



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Tuesday 8 November 2011, 7.30 pm**

**Council Chamber, Fourth Floor, Easthampstead House, Bracknell**

### **To: The Governance & Audit Committee**

Councillor Ward (Chairman), Councillor Wade (Vice-Chairman), Councillors Allen, Ms Brown, Heydon, McCracken, Thompson, Worrall and Mr G S Anderson

### **cc: Substitute Members of the Committee**

Councillors Mrs Ballin, Blatchford, Mrs Hayes, Leake, Mrs McCracken and Mrs Temperton

ALISON SANDERS  
Director of Corporate Services

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Published: 28 October 2011



**Governance & Audit Committee  
Tuesday 8 November 2011, 7.30 pm  
Council Chamber, Fourth Floor, Easthampstead House,  
Bracknell**

**AGENDA**

Page No

**1. Apologies for Absence**

To receive apologies for absence and to note the attendance of any substitute members.

**2. Declarations of Interest**

To receive any declarations of personal or prejudicial interests, and the nature of that interest, in respect of any matter to be considered at this meeting.

**3. Minutes - 29 September 2011**

To approve as a correct record the minutes of the meetings of the Committee held on 29 September 2011.

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**4. Urgent Items of Business**

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

**5. Annual Audit Letter**

To receive the Audit Commission's Annual Audit Letter for 2010/11.

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**6. Internal Audit Assurance report**

To receive a summary of Internal Audit activity during the period April to October 2011 covering work carried out by both internal audit contractors and the in-house team.

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**GOVERNANCE & AUDIT COMMITTEE**  
**29 SEPTEMBER 2011**  
**7.33 - 9.11 PM**

**Present:**

**Bracknell Forest Council:**

Councillors Ward (Chairman), Ms Brown, Heydon, McCracken, Thompson, Blatchford and Leake

**Independent Members:**

Gordon Anderson

**Apologies for absence were received from:**

Councillors Allen, Wade and Worrall

**51. Apologies for Absence**

The Committee noted that attendance of the following substitute Members:

Councillor Blatchford for Councillor Wade  
Councillor Leake for Councillor Worrall.

**52. Declarations of Interest**

There were no declarations of interest.

**53. Minutes - 28 June 2011**

**RESOLVED** that the minutes of the meeting held on 28 June 2011 be approved as a correct record and signed by the Chairman.

**54. Update on progress - Certification of Claims and Returns**

The Chief Officer Housing, presented an update report on the Certification of Claims and Returns Annual Report: Housing Benefit and Council Tax Subsidy and Housing Benefit Internal Audit Report 2010/11. The report provided the Committee with an update on the actions agreed in response to the Certification of Claims and Returns Annual Report and Internal Audit Report as well as progress in relation to the 2010/11 certification of housing and council tax benefit claim.

It was reported that the benefit service had fundamentally changed the way in which work was allocated to benefit officers with a restructured management team to improve the service.

It was noted that since the Committee's previous meeting the benefit service had been subject to three spot checks of assessment work. During these spot checks internal audit had found no significant assessment issues. A system error had been identified and would be fixed by the software provider in the new year.

Internal audit had confirmed that the parameters on the new benefit system had been correctly set and that there was a satisfactory audit trail of the transference of data between the two benefit systems. It was reported that the benefit assessors found the Northgate System easier to use than the Pericles system however, it was not as straight forward to produce data for reconciliation purposes from the system.

Sample checking of the work, to provide an audit trail on how decisions had been reached, on benefit entitlement had been undertaken with staff to ensure the verification check list was completed. To date, out of 570 claims checked there were 6 where a satisfactory verification checklist was not in place.

The accuracy rate for benefit assessment for 2010/11 was 87%. To date in 2011/12 over 10% of claims had been checked with the accuracy rate for quality currently running at 90% on an upward trajectory following resolution of processing errors with staff. It was noted that some of the errors found could have an effect on the amount of benefit received however some would be procedural.

Spot testing of the calculation of earnings which tested 20 new claims in May and June concluded that assessment of claims was satisfactory based on the documentation provided which meant no errors were found. It was agreed that the Chief Officer: Housing, would provide Members of the Committee with a breakdown of the financial errors found during the 40 cases currently being spot checked.

**RESOLVED** that:

- a) the progress in relation to the action plan in response to the findings of the certification of the Housing and Council Tax Subsidy Claim be noted, and
- b) an update of progress be reported at the Governance and Audit Committee's meeting on 24 January 2012.

**55. Public Participation Scheme for Overview and Scrutiny and Adoption of Reports and Recommendations**

The Head of Overview and Scrutiny presented the report which gave details of two changes to the Constitution requested by the Overview and Scrutiny Commission; firstly a Public Participation Scheme for Overview & Scrutiny, and secondly to extend to the Overview & Scrutiny Panels the Commission's power to adopt scrutiny reports, the making of recommendations to the Executive, Full Council and other organisations.

The Committee noted that the Public Participation Scheme for Overview & Scrutiny was similar of those already in existence for other Committees of the Council. The scheme was aimed at improving public engagement with Overview and Scrutiny and offered residents a further opportunity to tell Councillors directly about the things that concerned them.

