed.

3.21 In respect of the recommendation to comply with the requirements of the Contract Procedure Rules and Financial Regulations the same actions taken in the above paragraph also apply to this recommendation. However the audit of the final account for this work has now been concluded. The final outturn for the refurbishment work as reported to Care Services PDS in January 2017 was £815K which has been reviewed to Internal Audit's satisfaction. The final outturn of the project after including management fees for both OS and the building consultants MHA is £921K. There is therefore no further action to be taken and the recommendation is considered implemented.

3.22 Going forward, Internal Audit has allocated an amount of time in the 2017/18 audit plan to review and provide advice on a similar capital project planned for Banbury House, Chislehurst.

### **3.23 Document Storage & Retention**

3.24 There were two priority one recommendations relating to contract monitoring and invoice checking and secondly cumulative expenditure and the requirement to undertake a comprehensive review of documents in storage

3.25 Contract Monitoring & Invoice Checking- we had previously reported that there were no quarterly contract monitoring meetings or recorded minutes; the contents of the boxes were unclear as it was assumed these would be held by the departments; destruction dates were not shown on the boxes; no evidence of benchmarking; cursory checks of invoices; no back up information to the submitted invoices such as number of boxes held by each department.

3.26 The follow up of this recommendation has shown that back up documentation to support the invoices has still not been produced and minutes of the only quarterly monitoring meeting held since the audit has not been produced and therefore this recommendation has not been implemented.

3.27 The second recommendation related to cumulative expenditure and the requirement to undertake a comprehensive review of documents in storage. We had previously reported that the cumulative spend on storage costs from June 2011 to September 2016 had reached £202K; departments were not reviewing the records currently held by the Contractor which had VfM implications; a report to the Executive stressed the need to reduce files being stored as part of the accommodation move otherwise the upward trend of files stored would significantly increase; there were 11,753 boxes in storage at the time of the audit. This had now increased to 12,306 in February 2017.

3.28 Therefore the follow up of this recommendation has shown that this has not been implemented.

3.29 At the last meeting of this Committee Members wanted information relating to the number of boxes withdrawn in the past three years. The thinking behind this was that if boxes have not been requested in the past three years then presumably they are not being referred to and therefore should be destroyed subject to statutory requirements. Information from the contractor showed that there were 774 retrievals in 2015 and 2016. Management have stated that this is an archiving service and therefore it is not an indication that the records are no longer required.

### **3.30 Temporary Accommodation**

3.31 We had previously reported on the three priority one recommendations relating to the need for occupancy checks; time taken to make decisions on homeless applications; and level of rent arrears/delays by clients in completing benefit application forms/action on evictions. These three priority one recommendations will be followed up for the June 2017 meeting of this Committee.

### **3.32 NNDR**

3.33 An internal audit of this area was completed in September 2016. The School applied for mandatory relief on 6 May 2015. Upon examination of the refund of £133,219 paid to the School on the 17th June 2015, for backdated charity relief. It was identified that the relief had been backdated to 1/04/2010, from the 26/05/15, although it had only converted to an Academy on the 1/04/14 thus resulting in an overpayment of £103,499. The Exchequer contractor has reimbursed Bromley this amount and is attempting to recover their overpayment from the School. The form for requesting mandatory relief has been amended to include asking when the account holder became a charity or an Academy. The additional checks brought in as a result of this overpayment have yet to be tested by Internal Audit.

### **3.34 New priority one recommendations-**

### **3.35 Waivers Audit**

3.36 This corporate audit was completed and resulted in a limited opinion being given as there were two priority one findings.

3.37 Whilst waivers are sometimes subject to scrutiny by the Director of Commissioning and Commissioning Board, not all waivers are subject to formal scrutiny by procurement professionals to confirm that they have been completed accurately, timely and with required information in line with Contract Procedure Rules (CPR). We acknowledge that there is no requirement in CPR for all completed waiver forms to be submitted to the Corporate Procurement Team before they are authorised. There is no single corporate register of completed waiver information and the forms are not uniquely referenced to enable them to be easily identified and to give assurance that all have been captured, processed and authorised. Information relating to waivers is kept in different locations and formats depending on the department. We were unable to identify any formal waiver monitoring arrangements in place for HR, Finance and IT Directorates. A corporate register of waiver information and an automated

electronic alert process for waivers which are nearing their expiry date would strengthen controls. This could be explored as part of the functionality of the new Contracts database.

