

<u>MEETING</u> AUDIT COMMITTEE
<u>DATE AND TIME</u> THURSDAY 19TH APRIL, 2018 AT 7.00 PM
<u>VENUE</u> HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

Dear Councillors,

Please find enclosed public questions and responses for the above meeting for your information.

Item No	Title of Report	Pages
1.	PUBLIC QUESTION AND COMMENTS (IF ANY)	3 - 10

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AUDIT COMMITTEE

Thursday 19 April 2018

ITEM 5 – PUBLIC QUESTIONS AND COMMENTS

Qn No	Agenda Item No	Raised By	Question Raised	Answer
1.	Item 7: Internal Audit Exception Recommendations and Q4 Progress Report	Mr John Dix	At 1.3.1 the numbers do not seem to add up. Should it read 49 high priority actions (not 45)?	Yes – it should read 49.
2.	Item 7	Ms Thresa Musgrove	<p>Highways: ad hoc inspections – Control Design Re will establish prioritisation criteria to be applied by the Customer Hub team to systematically assess the severity of a reported defect and to enable enquiries to be prioritised accordingly. These criteria will be shared and agreed with the Council.</p> <p>My question to the Chair and External Auditors: is the absence of a robust and objective system of 'prioritisation criteria' for ad hoc inspection, the reason why, over the last four years, more than £4.5 million pounds of Highways Expenditure has been spent on Childs Hill ward? Please clarify, as this amount is twice the level of the next highest expenditure, at a time when the roads in so many parts of the Borough are in such a defective condition, and some wards have had a fraction of the level spent on their roads and pavements.</p>	The Council has now agreed a “prioritisation criteria” for ad hoc inspections whereby the Service Hub ask callers specific questions to ascertain the severity of the defect and categorise the repair. In addition, the Council undertakes an independent yearly inspection of the condition of all carriageway and footway in the borough which is then used to develop the yearly carriageway and footway planned maintenance work programme. A preliminary work programme is agreed by the Environment Committee at the beginning of the year. This programme is then discussed with Ward Members before the final work programme is ratified once again by the Environment Committee. The capital investment in Childs Hill Ward has been subject to this process and agreed by the Environment Committee.

AGENDA ITEM 5

3.	Item 7	Mr John Dix	<p>On accounts payable the report states that “Because these controls rely on data being entered correctly, they have historically not been very successful at automatically detecting duplicates”. Is the report implying that data is not being entered correctly?</p>	<p>There is no indication from the testing of other accounts payable controls in 2017/18 that data is being entered incorrectly. However, it is impossible to remove human error from the process entirely. The risk of human error may be higher where the data being entered is in a non-standard or unfamiliar format (e.g. supplier invoice reference numbers) and this is relevant to this finding as standard tests for duplicates will not identify duplicates where an invoice reference number has been entered slightly differently.</p> <p>In common with most payment systems, Integra relies on the supplier’s invoice number to identify duplicate entries. With the majority of suppliers’ invoices being scanned and uploaded into the system, the opportunity for data entry errors is eliminated as smart scanners extract the relevant data without the necessity for manual input.</p>
4.	Item 7	Mr John Dix	<p>The reports states that “CAFT have found that the high number of false duplicates identified make it uneconomical to investigate these transactions”. When did CAFT first identify the high number of false duplicates, why has this not been raised with the audit committee before this meeting given the Integra system has been in place for 4½ years, and who made the judgement that it was “uneconomic to investigate the transactions”?</p>	<p>Due to the matching methodology that the Cabinet Office use, the NFI (National Fraud Initiative) report always produces a high number of false duplicates. Previous investigations into these matches have identified that these are not fraudulent payments, but are usually where invoices for the same amount and reference number are submitted for a total payment over a period of time. To actively investigate all of these false duplicates is not the best use of CAFT resource, especially when there are other compensatory controls in place. The agreed action within the audit report addresses the matter ahead of the next NFI data upload. This was included within the scope of this audit by both CAFT and Deputy S151 Officer and therefore this is the first time that it is being reported to the Audit Committee.</p>

