

PART 1 - PUBLIC

Decision Maker: **Audit Sub Committee**

Date: **22nd September 2011**

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

Title: **INTERNAL AUDIT PROGRESS REPORT**

Contact Officer: Mark Gibson, Chief Internal Auditor
Tel: 020 8313 4295 E-mail: mark.gibson@bromley.gov.uk

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 Previous Priority One Recommendations
 - 3.8 Audit Activity and Performance
 - 3.19 Value for Money update (VfM)
 - 3.24 Current Matters relating to Schools and Academies
 - 3.32 Contract Waivers and Exemptions
 - 3.35 Housing Benefit Update
 - 3.41 Audit Committees Update
 - 3.44 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 continuing achievements of the counter fraud benefit partnership with Greenwich Council. (paragraph 3.36) In particular the commendation received from the police in a particular case and note the contribution made by the investigator.(paragraph 3.36)**
- c. **Members to note and agree the proposed change of the terms of reference for the Sub Committee (paragraph 3.41)**

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 Priority One recommendations

3.2 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 recommendation made with an update where applicable.

3.3 Update relating to the Direct Payment recommendation :

3.4 The finance team have increased the resources allocated to direct payments to improve monitoring. Clients are requested to submit supporting documentation quarterly for monitoring and issues and returns are now logged on a control spreadsheet. Monitoring officers in finance have set deadlines to follow up returns and after a reminder letter cases are referred to the appropriate Group Manager. Internal audit are aware that for the monitoring period July to September 2010 was followed up by finance in March 2011 when they referred 68 clients to Care Managers. Of that total 17 did not appear on the monitoring list for the period October to December 2010. 13 had provided monitoring information, 3 had died and 1 was omitted in error. Internal audit are continuing to investigate the other cases with assistance from ACS Management.

3.5 Internal audit have a review of Personal budgets in the internal audit plan which will include direct payments as the method of allocation. Since the priority 1 recommendation was made CIPFA have provided guidance to audit that places more emphasis on monitoring outcomes than focussing heavily on financial returns. This approach will be discussed with Management prior to the review to ensure that where changes have been made risk assessments have been carried out and there are adequate controls in place to protect the Authority's funds and ensure that clients are obtaining the support that has been agreed.

3.6 **Primary school overpayment**-One primary school had collected all but £1,495 of salary overpayments when changing over payroll provider; this will be followed up as part of our regular procedure for carrying out follow up reviews in quarter 3. Therefore we have removed this recommendation from the priority one listing as it has been substantially implemented.

3.7 **New priority ones**-This quarter two priority one recommendations have been made in the finalised reports one was following a proactive exercise that is expanded upon in part two of this agenda. The other involved a review of Malware protection for the Authority's IT Systems. The review looked at key risks including:

- Any Corporate Risks relating to Virus protection.
- Whether Anti virus software is inadequate to prevent viruses.
- Firewall software is inadequate to prevent viruses and hackers.
- Unsecure sites maybe accessed increasing the risk of receiving a virus/spyware etc.
- Staff are not sufficiently made aware of the risks of viruses and spyware and how to prevent against them.
- Files containing viruses are allowed into the network

The priority one related to the fact that evidence requested relating to the monitoring of the contract and procedure documents were not provided and thus assurance could not be given that key activities as per the Service Level agreement (SLA) were being

undertaken. This matter is now being followed up with the Contractor and will be followed up by Audit.

3.8 Audit Activity and Performance

3.9 For the quarter ended 31st July 2011 we issued 64 reports against the plan to either draft or final stage. These include full systems and probity audits, schools and follow up audits and carried forward audits. This leaves us behind our planned output due to the level of unplanned work.

3.10 91% 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.

3.11 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 we have achieved 80%. Given the recurring non achievement of this target further attempts will be required to reemphasise the importance of completing audits for effective management action to be taken in a timely manner where applicable. This may involve the redesign of the fieldwork and associated consultation process.

3.12 The planned schools audits have all been undertaken in the quarter but due to resource constraints and the level of unplanned work we have decided to halt the current schools audits for this year only and concentrate solely on the closedown audits for the new Academies.