The Overview and Scrutiny Commission decided to seek approval to extend to the O&S Panels the Commission's power to adopt Overview and Scrutiny reports, the making of recommendations to the Executive, Full Council and other organisations. Together with the Commission stepping aside from considering the responses to reports by O&S Panels, to empower the Panels more appropriately, improve the speed and efficiency of the O&S process, and relieve the pressure on the O&S Commission's agendas.

**RESOLVED** that:

- a) the draft Public Participation Scheme for Overview and Scrutiny, set out in Appendix 1 be recommended to Council for adoption, and
- b) extending to the Overview and Scrutiny Panels the Commission's power to adopt Overview and Scrutiny reports, the making of recommendations to the Executive, Full Council and other organisations be recommended to Council for adoption.

**56. Annual Governance Report**

The Borough Treasurer, introduced the Annual Governance Report which summarised the work carried out by the Council's external auditors to discharge their statutory audit responsibilities.

It was noted that since publication of the draft letter of representation two adjustments had been made. Firstly the deletion of the last sentence of the first paragraph and secondly, a change to the paragraph entitled 'Other Representations' which would now read: 'In respect of Voluntary Aided schools, the Council only owns the freehold of playing fields for 2 Schools - St Michael's Easthampstead and St Michael's Sandhurst.'

Phil Sharman, District Auditor presented the Committee with key highlights from the Annual Governance Report which summarised the findings from the 2010/11 audit including messages arising from the financial statements and arrangements for value for money.

An unqualified opinion was given on the Financial Statements which was a significant achievement for the Council as it had been the first year of preparing the accounts in accordance with IFRS.

The Committee received a tabled paper which gave an update to Appendix 3 of the report: Unadjusted misstatements in the financial statements. The updated Appendix included an additional item in relation to Voluntary Aided School playing fields which had previously been omitted. The District Auditor was happy for the errors identified to remain unadjusted as they sat below the tolerable threshold however, they would be included in future Statements' of Accounts.

It was reported that the Council had proper arrangements in place to secure financial resilience with robust systems and processes to effectively manage financial risks with the main risk being able to achieve a balanced budget over the medium term with reduced funding. An unqualified opinion was give for Value for Money with the Council having adequate arrangements in place. In the future the Council would need to maintain an emphasis on strategic policy changes.

**RESOLVED** that

- a) the adjustments to the financial statements set out in the report (appendix 2); be noted,
- b) the errors in the financial statements identified, that management has declined to amend, or set out the reasons for not amending the errors (appendix 3) be noted.

**57. Statement of Accounts 2010/11**

The Chief Accountant presented the Statement of Accounts 2010/11 which had been subjected to audit by the District Auditor. The report summarised the key elements within the accounts, presentational changes, the findings of the audit and highlighted key changes made to the Statement of Accounts.

It was reported that this was the thirteenth consecutive year that the Council had spent within its budget. Taking in to account the underspend the Council returned £1.125m to reserves. Three items had been treated as exceptional in the accounts which were; changes in VAT legislation which resulted in VAT refunds totalling £0.225m, a revenue reserve in relation to Ufton Court resulting in additional revenue funds of £0.117m and a pension service adjustment reducing the Council's liabilities in the Royal County of Berkshire Pension Fund by £29.3m.

**RESOLVED that:**

- a) the Statement of Accounts 2010/11 (attached) be approved,
- b) the out-turn expenditure for the year be noted and the provisions (£1.722m per section 5.3) and earmarked reserves (£11.320m per section 5.4) be approved,
- c) the Chairman of the meeting be authorised to sign and date the Statement of Accounts on behalf of the Committee,
- d) the Draft Letter of Representation set out in Appendix 4 of the District Auditor's Annual Governance Report (subject to the amendments detailed in minute 56) be approved.

**Update on the Position of the Audit Commission**

The District Auditor gave a brief update on the current position of the Audit Commission. It was reported that Government had decided that the work of the Audit Commission would be transferred to the Private Sector with contracts for local authority audits currently out to tender.

A new Auditor would be appointed for 2011/12 as Phil Sharman would no longer be working for the Audit Commission.

It was noted that the Council would be informed of the new external auditor for the 2012/13 audit between April and July 2012.

**58. Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2011/12**

The Chief Technical Accountant, presented the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2011/12. The mid-year report had been prepared in compliance with CIPFA's Code of Practice and included; an economic update for the first six months of 2011/12, a review of the Treasury Management Strategy Statement and Annual Investment Strategy and a review of the Council's investment portfolio for 2011/12.

Worldwide the financial markets were still uncertain with growth rates in the UK lower than expected. Uncertainty in the economic forecast remained high due a number of factors including: the potential for a major EU sovereign debt crisis, the degree to

which government austerity programmes will dampen growth, low and modest growth in the UK expected to continue and a low Bank Rate to continue for at least 12 months.

It was reported that there were no policy changes to the Treasury Management Strategy Statement. The Committee noted that there would be £7.490m of carry-forward in the total Capital Programme. It was noted that a significant amount of this was from school refurbishments that straddled more than one year.

**RESOLVED** that the Mid-Year Review Report be shared with members of the Full Council.

59. **Risk Management Strategy 2011/12**

The Borough Treasurer presented the report which gave an update on the Risk Management Strategy 2011/12.

