

TO: GOVERNANCE AND AUDIT COMMITTEE
27th MARCH 2019

INTERNAL AUDIT INTERIM REPORT
April 2018 –13 March 2019

(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 2018 to 13 March 2019.

2 EXECUTIVE SUMMARY

- 2.1 The report summarises progress and outcome of work carried out by both internal audit contractors and the in-house team in accordance with the Annual Internal Audit Plan approved by the Governance and Audit Committee. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports

3 RECOMMENDATION

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

4 REASONS FOR RECOMMENDATION

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

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 No alternative options available.

6 SUPPORTING INFORMATION

- 6.1 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.
- 6.2 The provision of Internal Audit services is largely outsourced to Mazars Public Sector Internal Audit. Mazars are responsible for delivering approximately two thirds of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2018. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham internal audit team under an agreement under Section 113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 7.1 There are no significant legal implications arising from this report.

Borough Treasurer

- 7.2 There are no financial implications arising from the report. However, a strong internal control environment helps ensure that the Council is not exposed to unexpected financial risks and ensure value for money. Where weaknesses are identified it is important that they are addressed as quickly as possible.

Equalities Impact Assessment

- 7.3 Not applicable.

Strategic Risk Management Issues

- 7.4 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

Other Officers

- 7.5 Not applicable.

8 CONSULTATION

- 8.1 Not applicable.

Background Papers

Annual Internal Plan 2018/19
Strategic Risk Register

Contact for further information

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HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL 2018 – 13 MARCH 2019

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 December 2018 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 four 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
 - Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.
- 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.
- 2.3 We categorise our audit opinion as set out below according to our assessment of the controls in place and the level of compliance with these controls:



Significant Assurance

There is a sound system of internal controls to meet the system objectives and manage risks and testing performed indicates that controls tested are consistently complied with.



Satisfactory Assurance

There is basically a sound system of internal controls to manage risk 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 Assurance

There are some weaknesses in the adequacy of the internal control system and management of risks which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.






No Assurance

Control is weak and management of risks is inadequate leaving the system open to significant error or abuse and/or there is

significant non-compliance with basic controls.

2.4 We categorise our **recommendations** according to their level of priority.

	Priority 1	Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk.
	Priority 2	Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk.
	Priority 3	Recommended best practice to improve overall control.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

- 3.1 The Annual Internal Audit Plan for 2018/19 was considered and approved by the Governance and Audit Committee on 28th March 2018. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, IT audit is undertaken by TIAA Ltd and 9 reviews will be carried out under the Section 113 arrangement with Wokingham Borough Council's Internal Audit Team. In addition five reviews and all grants are scheduled to be audited in house.
- 3.2 During the period April 2018 to 13 March 2019, 4 grants were certified, 4 memos and reports without an opinion were finalised, 36 reports were finalised, 6 reports had been issued in draft awaiting management responses, and in 9 cases audit work was in progress. Details on the status and outcome of all audits are attached at Appendix A.
- 3.3 As noted above and at Appendix A, delivery against the planned programme is on track with the quarter 1 and 2 audits finalised, issued in draft, or in progress. .

Major Control Issues

- 3.4 There has been some weakening in internal control during 2017/18 and into 2018/19 as illustrated by the number of audits with a limited assurance opinion and/or priority 1 recommendations and increased occurrence of limited assurance/priority 1 recommendations being issued again at follow-up audits. There are some common themes coming out of the audits such as poor debt management which has been as an issue at a number of 2018/19 audits and weaknesses in some financial control across the Council and review and monitoring arrangements in some services.
- 3.5 With the number of limited assurance reports being higher than in previous years, the Corporate Management Team is currently reviewing the audit reports with a limited assurance opinion and/ or priority 1 recommendations to identify any key, recurring themes arising from these audit reviews. This will enable a corporate focus on areas identified, in addition to the actions that will be taken by individual managers. The provisional audit plan for 2019/20 will be re-visited early in the financial year to ensure it addresses the key common themes coming out of the audits.

