

PART 1 - PUBLIC

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Decision Maker: **Audit Sub Committee**

Date: **7th June 2011**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

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Chief Officer: Doug Patterson, 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 Previous Priority One Recommendations

3.4 Debtors

3.12 Value for Money (VfM)

3.14 Current Matters

3.15 New Priority One Recommendations

3.20 Housing Benefit Update

3.27 Terms of Reference

3.38 Head of Audit role

3.40 Risk Management

2. **RECOMMENDATION(S)**

- a. **Note the report and comment upon matters arising from the internal audit progress report.**
- b. **Note the continuing achievements of the counter fraud benefit partnership with Greenwich Council. (para 3.17)**
- c. **Members to note and agree the proposed change of the terms of reference for the sub committee in line with previous recommendations (para 3.24)**

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: £616,250.
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 10 FTE(excluding Greenwich Fraud Partnership)
 2. If from existing staff resources, number of staff hours: 302 days per quarter
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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2011
 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 Previous priority one recommendations

3.3 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 the original priority one recommendations made with an update where applicable.

3.4 Debtors.

3.5 At the last meeting of this committee members had noted the amount of long term ACS debts totalled £916K out of a total of £1.57million. As a result they requested that this matter should be reported to ACS PDS Committee including a breakdown of the general category and recommendations on how to reduce the level of long term debt. Liberata have introduced a new system to analyse debts. Unfortunately, this matter has not yet been considered by the PDS Committee but will be on a future agenda.

3.6 Audit Activity and Performance

3.7 For the year ended 31st March 2011 we issued 166 reports against the plan to either draft or final stage. These include full systems and probity audits, schools and follow up audits. This equates to delivery of approximately 89% of the audit plan against the target of 90%.

3.8 88% of the audits have been completed within the agreed budgeted time allowed against a performance indicator requirement of 90% and the feedback from clients has been very positive with an average score of 4.3 out of 5 against the target of 3.

3.9 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 only 85%. Ongoing reasons for this including awaiting information from clients, extending the original scope where there are major findings and auditors being asked to carry out ad hoc work including investigations, staff vacancy, sick leave and work currently being undertaken for LB Greenwich.

3.10 The planned schools audits have all been achieved to date. There are a number of secondary schools that are due to become Academies in 2011/12 and will therefore be subject to closure audits. With the abolition of the FMSiS external assessment requirement we have reverted to carrying out the normal auditing for the primary schools for 2010/11 and 2011/12. The schools annual report is on the agenda for this meeting.

3.11 The financial regulations and financial procedures have been redrafted by Internal Audit to clarify, where applicable, the changes in management structures following the retirement of the former Director of Resources and recently reflected in the scheme of delegation presented at full Council last month. This is about making the distinction between the Section 151 officer role, vested with the Finance Director and the Monitoring Officer and follows the amalgamation of central departments under a new Director of Resources.

3.12 Value for Money (VfM)

3.13 Members of this committee had previously agreed a simple methodology for Internal Audit to use in assessing the value for money arrangements for designated areas covered in the audit plan. The emphasis was that although Internal Audit should remain focussed on its core business it was well placed to carry out VfM using the methodology. The Sub-Committee also noted the role of the Organisational Improvement Team where lower scores of 1 or 2 were achieved. Following concerns expressed over the implementation and reporting of this approach to value for money the scoring matrix for reviewing VfM risks and controls has been slightly modified to include customer complaints under 'Customer Satisfaction' and internal and external reviews under 'Assessment of Service'. The resulting matrix has been fully discussed with management and the pertinent audit reviews in 2011/12 that can use this approach are being taken forward as part of the annual programme of work. One matter that has been raised by management is the potential gap in adequate benchmarking information following the cancellation of the national indicator set and the upcoming demise of the audit commission. The audit team along with the organisational improvement team will be looking to provide help and advise on how best business areas can look to compare their performance with others using information and research that is made available.

3.14 Current Matters

3.15 New priority one recommendations

3.16 Out of Hours Site Security

3.17 There was one new priority one recommendation in the finalised reports since the last cycle. Testing of a sample of people who have been issued an access card could not confirm that only current Bromley employees or selected Contractor's staff have an active access card. The sample of 25 access cards revealed a number of mismatches including people who were not on a list of current Bromley employees and it was hard to ascertain if some persons were current or previous employee. Three cards were found to still be active despite the employee having left the authority. In response to the audit findings managers have been reminded of their responsibility to complete workforce removal requests as expected for leavers. In addition, in liaison with Information Systems, reports will be run from the system to identify potential people who should be removed from the system. Management will be consulted as to whether to remove the people identified. Additionally, comments have been received stating that since the audit a continual cleansing exercise has been undertaken to highlight cards where there has been no use and a reminder to Managers to alert their Systems Administrators when staff leave has been put in train.