3.38 Our examination of a sample of the waiver forms submitted found that, although instructions and guidance have been provided to officers by Procurement, both via CPR and on the waiver template, there were numerous instances where the waiver forms had not been completed correctly. The sample of waiver forms which we examined contained examples of incomplete and inaccurate information and a lack of timeliness and evidence of appropriate authorisation. We saw instances in our sample of waiver forms examined where they had not been signed and dated, not authorised by the Portfolio Holder and the 'Guidance' section had been removed. In one case a waiver to extend the existing contract had been requested approximately two weeks before the contract expiry date and insufficient time had been allowed to undertake the tendering process. In another case for Beckenham Town Centre improvements, the contract extension start date was January 2016 but the waiver was submitted in September 2016 due to a delay in awaiting funding from TfL to proceed with the scheme. The introduction of an electronic waiver form with on-line authorisation at each stage of the process would improve existing controls. It would enable a unique reference to be applied to the form and provide an audit trail of who has authorised the form and when. Any subsequent changes to information contained on the form or edits of the form by individuals could then be identified. This could also be explored as part of the functionality of the new Contracts database.

3.39 Both recommendations have been accepted by management for implementation.

#### 3.40 **Primary School**

3.41 We recently completed an audit of St Paul's Cray CE Primary School. There was one priority one finding in relation to cash income, specifically school dinner money. At our initial visit to the school in November 2016 we checked the total amount received for school dinner money during that term to the total amount banked. This was not successful because the reports produced from the system showing the dinner money paid did not contain sufficient detail to enable a reconciliation to be made. Weekly reports from the system were then provided enabling a reconciliation to be made. A further visit was made to confirm the school dinner money banked and review the school's arrangements for receiving and recording cash.

3.42 We noted from examination of the paying in book that there are occasions when the cash received is not banked intact and a cheque is written to cover part of the cash amount, which is retained for the petty cash imprest. This arrangement has been inherited from the previous Finance Officer but contravenes the Authority's School Financial Regulations.

3.43 Daily income sheets are used for recording cash received for school dinners and also clubs and activities. Cash is received each day by any one of four members of staff but it is not possible to identify who has received and recorded the cash. The entries on the sheet do not always show the full name of the pupil or member of staff who paid. Although the amounts recorded are then input to the pupil or staff record on the SIMS computer system, this does not always happen on the same day that the cash is received. There is no weekly or other periodic reconciliation carried out of the cash received and recorded on the daily income sheets to the income records on the SIMS computer system.

3.44 Due to the large volume of small cash amounts received each day, the risks associated with the receipt and recording of cash and the time consuming nature of the task, we have recommended that the school considers using a cashless on-line payment option for school dinner money, similar to that used by other schools. In the meantime we have discussed with the Finance Officer how the existing controls over cash income could be strengthened and she is keen to put these in place as soon as possible.

3.45 There were other priority two recommendations relating to declarations of interests, contract register, asset register, raising orders, governors' minutes, photocopier lease and lettings. All recommendations have been accepted for implementation.

3.46 We have given the audit a limited assurance opinion.

### 3.47 **Audit Activity**

3.48 Members of this Committee will be updated in April 2017 on our progress against the 2016/17 internal audit plan, completion of work brought forward from the 2015/16 plan and investigations. The period covered by the said update was November 2016 to February 2017. There is some slippage in the 2016/17 internal audit plan due to staff sickness, investigations, and priority one findings arising from our planned audit work that are reported in this report and in Part 2 of the agenda. The returned audit satisfaction questionnaires indicate an overall average score of 4.2 out of 5 on finalised audit reports which is good.