- 3.6 Audits which have identified major weaknesses will generally be revisited in 2019/20, to ensure successful implementation of agreed recommendations. In the interim Internal Audit Report to the Governance and Audit Committee on 31st October 2018 and 28th January 2019, details were provided on eleven audits with major issues. The key weaknesses identified on audits finalised since the previous report to the Committee are as follows:

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED
COUNCIL WIDE	<p><u>Purchase Cards</u> A priority one recommendation was raised due to non-compliance with controls to review and approve purchase card expenditure.</p>
	<p><u>Absence Management</u> One priority one recommendation was raised in respect of uncertainty about the completeness of sickness recorded. Audit have been advised by HR&OD that action has been taken already to introduce automated reports to managers which show the level of absence recorded within teams. However HR & OD have committed to further automating those reports to provide for a facility for managers to have to confirm that they have spoken to team members to confirm that absence reporting is correct for the relevant reporting period. This will enable all parties to have improved confidence that absence reporting is current.</p>
DELIVERY	<p><u>Enterprise Agreement</u> The audit opinion of limited assurance is due to weaknesses in project management under phase 1 and absence of evidence to support the maintenance of the agreement including the 'True-Up' process. Audit have been advised that improvements have been made to project management for phase 2 and action is currently ongoing to investigate the True-Up process.</p>
	<p><u>Business Rates</u> Three priority 1 recommendations were raised where debt write-offs had not been approved in accordance with delegations, weaknesses in the process of inspection of empty properties and arrangements for processing large refunds. Actions have been agreed to address these issues.</p>
	<p><u>Council Tax</u> One priority 1 recommendation was raised where debt write-offs had not been approved in accordance with delegations. A revised authorisation process has been agreed.</p>
PEOPLE	<p><u>Adults Residential Care</u> Three priority 1 recommendations were raised in respect of monitoring providers' insurance arrangements, lack of evidence to support rates for placements and annual quality review visits not being completed.</p>

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED
	<p><u>Direct Payments</u> Four priority one recommendations were raised on accuracy of records of individuals in receipt of direct payments, weaknesses in monitoring checks for both pre-paid cards and where individuals direct payments is paid into a bank account and the need to follow up queries raised by monitoring checks.</p> <p><u>Public Health</u> A priority one recommendation was raised where grant monies had not been spent and plans to spend the monies had not been identified.</p>
PLACE, PLANNING AND REGENERATION	<p><u>CIL/S106</u> A priority one recommendation was raised to address weaknesses in financial monitoring of S106 monies. New processes have been agreed and implementation is in progress.</p>

Update of 2017/18 Audits with Limited Assurance Opinions and/or Priority 1 Recommendations

3.7 As requested by the Governance and Audit Committee in January 2019, CMT agreed on 16th February that a written report would be provided by managers to the Committee on each report/memo where a limited assurance/priority 1 recommendations had been given more than once to set out what action was being taken to address the issues raised by Internal Audit. These updates from managers have been submitted and are attached at Appendix C and includes business rates, council tax and creditors which have been audited since the last update to the Committee. In addition, CMT agreed that DMTs will monitor progress on addressing issues identified in all reports and memos where a limited assurance opinion or priority one recommendation had been raised and action is already progressing on this.

Quality Assurance and Improvement Programme

3.8 As shown below, 100% of the client questionnaires indicated the auditees were satisfied with the service. In 75% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
1st April 2018 to 13th March 2019	16	100%	75%
2017/18	34	100%	76%

4. RISK MANAGEMENT

- 4.1 During 2018/19, the Strategic Risk Register has been reviewed four times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team and twice by the Governance and Audit Committee in June 2018 and January 2019. Directorate risk registers are already in place for the Delivery and Central Directorates and being reviewed quarterly and the People risk register is under development.

5. COUNTER FRAUD ACTIVITIES

National Fraud Initiative (NFI)

- 5.1 Matches arising from the NFI biennial data matching exercise are now starting to be received for investigation by service areas. An update on progress will be reported to the Governance and Audit Committee in the Head of Audit and Risk Management's Annual report in June

Benefits Investigations

- 5.2 An update on Benefit fraud investigations was provided to the Governance and Audit Committee in January 2019. Detailed reporting will next be provided in the Head of Audit and Risk Management's Annual report in June.

Single Person Discount

- 5.3 During Quarter 3, the Revenues Team engaged external consultants to carry out a data matching exercise to identify potential mis-claiming of Council Tax Single Person Discount (SPD). This is now complete. A total of 1380 cases were selected for review which resulted in 448 SPDs being removed and an increase in revenue of £174K exceeding initial expectations for the exercise.

Counter Fraud Training

- 5.4 The 2018/19 Audit Plan included days to be used for counter fraud training. The first fraud awareness session was piloted for the People Senior Management Team in January 2019. Six fraud awareness sessions will be provided at the end of March for all staff around the Council. In addition, two Counter Fraud newsletters have been sent to all staff in the last two quarters.

