

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 21 June 2017**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

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Chief Officer: Director of Finance

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.
- 3.31 Audit Activity
- 3.34 Publication of Internal Audit Reports
- 3.37 Auditor of the Year
- 3.40 Housing Benefit Update on Referrals
- 3.44 Training
- 3.46 Risk Management

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) **Approve the nomination for Auditor of the Year.**
- d) **Note the latest on cases referred to the DWP.**
- e) **Note the latest update on risks and actions taken to improve the risk register.**

Impact on Vulnerable Adults and Children

1. Summary of Impact:
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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: £520K including £178K 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: 2017-18 -800 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 findings in this report will have procurement implications.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100 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 has also been some movement in priority one recommendations brought forward that are detailed below.
- 3.3 The updates on previously recommended priority one recommendations are detailed below. NNDR (1 priority one recommendation made which has been implemented); Community Infrastructure Levy (CIL) (2 priority one recommendations made which have been implemented); St Paul's Cray CE Primary School (1 priority one recommendation made which is outstanding); Document Storage and Retention (2 priority one recommendations made of which 1 is outstanding); Waivers (2 priority one recommendations which are outstanding).
- 3.4 There has also been an audit report with new priority one recommendations that is expanded upon in Part 2 of this agenda. The implementation of recommendations in respect of Waste, Temporary Accommodation, Reablement Team, Leaving Care and Direct Payments are expanded in Part 2.

3.5 NNDR

- 3.6 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 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 and has been reviewed by audit and is satisfactory. The recommendation has been implemented.

3.7 Community Infrastructure Levy (CIL)

- 3.8 There were two priority one recommendations made in the original audit relating to identification of CIL liable cases and the need for spot checks.
- 3.9 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 in the past, which would have resulted in a loss of income to the Council and TfL. It was difficult to quantify numbers in previous years. The original audit finding was that there were 48 cases where liability should have been recorded. Follow up testing in May 2017 has found that this figure has reduced to 41 cases because 7 cases were refused or appealed and subsequently dismissed and other cases have been provided with a self-build exemption.
- 3.10 Of those 41 cases, 3 cases have been paid raising £8,126, one is waiting for a number of related appeals to be decided and 14 cases have had a Liability Notice issued. We would expect some of these 14 cases to apply for self-build exemption but currently the total amount liable is £79,655.
- 3.11 Taking into account the 18 cases above, this leaves a balance of 23 cases where liability was not identified and work had started. Having examined these 23 cases the CIL team believe that the applicants could have received a self-build, extension or charitable exemption, had the Authority identified these cases originally as being CIL liable and informed the applicant accordingly. These applicants are unable to claim an exemption now because they have started

(or finished) building work. The Chief Planner is concluding his discussion with TfL about this matter and a letter has been sent to TfL proposing that no further action is taken in these cases.

- 3.12 The Priority1 recommendation was for management to run a report from UNIFORM to identify planning applications made since 1 April 2015 where CIL liability had not been assessed and recorded. Management have evidenced that this was completed and in view of the action taken, we consider that this recommendation has been implemented.
- 3.13 The second recommendation related to spot check visits. These 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 second follow up testing of this recommendation found that the programme of periodic checks is in place. They are carried out at the beginning or end of the day, as part of the individual's journey to or from work, to make best use of available time. We found that the latest programme of 19 visits in March and April 2017 identified three properties where building work had started but the Council had not been notified. This has resulted in a total amount of £17,250.13 invoiced, including surcharges. Given the above, we consider that this recommendation has been implemented.
- 3.14 A Member of this Committee had also raised a query 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.
- 3.15 Management have informed Internal Audit that the majority of these cases were for householder extensions which have no clawback period. There were 11 cases where a Part 2 form had been received and the CIL team were certain that the new dwelling was complete and being occupied. Management have addressed this by independently verifying the current occupiers of those properties. The results show that all the applicants who claimed self-build relief are living in those properties. This check will be carried out on an annual basis by the CIL team in future.
- 3.16 Learning Disabilities**
- 3.17 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.
- 3.18 The report's findings were reported to the Care Services PDS in March 2017.

- 3.19 The Internal Audit follow up report for Learning Disabilities has been rescheduled to quarter 3 prior to the November 2017 meeting of this Committee. Limited testing has been carried out at this time to monitor the progress to implement the three priority 1 recommendations relating to assessments, care and support plans and service agreements.
- 3.20 Internal Audit tested the original sample of 15 clients with the Joint Team Manager Integrated Service to ensure that the reported findings had been remedied. A check on CareFirst identified that progress has been made in the majority of cases and the expected documentation was evidenced however, the core assessment was still outstanding for two cases, the core assessment had been completed for 2 cases but not ended or authorised and annual reviews were overdue for 4 cases. Given the findings for the original sample the recommendation relating to assessments will remain as outstanding.
- 3.21 It is acknowledged that there has been a high turnover of staff; weak practices have been resolved and higher standards of process, timeliness and authorisation have now been imposed. All staff have been reminded that once assessment forms have been started the document must be completed and authorised. Staff have also been reminded to use the correct templates in CareFirst; year-end collation of data from CareFirst has identified that reviews were being completed on the wrong templates or recorded as observations in CareFirst and therefore not included in data returns. Management are now using reports generated from CareFirst to identify incomplete assessments and to improve the timeliness of authorisations. The Joint Team Manager is recruiting two new care manager assistants specifically tasked with review work to ensure that the annual review target is met.
- 3.22 The recommendations relating to timely completion of care plans and authorisation and supporting documentation for service agreements will be need to be tested for a sample of new service users and this will be undertaken during the planned follow up review. Both recommendations are therefore open.
- 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. A second follow up of this recommendation has shown that since January 2017, back up information to invoices is provided by the contractor detailing the number of boxes held by each department to facilitate checking of invoices. The next contract monitoring meeting is due June 2017. We therefore consider this recommendation to be implemented.
- 3.26 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. The first follow up had shown that 11,753 boxes in storage at the time of the audit had increased to 12,306 in February 2017. The second follow of this recommendation has shown that 13,196 boxes were in storage in April 2017. Management advised that departmental Information Asset Officers have been contacted and provided with a spreadsheet by the Project Support Officer detailing all records held by individual departments that did not have a destruction date previously. The issue of a lack of indexing is also highlighted to departments as applicable. Procedures have also been sent to all applicable staff for reference as well as Amey

Ltd. Work is still ongoing to implement this recommendation and therefore it remains outstanding.

3.27 Primary School

3.28 An audit of St Paul's Cray CE Primary School resulted in one priority one finding in relation to cash income, specifically school dinner money. A follow up audit has shown that whilst some progress has been made to implement this recommendation there will need to be a further visit to ascertain full compliance of this recommendation and check on other matters identified that need clarification. A full report will be submitted to this Committee in November 2017.

3.29 Waivers Audit

3.30 This corporate audit was completed and resulted in two priority one findings relating to the need for a single corporate register of completed waiver information with the forms uniquely referenced to enable them to be easily identified and to give assurance that all have been captured, processed and authorised. The second recommendation referred to the introduction of an electronic waiver form with on-line authorisation at each stage of the process that 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. There is ongoing work to address these recommendations that will be followed up by Internal Audit and reported to this Committee in November 2017.

3.31 Audit Activity

3.32 Members of this Committee have been updated in May 2017 on our progress against the 2016/17 internal audit plan, completion of work brought forward from the 2015/16 plan and investigations. 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 4.3 out of 5 on finalised audit reports which is good.

3.33 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 has also been launched and is on the Learning Hub within the intranet.
- Liaison work with our external auditors where requested.
- Updating the risk register, working with Zurich and servicing the Corporate Risk Management Group.
- Involvement in proactive exercises that are reported in Part 2.
- Committee work.

- Internal Liaison with the 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.

3.34 Publication of Internal Audit Reports

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

3.36 Since the last cycle of this Committee we have published a further 10 redacted final reports (listed below) making a total of 176 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. One exemption is being sought for this cycle that is explained in part 2 of this agenda.

Audit Opinion

• Follow up audit of Downe Primary School	Not Applicable
• Review of Car Parking Income 2016-17	Substantial
• Review of Penalty Charge Notices (PCNs) 2016-17	Substantial
• Follow up audit of Bickley Primary School	Not Applicable
• Review of Local Election Expenses	Substantial
• Review of Troubled Families Claim Sept.2016-March 2017	Not Applicable
• Main Accounting & Revenue Budgetary Control 2016-17	Substantial
• Residential Placements & Central Placements Team 2016-17	Substantial
• Follow up audit of Riverside School	Not Applicable
• Follow of Document Retention & Storage	Not Applicable

3.37 Auditor of the Year

3.38 Members are asked to approve the nomination of Deepali Choudhary (DC) one of our Principal Auditors for an outstanding piece of work in carrying out an audit of the Waste Contract (our biggest contract with an annual value of £20 M) under difficult circumstances with no proper documentation available and limited responses to queries. The Internal Audit highlighted major control weaknesses resulting in 15 priority one recommendations and an awareness that the Authority was at high risk of incurring losses that had to be rectified. This all arose from a routine audit in one aspect of the waste contract but DC had concerns that this could apply to the whole of the contract and recommended a management investigation. She assisted with the investigation which was over and above her normal core audit work that did highlight the major control weaknesses. Her report has received widespread comment from Members of the Audit Sub Committee and others who were not aware of the problems before the onset of the audit. It could have wide ranging consequences on how contracts are managed and monitored going forward. Management have already put in motion a plan to implement the recommendations

that are elsewhere on this agenda and employed a consultant to assist with introducing new processes.

3.39 This was a good example on how an audit can identify major problems, alert management, stop losses and learn from audit findings.

3.40 Housing Benefit- Update on Referrals to the DWP -

3.41 The responsibility for investigating housing benefit fraud for Bromley was transferred to the Single Fraud Investigation Service (SFIS) team of the DWP on the 1st July 2015. Since July 2015 to 30th May 2017, 432 cases have been referred to SFIS. We have been advised that including housing benefit, there has been 1 prosecution on these referrals, with 9 cases awaiting decision by the Crown Prosecution Service (CPS) and a further 6 cases are at court and/or warrants issued. The DWP have advised that they have recommended 30 administrative penalties for authorisation by Bromley based on our referrals. The DWP have stated that since 1st July 2015 to the 30th May 2017 in respect of cases not referred by us, they completed including housing benefit, 6 prosecutions in respect of Bromley claimants, with 22 cases awaiting decision by the CPS and a further 7 cases are at court and/or warrants issued. The DWP have advised that they have recommended 31 administrative penalties for authorisation by Bromley. The figures for administrative penalties have to be confirmed by LB Bromley.

3.42 Given the absence of any agreement with the DWP for joint prosecutions it was agreed that 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 5 successful prosecutions with others pending including one recent case where an Anerley resident received a custodial sentence of 30 weeks for council tax support fraud over a nine year period.

3.43 At the last meeting of this Committee Members had agreed to write to the minister for the DWP to express concern at the lack of prosecutions by SFIS for housing benefit fraud either referred by Bromley or directly to the DWP. This has been delayed given the recent general election and ministerial appointments still to be made.

3.44 Training

3.45 We had reported at the previous meeting of this Committee that we had launched three training packages. Two were on line – Focus on Fraud and Risk Management with the third Audit Controls – on the Bromley Learning Hub which was a slide presentation of 16 slides lasting about 30 minutes explaining the purpose, type of recommendations made and key findings with examples designed to promote awareness of audit issues. We will report on take up at the next meeting of this Committee.

3.46 Risk Management

3.47 Members are referred to the Annual Audit report in this agenda that provides a summary of risk management arrangements for 2016/17 following the Ofsted inspection of Children's Services

3.48 At the last meeting of this Committee, Members were informed that we had 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 was 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 have completed a desk top review of the risk register and have made a number of observations that include for example:

- Some risks aren't clearly defined with descriptive triggers and consequences, which has the potential to negatively impact upon the quality of scoring and mitigating actions.
- A number of risks have significant differences between Gross and Net Risk scores. It is suggested that these are probed to assess the robustness of the scoring and assurance sought that the risks are being managed to the extent that they are captured in the risk register.
- The format and risk guidance within the CEX, ECS and ECHS risk registers are largely the same but variations exist – for example, there is no instant guide within the ECHS register and the guide within the ECS register is noted as 'currently being reviewed – do not use'. A consistent template for risk registers will assist understanding and embedding of risk management processes across departments.
- Certain corporate risks are appearing to be managed at local levels (Falling public confidence in Council' and Brexit within the ECS register, for example). It is likely that these are risks facing many council departments and an organisation wide approach to managing these risks may be more appropriate.
- There are a significant number of risks captured within the risk registers and Zurich would recommend some be consolidated. For example 206, 207, 209 and 409 on the ECS register all appear to relate to BCP and Emergency Planning. Having too many risks on a register often results in reducing the time available for effective and collaborative discussion around the key risk facing the department and can redirect resources away from where they should be focussed.

3.49 Zurich have also carried out a risk gap analysis and suggested some amendments to the current risk register.

3.50 Their findings are due to be discussed at the Corporate Risk Management Group and Zurich will be attending all the DMT's to discuss their findings and provide a challenge where necessary. The outcome of this exercise will be reported to this Committee in November 2017.

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

Some of the internal audit findings may have financial implications.

7. PERSONNEL IMPLICATIONS

None

8. LEGAL IMPLICATIONS

Internal Audit is a statutory function under the requirements of 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.

Non-Applicable Sections:	Policy; Personnel;
Background Documents: (Access via Contact Officer)	None