The Strategy had been updated to reflect progress made in the last year, the changes made to recording and reporting of risks and the current priorities for embedding risk management. Current priorities in the Strategy included:

- to review the current arrangements for business continuity and make recommendations for improvement as appropriate;
- to maintain quarterly review of the Strategic Risk Register by SRMG and implement twice yearly review of the Register by CMT;
- to consult DMTs on their risk management training requirements and review Members risk management training needs; and
- attendance of the Information Security Officer at SRMG to raise awareness of information governance risks.

**RESOLVED** that the Risk Management Strategy for 2011/12 be agreed.

**CHAIRMAN**

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**TO: GOVERNANCE AND AUDIT COMMITTEE  
8 NOVEMBER 2011**

**THE EXECUTIVE  
15 NOVEMBER 2011**

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**ANNUAL AUDIT LETTER 2010/11  
Chief Executive/Borough Treasurer**

**1 PURPOSE OF REPORT**

- 1.1 To receive the Audit Commission's Annual Audit Letter for 2010/11.

**2 RECOMMENDATION(S)**

- 2.1 **That the Governance and Audit Committee and the Executive note the Annual Audit Letter 2010/11 at Appendix 1.**
- 2.2 **That recommendations set out in the Annual Audit Letter 2010/11 are reflected in the Corporate Services Service Plan for the coming year.**

**3 REASONS FOR RECOMMENDATION(S)**

- 3.1 The Annual Audit Letter must be considered in public by those charged with governance. In Bracknell Forest this is the Governance and Audit Committee. However, given the Executive's overall responsibilities it is important that it also receives the report.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None

**5 SUPPORTING INFORMATION**

- 5.1 The Audit Commission is required to provide the Council with an Annual Audit Letter (set out at Appendix 1). The letter summarises the findings from the 2010/11 audit, which comprises two elements:
- the audit of the financial statements; and
  - the District Auditor's assessment of the Council's arrangements to achieve value for money in the use of resources.
- 5.2 The Audit Commission has given an unqualified opinion on the Council's financial statements. An unqualified conclusion has also been given on the Council's arrangements for securing value for money. Three recommendations are set out in the report and given that the focus is largely on strategic financial issues it is recommended that these be reflected in the Corporate Services Service Plan for the coming year.

- 5.3 The District Auditor, Phil Sharman, will attend the meeting of the Governance and Audit Committee to present the Annual Audit Letter 2010/11.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 Nothing to add to the report.

### Borough Treasurer

- 6.2 Nothing to add to the report.

### Equalities Impact Assessment

- 6.3 There are no specific issues arising directly from this report.

### Strategic Risk Management Issues

- 6.4 The Annual Audit Letter identifies the strategic financial risks facing the Council. These will be addressed through the Strategic Risk Register, Service Plans and the Council's financial planning process.

## **7 CONSULTATION**

Not applicable.

### Background Papers

None

### Contact for further information

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### Doc. Ref.

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# Annual Audit Letter

Bracknell Forest Council

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## Key audit risk

⇒ Unqualified audit opinion

## Our findings

⇒ Proper arrangements to secure value for money

## Audit opinion and financial statements

I issued an unqualified opinion on your financial statements on 30 September 2011. The Council:

- prepared well for the transition to IFRS;
- needs to improve arrangements for accounting for fixed assets.

## Value for money

- I issued an unqualified conclusion on your arrangements for securing value for money. The Council:
- has recognised that difficult decisions about priorities and services lie ahead and has set up a framework to decide and identify options for delivering priorities;
  - needs to maintain an emphasis on strategic policy changes and longer-run savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified opinion on your financial statements on 30 September 2011.

In 2010/11 local government financial statements had to be produced under International Reporting Standards (IFRS) for the first time. Restating the accounts to comply with the requirements of IFRS was a complex task. You tackled the transition well by carrying out early preparatory work. My audit showed good overall compliance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

➔ In previous years I have recommended the Council needed to ensure that values for assets in the financial statements properly reflect their physical size, condition, usage and estimated life. Although some progress was made in 2010/11 there remains scope for further improvement.

My audit identified some assets either not included in the asset register or included but with incorrect valuations. The quality of evidence to support some valuations undertaken was variable. My audit also identified some assets below the Council's capitalisation threshold had been incorrectly capitalised.

Looking ahead, CIPFA is currently consulting on alternative approaches to valuing infrastructure assets. To comply with potential new requirements the Council, with others, will need to develop robust highways infrastructure asset inventories and management plans to help confirm assets exist.

## **Weaknesses in internal control**

I have reviewed your Annual Governance Statement and have concluded that it accords with proper practice and is consistent with my knowledge of the Council. I did not identify any significant weaknesses in your internal control arrangements.

My audit identified scope to improve controls over journals. Some journals process transactions in the general ledger which have not already gone through feeder systems. There is currently no authorisation step for these. Officers intend to address this weakness with the planned upgrade to the financial ledger.

## Recommendation

### Recommendation

- R1** Monitor implementation of recommendations made in my annual governance report on aspects of internal financial control including:
- procedures for accounting for fixed assets
  - procedures for journal processing.
-

# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two specified areas is set out below.