APPENDIX A

2017/18 AUDITS

* Draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Payroll and Pre-Employment Checks	14/2/18	18/6/18	X		✓			7	2	Final
New Commercial Properties	13/3/18	27/6/18	✓		✓			11	3	Final
Social Care Pathway	22/1/18	22/6/18	X			✓	1	5		Final

2018/19 AUDITS

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
COUNCIL WIDE Officers Expenses	30/4/18	27/7/18	X			✓				Final
Apprenticeships Levy	28/8/18	25/9/18	✓		✓			1	1	Final
Absence Management	17/9/18	8/11/18	✓			✓	1	9		Final
Bracknell Forest Lottery										To be determined

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Capital Budgeting										Work in progress
Delegations										Replaced by the audit below which will encompass wider governance under the new structure
Governance Under the New Structure										Work in Progress
Cleaning Contract	25/6/18	17/8/18	✓		✓			6		Final
Council Wide Debt Management	11/10/18	10/12/18	✓			✓	2	5	2	Final
Purchase Cards	23/7/18	8/11/18	X			✓	1	3	1	Final
COUNCIL WIDE IT AUDIT Social Media	26/6/18	21/11/18	✓			✓	4	4	5	Final
GRANTS Troubled Families June 2018	26/6/18	30/6/18	N/A	N/A – Grant certification						Certified
Troubled Families September 2018	17/9/18	18/9/18	N/A	N/A – Grant certification						Certified
Troubled Families December 2018	5/12/18	19/12/18	N/A	N/A – Grant certification						Certified

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status	
				Significant	Satisfactory	Limited	1	2	3		
Registrars										Deferred to 2019/20	
Home to School Transport Follow Up (P1 recommendation 2017/18)	3/7/18	27/7/18	✓	No opinion as memo issued but 1 priority 1 recommendations raised			1				Final
Minor Capital Works	27/11/18	18/2/19	X		✓			1	1	Final	
Construction and Maintenance	27/11/18	6/2/19	X		✓			2		Final	
Reactive highways maintenance	2/10/18	22/10/18	✓		✓			1		Final	
Continental-contract landscape and street cleansing	4/6/18	27/6/18	✓		✓			2	1	Final	
Car Parks										Audit deferred to 2019/20	
Brown bins-management by contractor										Audit cancelled	
Leisure Contract Management	8/10/18	28/11/18	✓		✓			4		Final	
Libraries including use of volunteers										Audit deferred to 2019/20	
DELIVERY COUNTER FRAUD										Audit cancelled	

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Cash Spot Checks										
<u>DELIVERY IT</u> <u>AUDIT</u> Disaster Recovery Follow Up (P1 recommendation 2017/18)	3/10/18	5/11/18	✓		✓			1		Final
Cyber security/VOIP Follow Up (Ltd 2017/18)	1/10/18	20/11/18	✓			✓	3	7	1	Final
Enterprise Agreement programme management	11/9/18		✓			✓	1	1		Final
IT Asset Management	12/9/18	7/12/18	✓			✓	4	4	2	Final
IT Helpdesk	29/1/19	18/1/19	✓		✓			3	2	Draft issued
Library self service and stock purchasing systems IT audit										Work in progress
<u>PLACE, PLANNING AND REGENERATION</u> Concessionary Fares	30/7/18	26/9/18	X		✓			7	2	Final
CIL/S106	18/9/18	23/1/19	X			✓	1	5	5	Final
Highways Capital	14/5/18	18/6/18	✓		✓			2		Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Allowances for Fostering, Adoption and Special Guardianships										Work in progress
Residential placements (Children's)										Deferred to 2019/20
Supervision including under the Family Safeguarding Model										Audit cancelled.
Margaret Wells-Furby House (Child Development Centre)	14/6/18	21/6/18	✓		✓			3		Final
SEN Resource Provision Follow up (Ltd 2017/18)	20/6/18	16/7/18	✓	No opinion as memo issued but 3 priority 1 recommendations raised			3	3		Final
The Rise	18/5/18	12/7/18	✓		✓			4		Final
PEP Follow up (Ltd 2017/18)	11/6/18	27/7/18	✓	No opinion as memo issued but 2 priority 1 recommendations raised			2	3		Final
Recruitment and retention incentives										Audit cancelled
PEOPLE IT AUDITS GIS system	24/7/18	13/9/18	X		✓			3	8	Final
My Benefits	13/7/18	23/8/18	✓		✓				1	Final
SCHOOLS	18/10/18	8/11/18	✓			✓	3	5		Draft issued

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
School A (Ltd 2017/18)										
School B (Follow Up limited in 2016/17)										Deferred to 2019/20
School C	23/5/18	18/6/18	✓		✓			10		Final
School D	6/11/18	4/12/18	✓		✓			12	1	Final
School E										Deferred to 2019/20
School F	21/1/19	15/2/19	✓		✓		1	3		Draft issued
School G (Follow up -Ltd 2017/18)	13/2/19									Work in progress
School H (Follow up Ltd 2017/18)	12/3/19									Work in progress