5.	Item 7	Mr John Dix	<p>Given that there are no detective controls, outside of the annual National Fraud Initiative (NFI) data matching exercise, to identify potential duplicate payments made and, more seriously, that the Accounts Payable team have not been able to perform their own review of data to identify duplicate invoices submitted for payment, what is the risk that over the last 4½ years duplicate payments have been made but not investigated.</p>	<p>In addition to the check of invoice numbers for duplicates, there are a number of compensatory controls in place. For example, payments for the supply of goods/services require an approved purchase order to be in place in order for the invoice to be initially registered. There also needs to be a goods receipt that can be matched to the invoice before the registered invoice can be released. Additionally, in any instance where the price on the invoice varies from the approved order, the invoice is automatically held and returned to the purchase order approver for further action. If a supplier were to submit two invoices for the same supply but with different invoice numbers, the invoice would be registered but could not progress any further as it would not be able to be matched to a purchase order and goods receipt. There is a further mitigating control in place in that, on a monthly basis, budget managers review expenditure against their cost centre and should identify any duplicate payments as these could lead to an overspend against their budget.</p>
6.	Item 7	Mr John Dix	<p>Why didn't the Accounts Payable team disclose before this internal audit that they were unable to perform their own review of duplicate payments and why didn't the Commissioning Group Finance identify this problem before now.</p>	<p>Invoices are scanned at the data processing centre and uploaded into the finance system. Any transactions where the invoice number already exists within the finance system (identifying a potential duplicate) are not uploaded and require manual investigation to identify true duplicates and have these deleted. Thus, identification of duplicate payments is part of the normal daily processes. There is no evidence to indicate that duplicate payments are a problem.</p> <p>Duplicate payments were specifically included in the scope of the account payable audit for 2017/18 at the request of the Deputy S151 Officer and CAFT to provide assurance and/or suggested improvements to processes.</p>

7.	Item 7	Mr John Dix	Please can you clarify the issue relating to the BACS payment run – is it that confirmation was received for the total amount being paid but not individual payments, or that there was no audit trail to evidence the preparation of the BACS report i.e. were the BACS payments correct in the first place?	There was no audit trail to evidence the preparation of the BACS run and that it had been prepared and approved by separate individuals. However, Internal Audit did not find any indication that the amounts paid within the BACS runs were incorrect for the sample Internal Audit reviewed. The preparation of each payment run is well evidenced and confirmation of both the total amount being paid and individual payments is received and checked before each payment run is released. In this instance, internal audit required historical versions of a specific report which, as part of a data cleansing exercise, had been archived and were not immediately available. This process has now been amended and all reports, both current and historical, are available and retained.
8.	Item 7	Mr John Dix	Will ensuring all policies and procedures are uploaded to an appropriate shared drive so employees have remote access to all relevant documents ensure that staff in Sussex and Darlington actually read or familiarise themselves with the policies and procedures. What measure are in place to ensure this is more than just a box ticking exercise?	In addition to the policies and procedures being uploaded to shared drives, regular face-to-face meetings take place to review service standards and discuss working practices to ensure that all parties are complying with required policies and procedures and adopting best practice.
9.	Item 7	Mr John Dix	In the separate 19 page Internal Audit Report it highlights a high risk problem with the Cashbook Team. The sample of 25 unallocated receipts amounted to £559,000. What is the current total of all unallocated receipts?	Unallocated receipts currently total £3.922m. Of this amount, the vast majority relates to a small number of recent high value items including a single payment of £2.160m from the NHS. These items are business as usual and are generally cleared daily.
10.	Item 7	Mr John Dix	Who is responsible for the Cashbook team, Capita or LBB?	Capita.

11.	Item 7	Mr John Dix	If 19 of the 25 unallocated receipts were not investigated at all and 6 of the 25 were partially investigated but not followed up or resolved how many residents has been hassled unnecessarily or worse, have had the matter referred to a debt collection agency when the debt had been paid?	It is not possible to confirm this as, in the majority of cases, the customer who made the payment has not been able to be identified. It is common for customers not to quote the correct reference number or otherwise provide key information which makes it very difficult to then correctly allocate receipts in a timely manner.
12.	Item 7	Mr John Dix	In the Outstanding actions section the highways actions have been deferred yet again. On point 1 why are Re taking so long to agree additional performance indicators proposed by the Council given that Re is supposed to be a JV between the Council and Capita?	The highways actions have been progressed and are being operated under the understanding that formal acceptance is a matter for the Board of Directors that constitute the JV Board. The recommended changes will be presented to the next board meeting in June for acceptance. The highways actions have been progressed and are being operated under the understanding that formal acceptance is a matter for the Board of Directors that constitute the JV Board. The recommended changes will be presented to the next board meeting in June for acceptance.
13.	Item 7	Mr John Dix	On point 2 if the KPIs in question will only include the elements that Re can influence yet Re are the council's agent for monitoring the LoHAC contract with Conway, how can we have any confidence that the LoHAC work will be delivered satisfactorily and that there is a rigid monitoring system in place?	There are two contracts in play each with their own distinct set of performance measures. Conway Aecom is in contract with LBB under the LoHAC framework to provide construction services and maintain the road infrastructure of Barnet. This contract contains performance indicators which ensure the contractor is providing a satisfactory service to the council. This oversight and managing agent role is provided by Re and under their contract with LBB there are performance indicators that regulate and report this task.
14.	Item 7	Mr John Dix	Given that Capita have claimed and received a large gainshare payment for the "savings" on the LoHAC contract and that Re received a large payment from Barnet for advice on the LoHAC contract, surely they should accept responsibility for the delivery of that contract and the consequent KPIs.	Under the performance regime set out in the contract between Re and LBB, Re accept responsibility for the management of the council's contractor. The differentiation required is to recognise that Re can only enforce to the extent allowed in the contract between Conway Aecom and LBB – Re not being a party to this contract.