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## Value for money criteria and key messages

14 Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p><i>Focus for 2010/11:</i></p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I have concluded that the Council has adequate arrangements to secure financial resilience. The Council:</p> <ul style="list-style-type: none"><li>■ has a long-run track record of achieving revenue budgets; in 2010/11 it achieved an underspend of £1.7 million;</li><li>■ analyses emerging budget variances and considers how they impact on the projected final out-turn. Management takes timely action to address any budget variances such as the need to make savings after the emergency budget in 2010 and took corrective action, achieving required in-year savings;</li><li>■ engages with members and staff on the financial challenges it faces;</li><li>■ is revisiting its medium term financial plans accordingly to prioritise resources and renew the Council's strategy from 2012/13; these will need to be updated for future changes in Local Government finance;</li></ul>

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- has a leadership team which provides constructive challenge on financial matters. This has included workshops with Members and CMT challenge of departmental budgets;
- has general fund and earmarked reserves balances to ensure there are funds to meet unexpected costs. In 2010/11 the Council was able to make a contribution to reserves of £1.1 million instead of a planned withdrawal of £0.6 million;
- experienced significant slippage on it planned capital programme in 2010/11. While the overall backlog remains high, the Council has targeted resources towards priority maintenance obligations;
- has treasury management arrangements which ensure it has sufficient cash to meet its needs
  - achieving a balance between security, liquidity and yield; and
- understands its sources of income and the risks arising from these. It reviews its approach to fees and charges and monitors the collection of income and arrears.

The main risk to financial resilience is the challenge of achieving a balanced budget over the medium term with reduced funding.

**2. Securing economy efficiency and effectiveness**

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

I have concluded that the Council has adequate arrangements for challenging how it secures economy, efficiency and effectiveness. The Council:

- has recognised that difficult decisions about priorities and services lie ahead and has set up a framework to decide and identify options for delivering priorities. Members and officers are reviewing the Council's strategic priorities and the cost-effectiveness of its activities. They are identifying cost reductions and challenging spending and investment decisions;
- has a focus at present on the 2012/13 budget but is aware of the financial challenges beyond that particularly as a consequence of major reforms to Local Government finance;
- has a track record of continuously achieving efficiencies through its Service Efficiency Strategy;
- has a culture of constantly reviewing services to improve delivery and uses benchmarking information to inform its service reviews;
- considers alternative approaches to delivering services to achieve efficiencies;
- has overall costs which compare well with others. The Council knows which services are higher cost and can demonstrate that these are due to priorities; and

## Criterion

## Key messages

- has continued to develop its governance arrangements over the year particularly performance and risk management, and procurement. The Governance and Audit Committee has recognised the need to review its operation once the future shape of local public audit is known.

The Council needs to maintain an emphasis on strategic policy changes and longer-run savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.

## Recommendation

## Recommendation

- R2** Maintain an emphasis on identifying policy options, and planning and delivering savings programmes which achieve long run financial sustainability for the Council.

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# Current and future challenges

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Economic downturn and pressure on the public sector

The public sector deficit combined with the economic downturn are having a significant impact on public finances. It is affecting the ability of public sector bodies, including this Council, to fund service delivery and capital programmes and some sources of income continue to reduce. The Comprehensive Spending Review (CSR) refers to significant potential reductions for local government over the next 4 years. The Council has been notified of its settlement for 2011/12 and 2012/13. Beyond that the Government is consulting on the way local government is to be funded including the localisation of business rates.

The way services are being provided are also changing, such as the personalisation agenda and the reorganisation of the NHS. There are also demand led budget pressures to accommodate including services to vulnerable residents and looked after children. The Council therefore faces considerable challenges to maintain services while achieving savings.

The Council set a revenue budget of £74m for 2010/11 including a planned withdrawal from reserves of £0.6m. During the year the Council managed budgetary pressures and reporting an under spend of £1.7m and added £1.1m to reserves. The General Fund reserve at March 2011 at £10.0m provides some resilience with a declared prudent minimum of £4m.

For 2011/12, the Council has set the budget at £75m. This required savings of 5.0m and a planned use of £1.6m from reserves to fund the budget gap. The Council is currently revisiting its medium term financial plans to prioritise resources and renew its strategy from 2012/13. In doing so the Council will need to maintain an emphasis on strategic policy changes and longer term savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.

My preliminary assessment indicates the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. This assessment will be further developed as part of the review of financial resilience during the 2011/12 audit.

## Income streams

Income has been declining across a range of Council services, in particular income from conference and golf facilities. In 2010/11 this was partly offset by additional income from car parking, the cemetery and crematorium. In the current year income from conference facilities, car parking, building control and sports centres is under pressure. The Council is monitoring the impact of this on its budget, reviewing at risk areas and looking at optimising revenue across both current and potential income sources.

## Treasury management

The Council operates its Treasury Management strategy to ensure cash is available when required for short term liquidity and to fund capital. It also aims to secure investment returns from surplus funds, while managing the risks associated with this.

The Council set its 2011/12 budget anticipating that low short-term interest rates and reduced cash balances to earn interest would put pressure on investment yields. Looking ahead there remains considerable uncertainty about the Eurozone sovereign debt crisis and the speed of economic recovery. In addition interest rates are forecast to remain low. This will impact on investment returns in 2012/13.