3.18 Children Centres

3.19 Eight priority ones were made following an investigation that are expanded upon in part two of this agenda

3.20 Housing Benefit Update

3.21 Since the inception of the partnership in April 2002, through to March 2011, the Council has successfully prosecuted 269 claimants to date for benefit fraud; issued 245 court summonses; given 86 formal cautions; and administered 263 penalties. The full details and appendices on trends are shown in Appendices B, C and D.

3.22 There are a few ongoing cases where the partnership is still in the process of recovering large fraudulent overpayments by confiscation of assets using the Proceeds of Crime legislation.

3.23 Housing Benefit Future Proposals

3.24 At previous meetings of this committee we had reported our concerns on central government proposals to set up a single integrated fraud investigation service under the control of the DWP with effect from April 2013. Consultation is still ongoing but it appears that this proposal will go ahead. Following the last meeting the Chairman has written to the minister strongly outlining our concerns and has now received a reply. The Chairman's letter referred to long delays and inaction for cases requiring prosecution on the part of the DWP compared with those cases dealt directly by the Greenwich fraud partnership. Whilst appreciating the reply and the fact that Local Authorities would be included in the consultations regarding the set up of the new integrated service the fear remains that the local knowledge and faster reaction of dealing with fraud currently being delivered by the Greenwich Fraud partnership will be put in jeopardy. (the future proposals are attached as a background paper)

3.25 Partnership Working

3.26 We had reported previously our intention to work closely with the London Borough of Greenwich. The agreement now drawn up requires Internal Audit Bromley to carry out a number of audits on behalf of the Internal Audit and Anti Fraud Team of the London Borough of Greenwich that equates to 250 days minimally. This should help generate income to offset, in part, the savings target of 25% set for the division.

3.27 Audit Sub Committee Terms of Reference and New Government proposals

3.28 Although Members of the Audit Sub had received a presentation on the roles of Internal and External audit as well as the standard terms of reference proposed by CIPFA in the past these were never formally adopted at the time the list included the following items.

- Approve (but not direct) internal audit's strategy, plan and performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Consider the reports of external audit and inspection agencies.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements.
- Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

3.29 Given that the current committee effectively discharges these functions it seems appropriate to revise the current terms of reference contained in the constitution.

3.30 The current terms of reference state the Audit Sub-Committee (Membership proportional - may include one Member of the Executive from each recognised party group, subject to Executive Members not being in a majority) covering:-

- (a) Financial Regulations
- (b) Fraud prevention

- (c) Internal and external audit
- (d) Scrutiny of selected invoices.

3.31 The government is currently consulting on a paper which would mean the terms of reference and the composition of the Audit Sub Committee may need to be revised so the suggested bullet pointed list above is an interim list until such time as the future of public audit in respect of external audit appointments is clarified.

3.32 Structure of Audit Committees

3.33 The Government envisages that in the new system, an Audit Committee could be structured in the following way:

3.34 The Chair should be independent of the local public body. The Vice-Chair would also be independent, to allow for the possible absence of the chair. The elected members on the Audit Committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible). There would be a majority of members of the committee who were independent of the local public body.

3.35 Independent members of the committee

3.36 When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

3.37 Although the proposals are out for consultation until the end of June 2011 it is likely that there will be some changes made eventually. The government is looking for feedback and the full consultation is attached as part of the background papers.

3.38 Head of Internal Audit in public service statement from CIPFA

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. CIPFA recommends that organisations should report publically on compliance to demonstrate their commitment to good practice. The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:

- championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks,
- commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit:

- must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- must lead and direct an internal audit service that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

3.39 Compliance with this statement will be reviewed as part of the peer review of Audit practices being undertaken in conjunction with another Authority. The main elements of the role are adequately covered at Bromley.

3.40 Risk Management

3.41 Risk Register

We attach a schedule of the current net high risks (Appendix E). Given the ongoing need for service reduction planning a number of the risks will require closer monitoring and updating with new risks emerging.

The full risk register can be accessed via the Managers' Toolkit on onebromley. See following link to the Risk Management and Insurance site:

<http://onebromley/HDoI/ManKit/wikisite/Wiki%20Pages/Risk%20Management%20and%20Insurance.aspx>

Currently there are 175 risks of which 22 are high (13%), 89 are medium (51%) and 64 are low (36%).

We use a 5x5 matrix to assess risks and measure both the gross risk (before any controls are taken into account) and the net or residual risk.

4. POLICY IMPLICATIONS

4.1 None.

5. FINANCIAL IMPLICATIONS

5.1 Some of the findings identified in the audit reports mentioned above will have financial implications.

6. LEGAL IMPLICATIONS

6.1 None.

7. PERSONNEL IMPLICATIONS

7.1 None.

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 http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf