

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **6th December 2010**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

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Chief Officer: Paul Dale, Director of Resouces and Deputy Chief Executive

Ward: All

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 Outstanding Matters

- 3.2 Use of Cash Payments across the Council
- 3.14 Previous Priority One Recommendations
- 3.17 Progress and new issues since the last meeting
- 3.23 Value for Money (VfM)

3.26 Current Matters

- 3.27 New Priority One Recommendations
 - 3.44 Officer expenses
 - 3.47 Housing Benefit Update
 - 3.50 Publicity of Housing Benefit cases
 - 3.57 Housing Benefit - future proposals
 - 3.67 Partnership Working
 - 3.77 Risk Management
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2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the internal audit progress report.**
- b. **Note the breakdown for officer expenses.**

- c. Note the continuing achievements of the counter fraud benefit partnership with Greenwich Council. (para 3.42)**
- d. Members to consider proposals for publicising to claimants the successes in prosecuting benefit fraud cases.**
- e. Members to consider the future government proposals for the investigation of benefit fraud and make representations if appropriate.**
- f. Note the success of partnership working with LB Greenwich and consider referral as a model for future such arrangements.**

Corporate Policy

1. Policy Status: Existing policy.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: Recurring cost.
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: £587,520 excluding the benefit fraud partnership costs but subject to reduction.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 10 FTE
 2. If from existing staff resources, number of staff hours: 380 days per quarter
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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2006
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: None

3. COMMENTARY

3.1 Outstanding matters

3.2 Use of Cash Payments across the Council

3.3 Members requested a further update on the measures being taken to reduce cash usage across the Council by at least 50% over the next year. We had previously reported that petty cash expended across the Authority had reduced from £36K in August 2008 to an average of £27K in July 2010. This was partly due to the roll out of purchase cards which is still ongoing. Members had asked for further details of the purchase card roll out. This is expanded upon below. £317,200 related to CYP expenditure paid through the Area Offices. A substantial amount of the CYP expenditure related to Leaving Care clients

3.4 **Purchase cards-** The final report in September 2008 setting out the business case for introduction of purchase cards was based on the potential benefits, savings and efficiencies from its usage as opposed to the use of low value purchasing and petty cash. The report set out the optimum position for the use of purchase cards. The savings were summarised as follows:

The calculated savings (based on a conservative assessment) are £112.22K (was £120.72K) pa composed of £33.96K (was £36.46K) cashable and £76.27K (was £84.27K) pa non cashable. The main components of these savings are summarised in the following table.

| | Cashable | Non Cashable |
|----------------------|---|--|
| Low Value Purchasing | ~£31.5K (<u>was £34K</u>) | ~£69.53K (<u>was £75.5K</u>) |
| Savings Areas> | Invoice receipt & processing & payment processing | Requisition, approval, issue & goods receipt |
| Expenses/Petty Cash | ~£2.5K | ~£8.7K |
| Savings Areas> | Savings on cost of travel | Expenses/petty cash administration process savings |

The above savings have been calculated from analysing that there is ~£2M (10,000 transactions) of low value spend less than £500 per transaction. These are appropriate for Purchase Card application in that they attract a disproportionate level of processing overhead. In addition there is ~£150K pa of expenses/petty cash claims of which an estimated 50% could be applied to purchasing cards thus reducing administration costs.

3.5 Purchase Cards - to date 77 purchase cards have been issued with a further 28 to be rolled out. The total spend to date is about £133k covering over 2,300 transactions. There has been a steady increase in usage with October 2010 showing £16,919 being spent covering 250 transactions.

3.6 This information is extracted from a set of data reports provided from Accounts Payable, who administer the system and which are also copied to Procurement and Audit for information and overview. The increasing usage reflects a steady increase in activity consistent with the initial project expectation and in line with the management/systems

controls put in place, with card issue being subject to the receipt of a business case by the proposed users manager, its endorsement by the Head of Finance in each service area and agreement by the Head of Procurement, before any card is issued.