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £5 million deposited across two of these institutions at that point. In accordance with accounting practice, the Council has made an annual assessment of the recoverability of these investments and provided for potential losses together with an earmarked reserve of £2.3m.

In relation to Heritable bank (with whom the Council invested £2 million) information received indicates that it will recover a total of 85 per cent by the end of 2012/13 (the Council has received 60 per cent to date).

In terms of Glitner Bank (with whom the Council invested £3 million) position is dependent upon whether the Supreme Court upholds Local Authorities deposits as priority creditors. If priority status is not confirmed the anticipated full recovery will fall to 35 per cent. A decision is expected shortly and any impairment will be accounted for in 2011/12.

## Recommendation

### Recommendation

**R3** In the context of broader changes to the Local Government financial regime, demonstrate the Council's continuing financial resilience by updating the Medium Term Financial Strategy to reflect the impact of strategic policy changes and longer-run savings programmes.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Governance and Audit Committee on 8 November 2011 and will provide copies to all members of Bracknell Forest Council.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued during the year.

Report	Date issued
Audit fee letter	March 2010
Audit plan	March 2011
IFRS report to officers	March 2011
Annual Governance Report	September 2011
Audit opinion and value for money conclusion	30 September 2011
Final accounts memorandum to officers	November 2011
Annual Audit Letter	November 2011
Certification of claims and returns – annual report	expected January 2012

The Council has taken a positive and constructive approach to our audit. This will be the last Annual Audit Letter that I will present to the Council during my term of office as external auditor. Accordingly I would like to thank both officers and members for their support and co-operation to me and my audit team during my appointment.

Phil Sharman  
*District Auditor*

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee	£256,600	£256,600	£0
Non-audit work - review of performance management arrangements	£2,500	£0	£2,500
<b>Total</b>	<b>£259,100</b>	<b>£256,600</b>	<b>£2,500</b>

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.



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TO: GOVERNANCE AND AUDIT COMMITTEE  
8 NOVEMBER 2011

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## INTERNAL AUDIT ASSURANCE REPORT April –October 2011

Head of Audit and Risk Management

### 1 PURPOSE OF REPORT

- 1.1 This report provides a summary of Internal Audit activity during the period April to October 2011. It covers work carried out by both internal audit contractors and the in-house team. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports.

### 2 RECOMMENDATION(S)

- 2.1 The Governance and Audit Committee are asked to note the attached report.

### 3 REASONS FOR RECOMMENDATION(S)

- 3.1 To ensure that the Governance and Audit Committee are aware of the internal audit work performed and conclusions reached.

### 4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 No alternative options available.

### 5 SUPPORTING INFORMATION

#### Background

- 5.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.
- 5.2 The provision of Internal Audit services is largely outsourced to H. W Controls and Assurance under a contract for 3 years which commenced on 1 April 2009. H.W Controls and Assurance are responsible for delivering approximately three quarters of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2011. In addition, to date four audits have been carried out internally and 12 audits were by other providers as set out in Section 3.1 of my report. The attached report summarises delivery to date on the audits approved under the Plan and other activities carried out in-house.

### 6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

#### Borough Solicitor

6.1 Nothing to add.

Borough Treasurer

6.2 Nothing to add.

Equalities Impact Assessment

6.3 Internal Audit provides assurance on the Council's control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Strategic Risk Management Issues

6.4 Not applicable.

## **7 CONSULTATION**

Principal Groups Consulted

7.1 Not applicable.

Method of Consultation

7.2 Not applicable.

Representations Received

7.3 Not applicable.

Background Papers

Internal Audit Reports  
Annual Internal Plan 2011/12  
Contract Monitoring Records  
Quality Questionnaires  
NFI submissions  
CIPFA Code of Practice for Internal Audit  
Strategic Risk Register

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# **HEAD OF AUDIT AND RISK MANAGEMENT REPORT**

**APRIL – OCTOBER 2011**

## 1. BACKGROUND

- 1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to “maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.” This report summarises the activities of Internal Audit for the period April to October 2011 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

## 2. INTERNAL AUDIT

- 2.1 The basic approach adopted by Internal Audit falls broadly into three types of audit:
- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council’s interests.
  - Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor’s audit of the annual accounts.
  - Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities.
- 2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council’s operations. The different categories of recommendation and assurance opinion are set out in the following tables.

### Recommendation Classifications

PRIORITY	DESCRIPTION	IMPLEMENTATION DATE INDICATOR
1	Essential – addresses a fundamental control weakness and must be brought to the specific attention of senior management and resolved.	Immediate
2	Important – addresses a control weakness and should be resolved by management in their area(s) of responsibility.	To agreed timetable.
3	Best practice – addresses a potential improvement or amendment issue.	Following consideration

### Assurance Opinion Classifications

<b>ASSURANCE LEVEL</b>	<b>DEFINITION</b>
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk. All audits that generate a Priority 1 recommendation will receive a limited assurance opinion, at least.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

- 2.3 Internal Audit provide the Borough Treasurer with details of all audits that receive a limited (or no) assurance opinion, as soon as the draft report is issued. This ensures that the Section 151 Officer is informed at the earliest opportunity of any potential weaknesses or problem areas. Directors are also notified of every final audit report issued within their Directorate and the resulting assurance level. This is at the final report stage for audits other than those with a limited or no assurance opinion, when Directors receive a copy of the draft report.

### **3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE**

- 3.1 The Annual Internal Audit Plan for 2011/12 was considered and approved by the Governance and Audit Committee on 22<sup>nd</sup> March 2011. The delivery of the individual audits is largely undertaken by our contractors H.W. Controls and Assurance. H.W Controls and Assurance are responsible for delivering approximately three quarters of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2011. In addition, to date three audits within the Annual Internal Audit Plan have been carried out internally and 12 audits were undertaken under the S113 arrangement with Reading and Wokingham Borough Councils' Internal Audit Teams and audit specialism on housing benefits was brought in for one audit.
- 3.2 During the period April to October 2011, 25 reports were finalised, 9 had been issued in draft awaiting management responses, 2 were issued as a pre-draft for discussion and in 15 cases audit work was in progress. In addition, two grant claims have been certified, 5 memos had been finalised and 1 memo was in draft awaiting management responses. In these cases memos were produced in place of reports as the reviews were targeted work on housing

benefits rather than full systems reviews. The outcomes from this targeted work on housing benefits are positive, with the spot checks identifying only minor errors. The Committee are, however, reminded that as the testing is focussed on current cases it will take a period of time before these results are reflected in the external audit of the housing benefit and council tax benefit grant claims. A summary of assurance levels is given below for the finalised and draft reports issued.

<b>ASSURANCE</b>	<b>APRIL – OCTOBER 2011</b>
Significant (Data Quality)	1
Satisfactory	30
Limited	3
None	-
<b>Total</b>	<b>34</b>

These results are in line with expectations. Whilst there were only four limited assurance opinions in 2010/11 there were seven in 2009/10.

- 3.3 The table below provides details by directorate on audits finalised, at draft stage and in progress setting out their status as at 31st October 2011.



**2010/11 AUDITS NOT PREVIOUSLY REPORTED TO GOVERNANCE AND AUDIT COMMITTEE**

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
<b>Corporate Services</b>												
Mobile devices	28/3/11	24/6/11	Y			X				1		Final
<b>Environment Culture and Communities</b>												
Purchasing and ordering	15/12/10	1/7/10	Y			X				1		Final
<b>Adult Social Care and Health</b>												
Emergency Duty Team	26/4/11	23/8/11	Y				X		5	8	5	In draft awaiting management responses

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**2011/12 AUDITS**

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
<b>Chief Executive's Office</b>												
Officer delegations	30/8/11											WIP
	1/8/11	17/10/11	Y			X					4	In draft awaiting management responses
Officer expenses												
Data Quality	13/7/11	12/9/11	Y	Satisfactory	X				-	-	-	Final
<b>Corporate Services</b>												

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
Bus Service Operators Grant BSOG	23/5/11	9/6/11	Y	Satisfactory	N/A – Grant certification						Final	
Change Management --IT audit	22/6/11	27/6/11	Y	Satisfactory		X					1	Final
Officer Delegations	27/7/11											WIP
Officer Expenses	1/8/11	17/10/11	Y			X				1	3	In draft awaiting management responses
IP Telephony (IPT) Platform –IT audit												Not due
Follow up of compliance with PCI standards												Not due
Treasury Management												Not due
Creditors												Not due as QTR 4 audit
Debtors												Not due as QTR 4 audit
Main Accounting inc. Reconciliations	3/10/11											WIP
Payroll	3/10/11											WIP
Cash Management												Not due
Council Tax												Not due as QTR 4 audit
NNDR												Not due as QTR 4 audit
Procurement cards												Not due as QTR 4 audit
Purchasing & Ordering												Not due as QTR 4 audit

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
Agresso Upgrade – IT audit												Not due as QTR 4 audit
Desktop Virtualisation Thin Client Project –IT audit												Not due as QTR 4 audit
Purchasing & Ordering												Not due as QTR 4 audit
<b>Children, Young People and Learning</b>												
Ascot Heath Junior	16/5/11	1/6/11	Y	Satisfactory		X				8	5	Final
College Town Infant & Nursery	13/6/11	14/7/11	N	Satisfactory		X				6	2	Final
College Town Junior	8/6/11	22/6/11	Y			X				7	3	In draft awaiting management response
Fox Hill Primary School	12/9/11	16/9/11	Y	Satisfactory		X				5	4	Final
Holly Spring Junior	9/5/11	10/6/11	N	Satisfactory		X				4		Final
New Scotland Hill Primary	15/6/11	22/6/11	Y	Satisfactory		X				3	3	Final
Owlsmoor Primary	14/9/11											WiP
St. Joseph's Catholic	25/5/11	24/6/11	N	Satisfactory		X				11		Final
St. Michael's CE - Sandhurst	8/6/11	12/7/11	N	Satisfactory		X				10	4	Final
Warfield Primary	19/9/11	13/10/11	N			X				6	7	In draft awaiting management response
Binfield C E	18/5/11	6/7/11	N	Unsatisfactory			X		1	16	9	Final
Harmanswater Primary	23/5/11	6/6/11	Y	Satisfactory		X				7	3	Final



Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status	
					Significant	Satisfactory	Limited	None	Priority				
									1	2	3		
St. Michael's School Easthampstead												Not due	
Capita ONE (EMS) Changes IT audit													Not due
Free School Meals New Central System													Not due
Off Site Activities F/Up Limited 2010/11													Not due as QTR 4 audit
Free School Meals New Central System													Not due as QTR 4 audit
Birch Hill Primary													Not due as QTR 4 audit
Jennet's Park School													Not due as QTR 4 audit
CAPITA ONE (EMS) changes IT audit													Not due as QTR 4 audit
<b>Environment, Culture and Community</b>													
Benefits Spot Testing Visit 1	5/5/11	1/6/11	Y										Final
Benefits Spot Testing Visit 2	14/6/11	24/6/11	Y										Final
Benefits Parameters Testing Memo	20/6/11	7/7/11	Y										Final
F/up Benefits Grant Claim Report + CIS Action Plan + f/up	18/7/11	21/9/11	Y										In draft awaiting management



Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Client Questionnaire Received	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
Housing & C Tax Benefits												Not due
Waste Collection												Not due as QTR 4 audit
Cash Spot Checks												Not due as QTR 4 audit
Purchasing & ordering												Not due as QTR 4 audit
<b>Adult Social Care and Health</b>												
Officer Delegations	22/6/11											WIP
Heathlands residential + day centre	25/5/11	24/6/11	Y	Satisfactory		X				4	10	Final
Ladybank & Bridgewell	18/5/11	24/6/11	Y	Satisfactory		X				5	4	Final
LD Waymead & Eastern Road	6/6/11	22/7/11	Y	Satisfactory		X				3	2	Final
LD Headspace	16/6/11	28/7/11	Y	Satisfactory			X		5	2		Final
LD Breakthrough RBC	16/6/11	28/7/11	Y			X				3		Final
Drug & Alcohol Team												WIP
Officer Expenses	16/8/11	17/10/11	Y	Satisfactory		X					3	In draft awaiting management responses
Shared Budgets RBC												Not due
Personal Budgets												Not due as QTR 4 audit
Controccc- IT audit												Not due as QTR 4 audit

- 3.4 To date, limited assurance opinions have been given for 3 audits. All audits, which have generated a limited assurance opinion, will be revisited in 2012/13, to ensure successful implementation of agreed recommendations. The key weaknesses identified during the three audits with a limited assurance opinion are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
<p><b>CHILDREN YOUNG PEOPLE AND LEARNING</b></p>	<p><b><u>Binfield CE Primary School</u></b>            Limited assurance was concluded overall for this audit due to one priority 1 recommendation being raised to address concerns that there were limited documented financial procedures in place and also because of the high number of priority 2 recommendations (16). These related to governance and financial management arrangements, inventory, the private fund, lettings income, school trips, imprest and ordering. The Local Authority continues to support and work with the school in addressing the weaknesses highlighted in the audit report. The Assistant Director , Performance and Resources has visited the school and found that and they are making good progress with a number of recommendations already completed.</p>
<p><b>ADULT SOCIAL CARE AND HEALTH</b></p>	<p><b><u>Headspace</u></b>            Headspace is a studio facility organised in conjunction with a number of organisations to provide local artists, with or without a disability to display their work. Expenditure for 2010/11 amounted to approximately £57k. The audit of Headspace resulted in a limited assurance conclusion as 5 priority 1 recommendations were raised. These were to address weaknesses in the completeness of income collected and banked, recording of income, expenditure without supporting documentation and the fact that the bank account used for funding expenditure and banking income was outside of the Council's accounting records. The Development Manager has advised Internal Audit that agreed actions to address these issues have been implemented.</p> <p><b><u>Emergency Duty Team</u></b>            The 5 priority 1 recommendations raised in this audit resulted in an overall conclusion of limited assurance. The recommendations raised were to ensure employment checks are renewed every 3 years, improve controls over overtime claims and checks on time sheets and review the contract for the provision and maintenance of the MIS database and time recording procedures. The Head of Emergency Services has advised that actions are being taken forward to address the recommendations. New procedures have been implemented to improve</p>



	controls over time sheets and overtime claims. The MIS database is now to be upgraded which will provide a more supportable solution and new procedures have been introduced for time recording. .....
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- 3.5 At the time of writing 20 completed questionnaires had been received since April 2011 for 2011/12 audits. All unsatisfactory evaluations are followed up. All outstanding questionnaires will be chased up once final reports have been issued. The results are summarised as follows:

SATISFIED	NOT SATISFIED	TOTAL
19	1	20

- 3.6 The unsatisfactory questionnaire was followed up with the contractor to identify any lessons to be learned for future audits.

#### 4. RISK MANAGEMENT

- 4.1 During the first half of 2011/12 the Risk Management Strategy was updated and reviewed at both the Strategic Risk Management Group (SRMG) and the Corporate Management Team (CMT) before being considered and approved by the Governance and Audit Committee.
- 4.2 The key priorities identified in the Strategy for the next 12 months are to review the current arrangements for business continuity, maintain quarterly review of the Strategic Risk Register by SRMG and implement twice yearly review of the Register by CMT, consult DMTs on their risk management training requirements and review Members risk management training needs and attendance of the Information Security Officer at SRMG to raise awareness of information governance risks. Actions to address the key priorities for 2011/12 are being monitored at the Strategic Risk Management Group.
- 4.3 The Strategic Risk Register has been reviewed quarterly by the SRMG during 2011/12 and was last reviewed by CMT on 31<sup>st</sup> August 2011. Directorates have now all established their risk registers and are generally updating these quarterly and providing these to the Head of Audit and Risk Management to inform the Strategic Risk Register.

#### 5. OTHER INTERNAL AUDIT ACTIVITIES

##### National Fraud Initiative (NFI)

- 5.1 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. Data was submitted to the Audit Commission during 2010

and matches received back in several stages during 2011. The majority of work has been completed on the NFI matches issued for investigation. There is still some ongoing work on Housing and Council Tax Benefits cases, but no more work is expected to be carried out in the other areas covered by the exercise. The following monies were recovered as a result of investigating these matches.

Area	£
Housing and Council Tax Benefits	7,060
Private Care Homes	19,686
Duplicate Payments	9,044
Total	35,790

- 5.2 In addition the exercise identified errors in the National Insurance numbers provided by staff and claimants to the Payroll and the Benefits sections. These have been corrected. The data provided also enabled us to update our records relating to Blue Badges and E+ cards used for concessionary travel with recent deaths.
- 5.3 We have been able to provide information to other local authorities to assist them in their investigations.
- 5.4 Data is now being submitted to match Council Tax single person discounts to the Electoral Roll and the matches following this will be received in 2012 for follow up.

### **Fraud and Irregularity**

- 5.5 Three potential irregularities were reported to Internal Audit during April to October, including one reported, initially, by a Member. Two of these alleged irregularities related to schools and the third to adult social care. All are currently being investigated and the outcomes will be reported to the Committee in a future assurance report.
- 5.6 In addition to the work undertaken by Internal Audit on fraud and irregularities, there is a Benefits Investigation and Compliance Team. The Investigation and Compliance Team is located within the Benefits section of Housing in Environment Culture and Communities. It is therefore outside of the management of the Internal Audit Team. The Investigation and Compliance Team consists of a Senior Investigations Officer, one Investigation Officer and a Compliance Officer and is responsible for the investigation of potentially fraudulent claims for benefits. During the investigation of claims, Officers interview witnesses, take statements, carry out surveillance and interview under caution with a view to taking prosecution action. The Compliance Officer undertakes proactive visits to claimants to verify their details and confirm continuing entitlement to benefits.

- 5.7 All cases are investigated, however many can be unfounded, some may create an overpayment as a result of an error and be recovered through normal recovery procedures.
- 5.8 During the period 1 April to 14 October 2011 the Team received 824 fraud referrals of which 391 arose from data matching, 152 were mainstream referrals from sources such as the cheatchasers line, assessor referral and revenue recovery, 270 were from housing checks and 11 arose from joint working. In addition, 420 compliance visits were made of which 285 were successful (applicant not at home in the remaining 135 cases)
- 5.9 As a result of work undertaken by the Investigation and Compliance Team, the sanctions applied during this period were 23 Formal Cautions, 5 Administration Penalties (a 30% penalty on top of overpaid benefit) and 16 successful prosecutions. As at the 14<sup>th</sup> October there were 11 cases pending court hearing.
- 5.10 For the period April to 14<sup>th</sup> October, the sanctions which resulted were from investigations initiated as follows:
- 1 from NFI data matching;
  - 13 from other data matching;
  - 12 referrals from the Compliance Officer;
  - 9 from Housing Benefit Assessors;
  - 3 related to overpayments over £500 (these are as a matter of course referred to Benefits Investigation and Compliance Team);
  - 5 from joint working with jobcentreplus; and
  - 1 was highlighted by return of mail (mail is flagged as do not re-direct)
- 5.11 The main reasons for referrals during the period were as follows:
- 2 Job Seekers Allowance ceased but the claimant failed to inform the Housing Benefit Department;
  - 10 were income related;
  - 15 were working and claiming;
  - 9 undeclared tax credits;
  - 5 were not resident;
  - 1 had undeclared capital;
  - 1 had undeclared maintenance; and
  - 1 had an undeclared non-dependent.

### **Other Internal Audit Reviews**

- 5.12 In July 2010, the S151 Officer requested that Internal Audit carry out a review to clarify the procedures in place over the payment, recording and recovery of deposits relating to Housing Options and over the collection and recording of rents directly payable to the Council for housing accommodation.

- 5.13 At the time of the initial audit fieldwork in July 2010, only 2 out of the 594 deposit loans had been fully input on ABRITAS and limited action was being taken on debt recovery. One of the key reasons for this was the lack of resource to obtain all the necessary information to enable debts to be chased. A list of actions was agreed with the Chief Officer: Housing to address the weaknesses identified. In my report to the Governance and Audit Committee I reported on the action to be taken to address the matters highlighted and advised that Internal Audit would be undertaking a follow up audit in quarter 2 of 2011/12 to ensure that these actions were being progressed.
- 5.14 This follow up work was completed in September. This established progress had been made on most areas of weakness identified by the original review. However, further action was still needed to write off irrecoverable debts and refer debts where appropriate to the debt collecting agency and to ensure that full details are obtained from landlords for new deposits. The Chief Officer:Housing is addressing the outstanding issues and this system will now be reviewed annually as part of the routine audit of the Council's key systems.