3.49 In addition to planned audit work we also carried out the following:

- Planned audit work with the focus on work on the 2016/17 plan, priority one findings, and investigations arising from planned audits.
- Fraud and investigations - the results of which are reported in Part 2 of this agenda.
- Advice and support on Financial Regulations, variations to change in system controls e.g. waste contract controls.
- Monitoring role for the Greenwich Fraud partnership.
- Launching two e-learning training packages in respect of focus on fraud and risk management. A slide presentation on audit controls summarising our key findings with examples quoted.
- Liaison work with our external auditors where requested.
- Updating the risk register and servicing the Corporate Risk Management Group.
- Involvement in proactive exercises that are reported in Part 2.
- Committee work.
- Internal Liaison with Board; Corporate Leadership Team; Directorate Management Teams; Information Strategy, Commissioning and Governance Board and Corporate Risk Management Group.
- External liaison with the various London Audit Groups - Fraud, Procurement, IT and Head of Audit. Also the London Boroughs Fraud Investigation Group and our External Auditors.

### 3.50 **Waivers**

3.51 Members of this Committee took the decision to only report on waivers sought under the Contract Procedure Rules 3 and 13.1 and to therefore exclude specific exemptions provided to officers under the Council's Scheme of Delegation which relate to social care placements. The list attached as Appendix B reflects waivers sought for the period October 2016 to February 2017.

3.52 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 2016 and covered waivers sought up to October 2016. 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 preferably prior to the meeting so that officers can extract the details on queried waivers.

3.53 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 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.

3.54 Members should note the findings of the waiver audit report. The low number of waivers could indicate that officers are using the tendering process or that not all waivers had been captured as indicated in the findings of the audit report on waivers reported above.

### 3.55 Publication of Internal Audit Reports

3.56 At the last meeting of this Committee we reported our eighth batch of Internal Audit reports finalised since March 2014 and published on the web.

3.57 Since the last cycle of this Committee we have published a further 12 redacted final reports (listed below) making a total of 166 since publications first started. At the request of Members of this Committee we have included the audit opinion given to each audit. Follow up audits for implementation of previous recommendations are not given an opinion. Four exemptions are being sought for this cycle that is explained in part 2 of this agenda.

#### Audit Opinion

- |  |                |
|--|----------------|
| • Follow up review of Libraries Audit 2016-17              | Not Applicable |
| • Public Health Audit 2016-17 Substance Misuse             | Substantial    |
| • Bromley Road Primary School 2016-17                      | Substantial    |
| • Council Tax Audit 2016-17                                | Substantial    |
| • Follow up review Extra Care Housing Norton Court 2016-17 | Not Applicable |
| • Follow up review Section 106 Agreements 2016-17          | Not Applicable |
| • James Dixon Primary School 2016-17                       | Substantial    |
| • IT Services Contract                                     | Substantial    |
| • Review of Waivers  | Limited        |

• Glebe School	Substantial
• St Pauls Cray CE Primary School	Limited
• Review of Housing Benefit	Substantial

3.58 For definitions of audit opinions see below:

- Full Assurance- There is a sound system of control designed to achieve all the objectives tested.
- Substantial Assurance- While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
- Limited Assurance- Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
- Nil Assurance- Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.

### 3.59 Housing Benefit- Update on Referrals to the DWP

3.60 At the last meeting of this Committee we reported that a total of 404 cases were referred to the Single Fraud Investigation Service (SFIS) team of the DWP since the transfer of housing benefit fraud on the 1<sup>st</sup> July 2015. Since April 2016 to February 2017 142 cases have been referred to SFIS. We have been advised that there have been no prosecutions on these referrals in 2016/17, however, 6 cases are awaiting decision by the Crown Prosecution Service (CPS). The DWP have advised that they have recommended 30 administrative penalties for authorisation by Bromley in 2016/17 based on our referrals. The DWP have stated that they completed 5 prosecutions in 2016/17 in respect of Bromley claimants that were not referred by us with a further 9 cases awaiting decision by the CPS not referred by Bromley.

3.61 Members had previously agreed that given the absence of any agreement with the DWP for joint prosecutions we should proceed to investigate and prosecute the Bromley fraud element of these cases where appropriate for council tax support if the overpayment exceeds £3,000 or below if there are some cases of blatant fraud e.g. submission of false documentation. We have already implemented this and we have had 4 successful prosecutions with others pending.

### 3.62 Appointment of External Auditors

3.63 We had previously reported the requirement that from the financial year 2018/19, the appointment process under the Local Audit and Accountability Act 2014 will be operational. The Act provides for two principal routes:

- The Authority leads the appointment process, either independently or in collaboration with other authorities. For this they need to appoint an auditor panel to advise on the process. This option was not considered on the grounds of cost and obtaining a competitive price.
- The Act provides for the approval of a sector-led body to act as ‘appointing person’ and to undertake a procurement exercise and appointment on behalf of the authority. Public Sector Audit Appointments Ltd (PSAA) have attained accreditation to be an appointing person under the requirements of the Local Audit (Appointing Person) Regulations 2015 (the Regulations ) from the Secretary of State. PSAA is the company managing the current external audit contracts since the Audit Commission closed. PSAA is an operationally autonomous non-profit company, owned by the Local Government Association. PSAA have offered local authorities including LB Bromley to become an opted in authority which was taken up following full Council approval. It is believed that the majority of London Boroughs including Bromley have taken up this option. Nationally at the time of writing, it is believed that 282 out of 493 local authorities had already opted in, while another 128 bodies were making moves to do so.

PSAA will appoint an auditor to a local authority for five years, with flexibility to extend that for a further two years.

### 3.64 Head Of Audit

At the last meeting of this Committee we had reported that there was an ongoing process to recruit for the Head of Audit post to replace the current Head who is retiring. There was a very good response and a decision was made to appoint Mr David Hogan who is currently Head of Assurance for One Source that covers the London Boroughs of Bexley, Havering and Newham. He will take up post on the 15<sup>th</sup> May 2017 and after a handover, the current post holder will leave in June 2017.

### 3.65 Objection to the Accounts

3.66 At a previous meeting of this Committee we summarised the three ongoing objections to the accounts i.e. legality of our parking enforcement contract (mainly around the use of incentives and performance targets contained within the contract); bailiff enforcement that Bromley allowed unlawful fees and costs to be incurred in the execution of warrants for parking/traffic debt; and London Councils (we have incurred unlawful expenditure in the provision of the Parking on Private Land Appeals service). This had resulted in the accounts for 2012/13, 2013/14 and 2014/15 remaining open and costs escalating to a final total cost of £74,500. (We had previously reported an expected outturn of £60k). The work of the previous external auditors has been concluded and the objections are now closed. The previous auditors have issued Bromley with revised annual audit letters for each of the three years that make reference to the objections and proposed recommendations. There have been no objections to the 2015/16 accounts audited by KPMG, our current external auditors.

3.67 The auditors have given an overview of work undertaken below regarding the objections received:

- Considered the respective notices of objection and letters provided;
- Considered multiple emails and evidence provided by the objector’s representative, Mr J;
- Considered the extent to which these matters fall within the external auditor’s powers and duties as appointed auditors to the Authority;
- Considered the Authority’s responses to the objections;
- Considered evidence provided by the Authority;
- Discussed with the objector’s representative, Mr J, the work undertaken as well as his queries through several emails, telephone calls and emails;
- Consulted with the Audit Commission / PSAA on certain matters;

- Consulted with our technical team and risk management team;
- Consulted with internal Counsel;
- Obtained legal advice on certain matters from external Counsel;
- Drafted the witness statements for the civil parking enforcement contract;
- Documented the work in the audit files;
- Reconsidered subsequent events since the respective audit reports were originally signed;
- Agreed the wording for the updated certificates;
- Agreed with the PSAA the ability for the PWC Director to sign the 2012/13 and 2013/14 certificates (signing rights had already been obtained for 2014/15);
- Sought updated representations from the Authority; and
- Updated the annual audit letters for 2012/13 and 2013/14 (the 2014/15 annual audit letter had not been issued and as such did not need to be updated).

### **Fees breakdown**

<b>Objection</b>	<b>Fees (excl. VAT)</b>
Civil parking enforcement contract (objection received on 20 September 2013)	£64,800
Bailiff fees (received on 27 October 2014)	£ 6,500
London Councils (received on 27 October 2014)	£ 3,200
	<b>£74,500</b>

### **3.68 HMRC Update**

3.69 At the last meeting of this Committee, Members had been informed that following an HMRC surcharge to Bromley of £343K for the use of consultants there would be an audit of this area, reviewing the new procedures introduced by HR. However, at a meeting with HR management to discuss the 2017/18 plan there was a request that Internal Audit consider carrying out this audit as a stand-alone review outside of the payroll audit. This audit will cover both the compliance with new procedures and the new HMRC requirements on IR35 that are due to be operational in April 2017 where public bodies will become liable for checking whether contractors are “genuine” limited companies or are using the status for tax avoidance. The HMRC specific audit will be reviewed in 2017/18.

### **3.70 Training**

3.71 We can confirm that the following training packages have been launched on One Bromley and are on the Learning Hub following a presentation at a managers briefing.

- Audit Controls - This is a slide presentation of 16 slides lasting about 30 minutes explaining the purpose, type of recommendations made and key findings with examples. The purpose is to promote awareness of audit issues- without the need for a question and answer session and will be rolled out to all staff.
- Focus on Fraud - this has been updated to take in to account the latest developments in fraud. It is a web based training package that links to key documents such as the Anti-Fraud and Corruption Strategy. There is a brief question and answer session after each chapter. The purpose of the exercise is to promote fraud awareness and encourage staff to raise concerns should the need arise. The session should last about 30 minutes and will be rolled out to all staff following discussions with managers and Members of this Committee.

- Risk Management- this is a web based training package to promote risk awareness and a risk culture. It has been substantially revised to take in to account all the changes in risk management. There is a question and answer included in the package. The package is estimated to be 40 minutes in duration. It is available to all staff but in particular to managers.

### **3.72 Risk Management Update**

- 3.73 At the last cycle of this Committee we had reported in detail on both the revised corporate risks and the departmental high and significant net risks.
- 3.74 The key audit findings i.e. priority one issues that are reported to this Committee are linked into the risk register.
- 3.75 All the key internal controls held by Internal Audit used as a basis for our audit coverage in each auditable area, are in the process of being loaded on the intranet, available for management to assess in terms of covering all potential risks. There has been a delay as we have been upgrading Galileo, our audit recording system. This will go live in April 2017 and the upload of key controls will be done shortly after.
- 3.76 As stated above in paragraph 3.71 under training, our Risk Management training for staff, in particular managers, has been launched.
- 3.77 Full details of all the current high and significant net risks, including controls, actions and financial implications are attached as Appendix C. We also attach a copy of the risk management guidelines as Appendix D.
- 3.78 Corporate Risk Register – Following agreement by this Committee, the corporate risks have been published on the web. See Appendix E.
- 3.79 Going forward it is proposed that this Committee should also have sight of the high and significant risks in respect of the contracts register. This would give this Committee an insight in to both the departmental and contract risks which are interlinked in respect of provision of services. Members will note that many of our significant findings including what is on this agenda relate to contracts and therefore it would make sense to have sight of the high and significant contract risks. With the introduction of the Contracts Database (CDB), an automated system that records details of each contract, together with a risk analysis, reporting and information flow will be much easier for management.
- 3.80 We have commissioned Zurich our insurers to carry out a check and challenge process on the risk registers to be undertaken for each of the three directorates. (Education, Care & Health Services (ECHS) and Environment & Community Services (ECS) and Chief Executive Directorates). The aim of this process is to provide the directorate management teams (DMTs) with an independent discussion on risk and one that challenges, refreshes and validates the current risk register content. The output from the exercise will be an updated risk register that will be taken forward by the DMTs. Zurich will seek to refresh the risk descriptions, scores, mitigations and actions.

**4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

The contents of this report have implications for both adults and children in respect of cost and also care requirements.

**5. POLICY IMPLICATIONS**

None

**6. FINANCIAL IMPLICATIONS**

A number of the findings identified in the audit reports mentioned above will have financial implications.

**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.

**8. LEGAL IMPLICATIONS**

There is a statutory requirement to provide an internal audit function through the Accounts and Audit Regulations 2015.

**9. PROCUREMENT IMPLICATIONS**

The contents of this report have implications for procurement relating to contract procedure rules, financial regulations and VFM issues.

<b>Non-Applicable Sections:</b>	Policy
Background Documents: (Access via Contact Officer)	None