- 3.7** All staff receiving a card, together with their managers, are trained before any transactions are completed and access to the card and management system is only allowed after staff have signed a form confirming their understanding of their responsibilities in its use.
- 3.8** The Card Management System is a web based application run in parallel with the banks transaction system which records all activity on the card, automatically posting transactions (via e-mail) to the responsible line manager for review and agreement that the transaction and cost having been properly incurred. The system automatically generates an audit trail of activity which is available for management / audit review and analysis and to which Internal Audit have direct access.
- 3.9** Pre paid cards – we had previously reported that payments made to Leaving Care clients accounted for £252K or 60% of cash usage. Following a tendering exercise it was expected that 140 cards could be issued to reduce the need for up to 3,300 cash transactions. Following training, organising bank accounts, order cards etc which could take 6 to 8 weeks it was expected that 36 cards could be rolled out initially to clients.
- 3.10** Further work has been undertaken within the Leaving Care Team and it is now proposed that we also utilise the Pre-Paid Cards for all young people in receipt of regular payments made through either the BACs system or cheque payments. This would potentially speed up these payments and reduce errors.
- 3.11** This means issuing around 55 personalised cards in the first phase of implementation. Contract negotiations are ongoing and Bromley is considering entering into a pan London agreement being proposed by Citi Bank which could potentially reduce the cost to us.
- 3.12** Management are also considering introducing pooled Oyster cards that would cut down on petty cash claims for travel as well as saving on costs.
- 3.13** We have yet to assess the extent to which the use of pre paid cards and purchase cards will have on petty cash expenditure and the continued use and number of petty cash imprests. We had reported in the last cycle that petty cash expenditure had fallen from an average peak of £36k in August 2008 to an average of £27k in July 2010. With pre paid cards still to be rolled out, that will further reduce monthly cash expenditure, however, it is too early to estimate the % reduction. It is likely that despite the reduction in cash usage due to use of purchase and pre paid cards, Oyster cards there will still be a need for some imprest accounts.
- 3.14** **Previous priority one recommendations**
- 3.15** The latest list of outstanding priority one recommendations is shown in Appendix A. Since our last report to Audit Sub Committee there has been ongoing activity by management to implement these. Appendix A currently shows 14 priority ones. At the last cycle we had reported 10 of which 3 have been implemented – ACS Care Management (1) Secondary School FMSiS (2). Expanded on in Appendix A.
- 3.16** **Debtors** a member of this committee was e-mailed a list of the largest debts together with the status of them. There is a current audit review of debtors indicating that the over a year old debts had increased to £1,687,568 as at the 31st October 2010 from a previously reported total of £1,275,337 as at the 31st January 2010. According to

information received from management, there is an indication that about £357,000 of the large debts over a year old may be under dispute. Other factors that have led to an increase in debt are residential care where charges are being placed on properties to protect our interests and amounts that have yet to be written off. An analysis of the current top 15 debts plus current status is shown as Appendix I. These 15 debts total £818,435.53. We have also analysed the debt of up to the end of September 2010 to department level - see appendix J. £916K of these debts relate to ACS directorate and excludes domiciliary care debts.

3.17 Progress and new issues since the last meeting

3.18 For the period April 2010 to October 2010 we issued 102 reports against this year's plan to either draft or final stage. These include full systems and probity audits, schools and follow up audits. This equates to approximately 60% of the audit plan which is slightly above expectation for the 7 month period. The performance indicator for completion of the audit plan is 90%. There are 17 audits where there is work in progress at the time of writing this report. In addition, 16 audits were completed to final stage in respect of the 2009/10 plan. The fraud partnership with LB Greenwich has also produced three reports following investigations that have been reported upon previously in Part 2.

3.19 89% of the audits have been completed within the agreed budgeted time allowed against a performance indicator requirement of 90%. The feedback from clients has been very positive with an average score of 4.3 out of 5 against the target of 3.

3.20 A target that has been partially met is the two month elapse time between commencement of field work and issue of draft report. The performance indicator requires that 95% of the audits should be completed within two months of commencement of fieldwork whereas we have achieved 90%. This is an improvement on the 88% reported in the last cycle of this committee. As reported previously, there are a number of reasons for this including awaiting information from clients, extending the original scope where there are major findings e.g. emergency accommodation and rent accounts and auditors being asked to carry out ad hoc work including investigations. This improvement reflects measures taken by Internal Audit management including close monitoring of audits in conjunction with the auditors.

3.21 The planned schools audits have all been achieved to date. We are rolling out our assisted audits programme for the secondary schools apart from the Priory which is subject to an assessment against the Financial Management Standard in Schools (FMSiS). Assisted audits require schools and colleges to assist in the audit process under the management of Internal Audit thereby increasing the auditees' perception of the audit process as well as saving on audit time. Two secondary schools Kemnal Technology College and Darrick Wood School will not be part of this process but are to be subject to a closure audit as they are converting to Academy Status. We have completed our closure audit for Kemnal Technology College and reported our findings. We have highlighted the pensions fund deficit as an area that was still outstanding. We have continued to attend the academy operations group and have offered the two schools our services to carry out internal audits for a reasonable fee. This has not been taken up as yet. The government have recently announced abolition of FMSiS to be replaced a simplified process.

3.22 In addition we have carried out two investigations at primary schools that are reported on in part 2 of the agenda.

3.23 Value for Money (VfM)

The Improvement and Efficiency Sub-Committee received the VfM report referred by Audit Sub-Committee. The report was endorsed by the committee with an added comment that whilst Internal Audit should remain focussed on its core business it was well placed to carry out VfM using this methodology. The sub-committee also noted the role of the Organisational Improvement Team where lower scores were achieved.

3.24 The VfM study on Building Control is due to go to Development Committee on the 23rd November and Renewal and Recreation PDS on the 7th December 2010. The VfM study for Homecare will go to ACS PDS in January 2011

3.25 We have analysed audits left to complete for the rest of the financial year and identified audits where we will use the approved methodology. This includes areas such as parking income, waste, street services, youth service, fostering and adoption, SEN transport, early years etc that will be discussed with management at pre audit meeting.

3.26 Current Matters

3.27 New priority one recommendations

3.28 The table of new priority one recommendations is listed below:

| Report Number | Title | Dept | No of Priority One's |
|-----------------|--|------|----------------------|
| CYP/P42/01/2010 | FMSiS Assessment of a Primary School C | CYP | 1 |
| RD/096/01/2010 | IT Disaster Recovery | RD | 1 |
| CYP/Inv/2010 | Primary School A | CYP | 1 |
| CYP/Inv/2010 | Primary School B | CYP | 1 |
| CYP/Inv/2010 | Children's Centres | CYP | 2 |
| R&R/014/01/2010 | Building Maintenance | R&R | 1 |

3.29 FMSiS Assessment of Primary School C

3.30 The School had decided to change its payroll providers from a private firm that they had been using to the Authority's payroll provider, Liberata. It appeared that they had given adequate notice to the outgoing payroll provider but in the month of the transfer to Liberata i.e. June 2010, staff were paid by both the payroll providers. The outgoing payroll provider admitted the error that effectively resulted in an overpayment of £84,983 gross.

3.31 The school has to date recovered £66,584 including pension, tax and NI contributions, leaving an outstanding balance of £18,399 that they expect to recover by February 2011.

3.32 IT Disaster Recovery

3.33 The Internal Audit showed that there was no specific ICT Disaster Recovery Plan. Some aspects of disaster recovery are included within the Business Continuity Plan. A draft DR plan was produced but not adopted due to costing issues and also problems securing a disaster recovery contractor.

- 3.34** Recommendations from Operation Coldplay were that each service area's business continuity plan should incorporate disaster recovery arrangements and therefore the need to progress the corporate disaster recovery is vital. It was also found that although officers responsible for escalating problems up to disaster recovery are listed, the procedures for this to occur had not been produced. It was therefore recommended that a Disaster Recovery plan should be produced including staff responsibilities; contact details, hardware/software requirements, budget provisions, ordering, approval, monitoring. This document has been drafted and referred to Internal Audit for review and will be published on One Bromley by the end of December 2010. A further review will be undertaken when the new ICT contractor is appointed.
- 3.35 Primary Schools A and B**
- 3.36** There are two priority ones for the two schools that are covered in detail in part 2 of this agenda.
- 3.37 Children's Centres**
- 3.38** Two priority ones were made following an investigation that are expanded upon in part two of this agenda.
- 3.39 Building Maintenance**
- 3.40** Following correspondence between Internal Audit and the Senior Lawyer, it was confirmed that both the Performance Bond for £2.767m and Parent Company Guarantee (PCG) to be provided by the Contractor in respect of the Langley Park School for Boys - Building Schools for the Future contract (£27.7m), continue to remain outstanding even though the contractors are now on-site and payments made against the contract.
- 3.41** The announcement of the withdrawal in government funding for the 'Building Schools for the Future' initiative, clearly impacted in the need for expediency in completing the contract to secure the previously agreed funding of £35m.
- 3.42** Whilst management have accepted the recommendation it should be noted that it is not always possible to have an executed Bond or PCG in place prior to 'commencement of the works'. It has always been a requirement of the Invitation to Tender issued by the Property Division that Bonds for 10% of the construction value or a PCG are provided.
- 3.43** In this instance Management have confirmed that the Contractor has accepted that it should provide both a Bond and PCG but has been arguing about the wording thereof. The Council's Senior solicitor has addressed their points and is awaiting the executed document back from the holding company and surety.
- 3.44 Officer Expenses**
- 3.45** Members had wanted a breakdown of the amounts paid to officers in 2009/10 within each category e.g. mileage, essential car user allowances, car loans etc. Comparative figures are also given for a previous year in respect of department spends. These are shown in appendices E and F. These two appendices show the departmental breakdown and the other spreadsheet shows areas of high spend i.e. in excess of £4K with each department. For example, appendix E shows that £265,986 was paid to staff in ACS whereas appendix F shows £244,593 of this relates to the Care Services section. Similarly car loans show that £4,230 relates to CYP whereas appendix F shows that all of this relates to the Safeguarding and Social Care Section.