Benchmarking

3.13 Using the information supplied by a selection of 14 London Boroughs a benchmarking exercise took place earlier this year. The results highlighted a number of comparators. The Bromley Internal audit section results were generally favourable as per the table below demonstrates with a relative small cost of audit per day in the lower quartile and a total cost per auditor also in the lower quartile.

2011/12

	Bromley	Average	Lower Quartile	Median	Upper Quartile
Cost/auditor £'k					
Pay	£41.0	£53.2	£46.3	£49.0	£55.0
Overheads	£16.9	£17.5	£11.9	£16.6	£24.5
Total	£57.9	£68.6	£58.1	£70.8	£74.4
Days per Auditor	183	187	184	188	191
Cost per Day (Net to LA)	£312	£374	£317	£371	£410
Days per £'m	2.14	2.09	1.46	2.10	2.61
Cost per £'m	£666	£755	£543	£789	£924

- 3.14** Although this exercise has proved useful and has provided management with a range of detailed comparisons on mix of work, costs, staffing structures and audit coverage etc with the opportunity to further probe behind the figures with other audit colleagues across London there are the normal caveats that apply to comparisons where not all authorities are treating the different inputs consistently and the different levels of risks associated with each authority and audit need is not factored in.
- 3.15** **Future Internal Audit Services-** Members should note that the Chief Internal Auditor and the Chief Executive are currently looking at the future internal audit provision given the requirement for further savings and the existing cuts already built into the forward budget proposals. It is inevitable that this level of savings will involve a significant reduction in the audit coverage and the ability to undertake the level of existing audit work and servicing the committee in the same fashion will need to be reviewed as the focus will be on the high risk areas only. Although there is no agreed minimum audit coverage the Section 151 officer has a statutory responsibility to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control and this will be considered when drawing up future audit plans.
- 3.16** **Audit activity since in 2011/12**
- 3.17** A summary of the work undertaken to date is shown in Appendix B. Within the final reports issued against this year's plan there has been 10 substantial assurances with 2 limited assurances. The rest of the reports are either at draft stage or work in progress.
- 3.18** **Value for Money (VfM)**
- 3.19** 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 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.
- 3.20** Land Charges
- 3.21** We have recently completed an audit of this area including a review of VfM arrangements and concluded that this scored an overall 3 i.e. substantially met. This is based on the following:
- Benchmarking a rating of 3. The service is benchmarked; benchmarking figures are substantiated; benchmarking shows good performance; areas of good practice in other Authorities have been adopted.
 - Customer surveys a rating of 3 based on good customer satisfaction returns.
 - External assessments are unrated as the service has not been subject to any in recent times.
 - Budget rated as 2. There are some concerns in relation to the current budget being realistic and the services capability of operating within budget going forward. The service is recommended to revisit the budget and ensure that it is still realistic in light of the recent changes in relation to personal searches fees which the Authority is no longer allowed to charge for.

3.22 Future VFM scheduled for this year are as follows:

Dept	Audit	Responsible Officer
RD/CCC	Customer Contact Centre Audit	Head of Customer Service
RD/LDS	Legal Costs	Assistant Director, Legal & Support Services
ACS/HOU	Housing register	AD Housing and Residential Services
ACS/ALL	Residential care placements	AD Care Services
ACS/CRS	Personal budgets	AD Care Services
CYP/R&R	Children's placements	AD Safeguarding & Social Care
CYP/R&A	Safeguarding	AD Safeguarding & Social Care
ENV/WAS	Waste and recycling	AD Customer & Support Services
ENV/SAG	Street cleaning	AD Streetscene & Greenspace
ENV/PKS	Parks and Greenspace	AD Streetscene & Greenspace
ENV/TDG	CCTV	AD Public Protection
R&R/PTY	Property maintenance	AD Property
R&R/LIB	Libraries	AD Culture, Libraries & Leisure

3.23 **Current Matters relating to Schools and Academies**

3.24 **School Financial Standard Developments** The Schools Financial Value Standard (SFVS) has been introduced to replace the Financial Management Standard in Schools (FMSiS). Maintained schools will be required to conduct an assessment against SFVS once a year. All schools should have completed their first self-assessment by 31 March 2013. SFVS is not externally assessed like FMSiS. It is designed in the first place to engage governing bodies through a much simpler set of questions and supporting material. Then it is expected to feed into the regular internal audit processes of local authorities. With effect from the financial year 2011-12 SFVS will be included in the outturn statement in regard to DSG (Dedicated Schools Grant) which is signed by Chief Finance Officers (CFOs). For 2011/12 only, CFOs will be expected to make a supplementary statement about SFVS returns from those schools that had never attained FMSiS – this does not apply to Bromley as all schools attained FMSiS. CFOs will be expected to say each year how many SFVS reports from schools they have received for self-assessments carried out before 31 March, and give an assurance that they are taking the contents of these reports into account in planning their future programme of audit.

3.25 Internal audit has actively participated in marketing sold services to Academies via the Academies brochure produced by the CYP commissioning team. Internal audit provide a Responsible Officer service which involves a member of the audit team carrying out sample testing on payroll, purchases, income and the accounting system. These tests are carried out four times during the year and a report is provided to the Chair of Governors and the Head of the Academy. We currently provide this service to four Academies, Ravens Wood, Langley Park Boys, Biggin Hill and Valley. Others have expressed an interest and we are awaiting confirmation. Our current charge is £290 a day and we budget for 6 days which equates to £1,740 for each Academy.

- 3.26** At the Audit Sub-Committee meeting on 7 June 2011, Members considered the Annual Schools' Internal Audit Report. This report summarised the work carried out for the period April 2010 to March 2011.
- 3.27** The Appendices to the report identified a large number of Priority Two findings detailed under the category of 'Primary Accounting Documents'. Audit Sub-Committee requested a full report be provided to the Children and Young People Portfolio Holder giving further details of these findings, this will be submitted to the meeting on 6 September 2011.
- 3.28** The report informs that audit findings are categorised into 3 priority levels defined as follows:
- Priority 1-Required to address major weaknesses and should be implemented as soon as possible.
 - Priority 2-Required to address issues which do not represent good practice.
 - Priority 3-Identification of suggested areas for improvement.
- 3.29** Audit findings fall into the following categories:
- Primary accounting documents – this includes issues such as payments, use of cheques, petty cash, value for money, voluntary funds, bank reconciliations and school meals.
 - Financial management information – this includes issues such as budget setting and budget monitoring and returns to LBB.
 - Governance arrangements – this includes issues such as financial delegation, declaration of pecuniary interest and governors' minutes.
 - Asset control – this includes issues relating to recording of assets, purchases and disposal of assets.
- 3.30** The majority of findings in primary schools fall under the category of Primary Accounting Documents. Listed below are some examples of the actual findings that fall into this category:
- The school does not record brought forward figures for school meals so school meal income could not be properly reconciled.
 - Comparative quotes for an invoice for over £7,000. Comparative quotes were not available at the time of the audit.
 - In a sample of 20 payments sampled, 13 did not have orders raised on the school's financial system where one would have been expected.
 - The school only uses manual cheques rather than printed cheques or BACS payments.
 - No cash flow analysis has been undertaken in the current financial year.

- The document for Financial Delegation did not include details of the agreed levels of delegation to the Head Teacher from the governors or of virement limits and authority relating to virements.

3.31 Waivers

3.32 We are now submitting our the list of waivers across the Authority since the last report in March 2011. See appendices C and D. 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. The contract procedures require that these are reported on a bi-annual basis to Audit Sub Committee. The main provision relating to this is as follows;

3.33 There were no waivers sought in Renewal and Recreation and one sought within Environment according to records kept by these directorates in the period from March 2011 to August 2011.

A decision to negotiate with one or more candidates on any arrangements required within the Procurement process shall not be made except in compliance with the following and any Public Procurement Regulations (see also Rule 3). Note - For the purpose of this Rule the establishment of a Service Level Agreement is treated as being a negotiated arrangement;

Estimated Cost(or Value)	Authorisation Requirement
£5,000 - £50,000	Chief Officer Agreement
£50,000 - up to £100,000	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources with a report of the use made of this exemption being made to Audit Sub committee on a bi-annual basis.
£100,000 – up to £1,000,000	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources and following Approval of the relevant Portfolio Holder, with a report of the use made of this exemption being made to Audit Sub committee on a bi-annual basis.
£1,000,000 and above	Chief Officer in agreement with Director of Legal, Democratic and Customer Services and Director of Resources and the approval of the Executive or the Council as appropriate.

3.34 Housing Benefit Update

3.35 Since the inception of the partnership in April 2002, through to July 2011, the Council has successfully prosecuted 276 claimants to date for benefit fraud; issued 249 court summonses; given 89 formal cautions; and administered 287 penalties. The full details and appendices on trends are shown in Appendices E, F and G.

3.36 One case in particular which began in 2008 has resulted in recovering large fraudulent overpayments by confiscation of assets using the Proceeds of Crime legislation. This has been reported in the local press see Appendix H. As a result of proceedings to recover the fraudulent overpayments we have been successful in obtaining a court order for £85K to be paid back by the fraudster to Bromley Council. In respect of this

case we have also received a letter from the Metropolitan Police congratulating the Greenwich Internal Audit and Anti Fraud officer concerned for his efforts in ensuring the success of the investigation and prosecution. The Police have stated 'these matters were rather complicated and without Mr S J I think the case would have failed. He was no doubt the hub around the whole investigation revolved and the person that the prosecution relied on most heavily for evidence and expert knowledge in his field'. If members are in agreement we should also acknowledge the officer's efforts in achieving this recovered amount.

In another recent case the Greenwich Internal Audit and Anti Fraud Team have succeeded in obtaining a confiscation order for £29,491 with a further £10,000 award of costs in respect of a fraudster convicted in September 2010. This amount has to be paid to LB Bromley by early March 2012 failing which the fraudster will be imprisoned for 14 months.

3.37 The proposal towards a single integrated fraud service for housing benefits under the control of the DWP is still scheduled for April 2013. If it goes ahead it will impact on our fraud partnership agreement with the London Borough of Greenwich.

3.38 Partnership Working

3.39 We had reported previously our intention to provide some audit services to the London Borough of Greenwich that has been formally agreed. Greenwich have requested 265 days of audits for 2011/12 and this is ongoing with 5 audits due or currently in progress. This will help generate income to offset, in part, the savings target of 25% set for the division.

3.40 Audit Sub Committee Terms of Reference and New Government proposals

3.41 Following consultation with the Chairman and Vice Chairman a revised terms of reference has been drawn up for approval.

- Monitor 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 Annual Governance Statement, 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

3.42 As an update to the consultation paper on the future of public audit Bromley submitted the response by the deadline. Since this date the CLG Select Committee report published on 7 July 2011 which makes the following recommendation: 'Audit committees must be chaired by independent persons of proven competence, and should have a

majority of independent members. These requirements (including the avoidance of conflicts of interests for independent members) should be defined in law. Chairing of audit committees will be a significant responsibility and should be remunerated, and allowances should be payable to other independent members. The law should require full transparency for audit committee proceedings’.

3.43 Risk Management

3.44 The Annual Governance Statement (AGS) has now been signed off by the Chief Executive and the Leader and an action plan drawn up (Appendix I). This will be monitored by the Risk Management Group and updated as necessary.

3.45 The AGS action plan makes reference to the Localism Bill which is currently at the Report Stage in the House of Lords and is expected to receive Royal Assent by the end of the year. The Bill represents one of the most significant pieces of legislation for local government for some time. It will devolve greater powers to councils and neighbourhoods and give local communities more control over housing and planning decisions.

The following link from the Department for Communities and Local Government provides a summary of the latest proposals:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1923416.pdf>

As part of its work on ‘horizon scanning’ the Risk Management Group has produced a schedule detailing the main proposals and is currently populating this with potential risks and actions arising from this.

3.46 At the previous meeting the Committee suggested that a financial value should be put against all the net high risks on the risk register where possible. Currently the financial element is already considered as part of the risk assessment process (Appendix G). However, as the impact guidance is not strictly read across the financial element may not necessarily correspond to the impact score. For example a risk may score under several headings but we only use the highest individual score e.g. risk A scores 4 under service provision and 3 under financial so we use the higher service provision score.

The Risk Management Group is currently considering suitable scenarios for the net high risks so that we can allocate a financial value e.g. Operational emergencies due to severe weather risk – what extra costs were incurred last winter?

In some cases e.g. Failure to handle crisis communications in a major incident correctly, any financial impact is likely to be minimal with the risk of failure mainly reputational.

The Risk Management Group will provide a full report for the December meeting.

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)	