15.	Item 7	Mr John Dix	On point 3, is requesting supporting information from the contractor the most appropriate way to validate performance if you already have concerns about the performance data provided by the contractor. Surely there should be a separate third party or Council validation process?	The performance of the contractor is audited through an inspection regime undertaken by Re. The supporting information from the contractor is currently a requirement in the Re contract suite of KPI's.
16.	Item 7	Mr John Dix	At Point 21 of the completed actions I note that "arrangements to streamline and make capturing and collation of DBS data more efficient will be implemented". However, in light of the revelations identified in the recent Private Eye article where a Capita Director allegedly stated that "in the vast majority of cases the level of check could not be evidenced and in many cases was not correct" and that such failures "will result in the DBS considering suspension or cancellation of our registration to use the DBS service", please can you provide some reassurance that streamlining the capturing and collation of DBS data does not render the checks invalid?	<p><u>Statement from Capita</u> Security Watchdog, Capita's Vetting Agency, has a 20 year legacy of providing robust vetting and pre-employment screening checks internationally across all sectors. Capita therefore take very seriously the false allegations made in Private Eye against our service and brand, in particular our DBS service in respect of allegations of lack of check evidence, incorrect levels of checks applied and lack of client verification of ID documentation.</p> <p>With regards to the DBS, we can confirm that we are an ambassador for eligibility protocol and actively support the DBS to ensure that the appropriate level of check and process is applied on every occasion. Indeed, as an eBulk provider we are audited by DBS to ensure our service continuously meets their rigorous standards.</p> <p>Capita can confirm that we are able to track that all applications reach DBS with appropriate checking in place via our system and our highly experienced and trained criminality team.</p> <p><u>Statement from LBB</u> Following a recent audit, the Council is satisfied that all actions have been completed and the DBS checking process has been streamlined to ensure an effective service to the Council.</p>

17.	Item 8: CAFT Annual Report	Mr John Dix	The CAFT report highlights an on-going financial fraud investigation case. While I understand that you do not wish to discuss the specifics of this case, I am sufficiently alarmed by shortcomings under agenda item 7 that I believe it is important that any investigation into how the system failures permitted this fraud to take place must be addressed immediately to ensure that no further fraud can take place. Please can you confirm that the systemic faults that allowed this fraud have been identified and addressed already, that you will investigate how the systemic failure were allowed to exist in the first place and why Capita, the Commissioning Finance Team or internal audit did not identify the systemic risk sooner?	The Council is treating this matter very seriously and can confirm that the specific control environment surrounding the alleged 'fraud' in question was addressed with additional and more robust controls immediately being implemented. Additionally, the Council has commissioned a detailed review that is already well advanced. The Audit Committee is being kept informed of progress.
18.	Item 9: Internal Audit & Anti-Fraud Strategy and Annual Plan 2018/19	Mr John Dix	In light of the financial fraud investigation, do you think the additional allocation of 455 days for blue badge investigations is appropriate and that instead the additional time should be allocated to identifying and stopping staff and financial fraud?	The additional funding for Blue Badge investigations was previously agreed for 2017/18 – 2018/19. Dedicated Blue Badge Fraud investigation officers were recruited to these two additional posts specifically to be reactive investigate resource to almost daily referrals in this area. In relation to the financial fraud investigation, experienced senior financial investigators from within the corporate element of CAFT were deployed immediately to respond to this matter and have done so effectively and efficiently and within the current budget allocation. Resource for CAFT investigations is continually reviewed and addressed where it needs to be.

19.	Item 11: External Audit Plan 2018/19	Mr John Dix	I note the audit plan recognises the additional powers and duties of the external auditor and, in particular, the point that these powers allow electors to raise questions about the accounts and consider objections. What it fails to address is the time taken to address these questions and objections. As such do you think it is acceptable that it has taken the Council 9 months to provide information to the external auditor in relation to an objection to the accounts and that the objection has still not been resolved.	The PSAA target time for an auditor to complete a review and conclude on an objection through a Statement of reasons is 9 months but in many cases, particularly where legal advice is sought, this can extend beyond this period. In this case, we have allowed time for the Council to continue to respond to the original and supplementary questions raised by Mr Dix and have reviewed the evidence provided by the Council to support the gainshare payments. BDO have recently received legal advice (subject to legal privilege) that will allow us to progress the review.
20.	Item 11	Mr John Dix	I note that the external audit will bring in specialist support to review Use of Resources. Can you provide details of the particular areas they will be examining?	The specialist support resource will cover the review of the use of resources and the areas of review are noted in our Audit Plan included on the agenda. This will allow the core audit team to focus on the financial statements audit in the compressed reporting timetable this year.