- 3.46** Comparison of amounts paid in 2009/10 to 2008/09 shows a decrease in certain categories such as business miles, mileage, lease miles, car loans, season ticket loans and subsistence code 3036.
- 3.47** **Housing Benefit Update**
- 3.48** Since the inception of the partnership in April 2002, through to October 2010, the Council has successfully prosecuted 259 claimants to date for benefit fraud; issued 225 court summonses; given 83 formal cautions; and administered 256 penalties. The full details and appendices on trends are shown in appendices B, C and D.
- 3.49** There are a few cases where the partnership is still in the process of recovering large fraudulent overpayments by confiscation of assets by use of Proceeds of Crime legislation.
- 3.50** **Publicity of successful Housing Benefit fraud cases**
- 3.51** The Chairman of this committee had asked about the feasibility of publicising our successes in prosecuting fraudsters and promoting an anti fraud culture with all benefit claimants.
- 3.52** All successfully prosecuted fraud cases are publicised by issue of a press release approved by the Chairman of this committee. The releases are normally e-mailed to the local press are also published on our website and the intranet. It has been noticed that unless the case is of interest e.g. the claimant gets a custodial sentence, the local press tend not to publicise the release thus leaving our website as the only avenue for publicity. The question raised is how best do we get our message across to current claimants that we successfully and vigorously prosecute fraudsters to protect public funds for the genuine cases.
- 3.53** There are two ways that we could approach this. The first is that we send out a message to all claimants stating our zero tolerance of fraud, our successes in identifying fraud e.g. publicising the fraud hotline, data matching, use of the fraud e-mail address, diligence of our assessing officers and working with other public authorities. We could also state the numbers that we have prosecuted to date; including publicising a case that was successfully prosecuted. The message could also stress the possibility of incurring a custodial sentence and that fraudulent claimants could end up with a criminal record.
- 3.54** The best way of taking this forward is sending out this message with the annual benefit letters that goes to all claimants in March 2011. Liberata have estimated that the additional cost of this based on current claimants would be £100 to insert with potentially £970 postage costs although it is difficult to predict if there are increased postage costs. The quote also assumes that Bromley will provide the A4 leaflet with the message.
- 3.55** The second approach would be sending out a similar message at the point of entry for new claimants. The issue here is to get the balance right to encourage claimants in genuine need to apply and at the same time discourage the potentially fraudulent claims.
- 3.56** In addition our whistle blowing advert publicising the confidential fraud hotline number will go out to all the council tax payers of the borough together with the 2011/12 council tax demands. This avenue has proved to be successful with 197 referrals from April 2009 to October 2010.

3.57 **Housing Benefit future proposals**

3.58 As part of the Comprehensive Spending Review, the government announced plans to overhaul the benefits and welfare system.

3.59 In a detailed report issued in October 2010 titled 'Tackling fraud and error' they have set out their proposals that will include a single integrated fraud investigation service.

Paragraph 15 of the report states that '

Where we cannot prevent fraud and error entering the welfare system, we must do all we can to identify and stop it as soon as possible. Under this element of the strategy we will drive efficiencies in our detection work through the **creation of a single, integrated fraud investigation service** which will investigate welfare fraud across DWP, HMRC and local authorities. As part of this initiative we will look to establish **dedicated units to focus resource and expertise on organised, tax credit and disability related fraud.**

3.60 The expected date for implementation is April 2013. The government have also published a white paper that will introduce a universal credit benefit that will include housing benefit. It appears that this will be phased in from April 2013 for new claimants and thereafter for existing claimants which will have a major impact on local authority administration of benefits.

3.61 It appears that council tax benefits will remain with the authority.

3.62 We are not certain at this stage if our fraud investigators at Greenwich will transfer over to the DWP or whether there will be a dedicated team within the integrated fraud investigation service that handles Bromley related benefit fraud.

3.63 The DWP will also be seeking to impose tougher penalties such as loss of benefits for a period of 4 weeks, for criminal intent to 3 months for a first conviction, 6 months for a second conviction to 3 years for a third conviction. There are also plans to make representations to the Sentencing Council for changing the guidelines to magistrates and judges to impose tougher sentences.

3.64 The heads of fraud/ heads of audit in the London Boroughs have expressed concern at the lack of consultation on these proposals. There was lack of awareness about the above mentioned report until it was published.

3.65 A particular concern for the boroughs and certainly the Bromley partnership has been the performance of the DWP in progressing joint cases compared to those that are prosecuted by our solicitors. We attach two appendices G and H that show major problems that we have encountered with the DWP. Appendix G shows that cases referred to the DWP can take over a year to first court appearance whereas those referred to our solicitors take a month or less. Appendix H also details a catalogue of problems for joint cases.

3.66 Our partnership agreement runs to March 2014. In the event that the service does transfer to the DWP in April 2013 we can terminate the agreement as at that date.

3.67 **Partnership Working**

3.68 We had reported previously our intention to work closely with the London Borough of Greenwich. With an expected 25% cut in the audit budget we have sought to minimise the effect on staffing resources by exploring partnership working with the London Borough of Greenwich. We are still in the process of formalising an

agreement but it is likely that we will be required to complete a number of audits in the year 2011/12 equating approximately to 300 days that will generate substantial income to this authority. We have already been requested to carry out 4 audits in this financial year by LB Greenwich which will have some impact on our plan but will generate income. Our plan for 2011/12 will be adjusted to take into account the partnership working. This may result in low and medium risk audit coverage in Bromley being either deferred or some covered through controlled self assessment. Our meetings with Greenwich have been positive with an acknowledgement that we can use our reporting format, documentation, Cipfa control matrices and online working papers to carry out Greenwich audits. Members will be updated on our progress.

- 3.69** **Fraud Partnership working update** - historically this partnership was formed in 2002 following a failing in house team that had been severely criticised by the then Benefit Fraud Inspectorate (BFI). The team had failed to carry out any successful prosecutions, was costing £193,600 at the point of its disbanding and did not represent value for money.
- 3.70** Since we entered into a partnership with the London Borough of Greenwich we have successfully prosecuted 259 people for fraud a few of which have received custodial sentences, issued 83 formal cautions and given 256 administration penalties. The partnership generated £782,000 in SAFE (Security Against Error and Fraud) money until this was withdrawn in March 2006. Since the inception of the partnership in April 2002 it is estimated that over £1million income has been generated in SAFE sanction reward monies, administrative penalties, legal costs awarded and administrative subsidies.
- 3.71** Overpayments have been identified by the partnership since its inception. For example in 2009/10 the partnership identified £804,125 in overpayments of which £285,784 has been recovered in the year. Fraudulent overpayments also attract a 40% rebate.
- 3.72** We have had two previous cases where about £70,000 was recovered from convicted fraudsters and there are a few other cases where we are trying to recover assets through confiscation proceedings.
- 3.73** In February 2010 we varied the benefit fraud partnership to include general fraud at no cost to the authority. Three investigations have been carried out by the fraud investigators that have resulted in a successful dismissal and prosecution of an employee and in another instance an arrest of a member of the public.
- 3.74** Inspections have rated counter fraud as being excellent. The partnership was deemed to be performing well in relation to sanctions achieved the last known researching exercise against other London authorities in 2009/10.
- 3.75** The partnership has undoubtedly been a success and represents good value for money. An important and critical element to the success has been a good working relationship that has been fostered with regular meetings to resolve any issues and the overriding joint objective to combat fraud in Bromley.
- 3.76** Another recent example of two Boroughs joining together to create efficiencies is the joint IT contract where the London Boroughs of Bromley and Lewisham have established one IT Services Provider to manage and provide the specified IT services covering, the support and maintenance of desktop, server, hardware and software environments, supporting all of the approved ICT applications. The provider would

also be required to manage and provide network services covering, the support and maintenance of the Council's networks, telephony and associated hardware. This has resulted in savings of 25% of current contract price, double what we would have achieved on our own.

3.77 Risk Management

3.78 Since the last update to this committee on current net risks there have not been any significant changes and therefore there is no update for this committee. We will provide an update for the next meeting in March 2011. The best practice note previously reported to this Committee, developed by the in house risk manager, has been widely shared as a model of keeping it simple with some clear guidance for managing risk.

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

None.

7. PERSONNEL IMPLICATIONS

None.

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|---|---|
| Non-Applicable Sections: | [List non-applicable sections here] |
| Background Documents: (Access via Contact Officer) | http://www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf |