

To: **Governance and Audit Committee**
27th January 2021

Internal Audit Update
Head of Audit and Risk Management

1 Purpose of Report

1.1 This report presents the update on progress on the annual Internal Audit Plan.

2 Recommendations

2.1 To note the update on progress on the Internal Audit Plan for 2020/21.

3 Reasons for Recommendations

3.1 To ensure the Council complies with statutory requirements for internal audit.

4 Alternative Options Considered

4.1 There are no alternatives.

5 Supporting Information

Internal Audit

5.1 Delivery of the Council's internal audit services in 2020/21 is being delivered through a combination of one external contractor (TIAA Ltd), Wokingham Council's Business Assurance team under a S113 agreement and a temporary in-house senior auditor pending the recruitment of a permanent employee.

5.2 Progress against the 2020/21 Internal Audit Plan is set out in Appendix 1. As expected, it is behind original schedule due to delays in starting audits with departments whose normal work has been significantly affected by the Pandemic. The delivery of each area of the Plan is being monitored at Departmental Management Team meetings to bring this back on track wherever possible, while acknowledging that the current wave of Covid is proving at least as challenging to deal with as the initial stages. School audits were put on hold until quarter 4 and a pilot on remote auditing in schools is due to start in January.

6 Consultation and Other Considerations

Legal Advice

6.1 There are no specific legal implications arising from the recommendations in this Report.

Financial Advice

6.2 There are no financial implications arising from this report.

Equalities Impact Assessment

6.3 Not applicable.

Strategic Risk Management Issues

6.4 A robust internal audit service is essential for ensuring proper processes are in place for effective control.

Background Papers

Internal Audit Plan 2020/21

Internal Audit Charter

Risk Management Strategy

Contact for further information

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**BRACKNELL FOREST COUNCIL
HEAD OF AUDIT AND RISK
MANAGEMENT'S INTERIM REPORT**

JANUARY 2021

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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 2020 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 called the Head of Internal Audit Annual Opinion. The different categories of recommendation and assurance opinions are set out in the following tables.
- 2.3 Since 1st April 2019 we have been categorising our **audit opinions** according to our assessment of the controls in place and the level of compliance with these controls as follows::

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Adequate - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non- compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in priority.
	Partial - there are areas of weakness and/or non- compliance with control which put the system/process objectives at risk and undermine the system’s overall integrity.

	Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

2.4 We categorise our recommendations according to their level of priority as set out below:

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

- 3.1 The Annual Internal Audit Plan for 2020/21 was considered and approved by the Governance and Audit Committee on 25th March 2020. The delivery of the individual audits during 2020/21 is being undertaken in-house by a temporary senior auditor, a contractor (TIAA Ltd) and a Section 113 arrangement with Wokingham Borough Council's Internal Audit Team.
- 3.2 Due to COVID 19, which has significantly affected both workloads and working arrangements for the past 9 months, work on delivery of the 2020/21 Audit Plan did not start in earnest until around August. Progress against the Plan has been steady but slow due to the difficulties in auditing remotely and the need for officers to prioritise delivery of services. The latest COVID position has now resulted in deferral of a number of audits planned for quarter 4 into 2021/22, as set out in Appendix 1. We had already deferred all schools audit until quarter 4 and are now piloting remote audit work at one school, with a view to confirming that this approach is as workable in schools as it has proved to be across the Council's other audits.
- 3.3 Between April to December 2020, 4 grant audits and 11 reports/memos were finalised, 1 reports/memo were issued in draft awaiting management responses, 1 reports was out for client side discussion, 7 were reports/memos had been submitted for client side review and 7 audits were work in progress. In addition, a memo was issued for an assessment of data maturity was carried out at the request of officers. Due to the pandemic a number of audits have been added to these plan and these

are also shown in Appendix 1. They relate to requirements from central government for certification and high spend, high fraud risk areas.

- 3.4 Details on the status and outcome of all audits are attached at Appendix A. A summary of the outcome of finalised and audits with reports issued in draft are set out below.

ASSURANCE LEVELS	NUMBER OF AUDITS TO DATE IN 2020/21		NUMBER OF AUDITS IN 2019/20	% AGE CHANGE IN 2019/20 SINCE 2018/19	
Good	1		6	↑	100%
Adequate	7		28	↓	7%
Partial	2		9	↓	47%
Inadequate	0		1		
No assurance	0		0	↔	0%
Total for Audits with an Opinion	10		44		
Memos and reports with Major Recommendation and no Opinion	1		6	↑	20%
Other Follow Up Memos/ Reports with no Opinion	2		9	↑	800%
Total Audits	13		59		
Grant Certifications	4		4	↓	20%

Identified High Priority Control Issues

- 3.5 Audits which have identified high priority recommendations will generally be revisited in 2020/21, to ensure successful implementation of agreed recommendations. No critical recommendations have been raised to date in 2020/21 however a number of recommendations falling under our major recommendation category have been raised resulting in inadequate or partial audit opinions as set out below:

AUDITS WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED IN 2020/21	
COUNCIL WIDE	
Management of Mileage and Essential Car User Arrangements	<ul style="list-style-type: none"> A major recommendation was raised to review policy and arrangements post COVID, reflecting that different working arrangements are likely in future.

RESOURCES	
Agresso Follow Up (Memo)	<ul style="list-style-type: none"> Two major recommendations were raised relating to the absence of a Data Protection Impact Assessment (DPIA) for the Agresso system and the need to review the system support package with Unit 4 once the system is moved to the Cloud
PEOPLE	
Breakthrough	<ul style="list-style-type: none"> One major recommendation was relating to administration and stages being missed from the Customer Journey, with key objectives of the service inconsistently applied.

Update of 2019/20 Audits with Significant Weaknesses

- 3.6 Since April 2020, we have re-audited or followed up three audits from 2019/20 where significant weaknesses had been identified. The Head of Audit and Risk Management can report that significant improvement was found in both purchasing cards and officers expenses and adequate assurance opinions were given in both cases.

Quality Assurance and Improvement Programme

- 3.7 As shown below, 100% of the client questionnaires indicated the auditees were satisfied with the service. In 86% 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 to 31st December 2020	5	100%	86%
2019/20	24	92%	39%

4. PROGRESS ON INTERNAL CONTROL ENVIRONMENT 2020/21

- 4.1 Under the new CMT approach there is a specific slot for audit and governance every few weeks and monitoring of major recommendations by Directors is continuing. Given delays in progressing the Annual Audit Plan due to the flu pandemic it is too early to indicate what the potential overall opinion will be for the control environment for 2020/21. However, as noted above the Head of Audit and Risk Management has

noted improvement at follow up audits carried out to date on purchase cards and officers' expenses which have been re-audited and where an adequate assurance opinion given in both cases.

5. RISK MANAGEMENT

- 5.1 The Strategic Risk Register has already been reviewed three times by the Strategic Risk Management Group (SRMG) and the Corporate Management Team and twice by the Governance and Audit Committee in 2020/21. Deep dives on individual risks are now taking place at the Governance and Audit Committee and to date these have been completed on the cyber, business continuity, finance, staffing risks and adult social care supply risks.
- 5.2 Directorate risk registers are already in place and being reviewed quarterly for all directorates. A risk register was developed for the new directorate for the Chief Executive's Office in December 2020.

6. FRAUD AND IRREGULARITY

Benefits Investigations

- 6.1 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. The Welfare Service passes cases of overpayments in excess of £3k and cases where fraud is suspected to SFIS for investigation. Members of the public are directed to contact the DWP directly where fraud is suspected and so SFIS refers further fraud information requests where fraud has been reported from another source. During the period April 2020 to 29 December 2020 there were 14 referrals to SFIS however in response to the Covid-19 crisis and redeployment of their staff, DWP suspended all Compliance and Investigation activity and therefore we have not been notified of any actions relating to these cases. During the previous financial year 2019/20, 59 cases were referred and the Welfare Service have been notified of 1 administrative penalty by SFIS.
- 6.2 If a claimant is notified that they have been overpaid Housing Benefit by £250 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April 2020 and 29 December 2020 the service has not applied any Civil Penalties or Council Tax Penalties.

- 6.3 Since October 2018 the Verify Earnings and Pensions (VEP) Alerts service has provided the local authority with the capability to prevent fraud and error arising through real time identification of changes in income. The service provides Alerts to users to prompt them to access the service when there is a change in the claimants or partner's employment or pension. Between April 2020 and 8th December 2020, 369 changes of circumstances to Housing Benefit were recorded as actioned due to VEP of which approximately 52.6% resulted in a decrease to Housing Benefit, and approximately 33.9% resulted in an increase to Housing Benefit.

Proactive Counter Fraud Work

- 6.4 A business plan to pilot additional funding counter fraud was agreed at the Corporate Management team in May 2020 with the assistance of external counter fraud teams. COVID-19 presents difficulties for fraud investigation due to restrictions placed on social distancing which prevents face to face contact and hence interviews under caution. We have therefore not been able to progress the pilot as quickly as intended. However, some initial steps in the pilot are now being taken. A proactive review of the housing waiting list including data matching is being developed which will identify fraudulent applicants to the list. In addition, the suite of counter fraud policies including the Anti-Bribery, Anti-Money Laundering, Fraud Prevention and Whistle Blowing policies are also being reviewed.

Potential Irregularities

- 6.3 During quarter 3, a bank mandate fraud was committed against one of the Council's social care providers.

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Additional audit												audit

2. COUNCIL WIDE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Income targets/projects/digital analysis/assessment of statutory responsibilities supporting the budget setting process												Audit cancelled
Purchase Cards (Ltd 2018/19 and 2019/20)	13/7/20	15/12/20	No		✓					2		Finalised
Debt management												Deferred to late quarter 4.
Management of Mileage and Essential Car User	15/8/20	28/9/20	Yes			✓			1	3	1	Finalised
Additional staff payments advisory review – honorariums, retention payments, market premiums, pay protections												Audit cancelled

3. CORE FINANCIAL SYSTEMS

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Main Accounting and Reconciliations	21/9/20	24/10/20	Yes	✓	✓					2	1	Finalised
Cash Management												Cancelled
Council Tax	14/10/20											Report in for client side review
Business Rates	14/10/20											Report in for client side review
Creditors												Deferred to late quarter 4.
Housing Benefit and Council Tax Reduction												Work in progress

4. IT AUDIT

IT AUDIT	Start Date	Date of Draft Report	Key Indicator Me*	Assurance Level				Critical	Major	Moderate	Low	Status
				Good	Adequate	Partial	Inadequate					
Cyber liability												Report in for client side review
Data Maturity	1/9/20	17/11/20	Yes	N/A- No opinion given. Assessment based on review of maturity across key							Draft issued	

AUDIT	Start Date	Date of Draft Report	Key Indicator met	Assurance Level				Recommendation priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
monies in compliance with development in the relevant geographic area												to 21/22

ORGANISATIONAL DEVELOPMENT, TRANSFORMATION AND HUMAN RESOURCES

AUDIT	Start Date	Date of Draft Report	Key Indicator met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Staffing Establishment												Work in progress

7. DELIVERY

AUDIT	Start Date	Date of Draft Report	Key Indicator met*	Assurance level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Health and Safety	1/9/20											Work in progress
Management of Commercial Property	28/7/20	15/12/20	Yes									Draft for discussion issued
Reactive Maintenance Contracts	17/11/20											Report in for client side review
Cemetery and Crematorium												Quarter 4 audit
Public Protection Partnership	1/9/20											Report in for client side

APPENDIX 2

2019/20 AUDITS IDENTIFYING SIGNIFICANT ISSUES	
COUNCIL WIDE	
● Purchase Cards	Re-audited in quarter 2/3 of 2020/21 and an adequate assurance opinion was given.
● Officers Expenses	Re-audited in quarter 2/3 of 2020/21 and an adequate assurance opinion was given.
● Debt Management	Due to re-audited in quarter 4
DELIVERY	
● Car Parks	Currently being re-audited
● ICT Continuity Management-Gap Analysis	This has no opinion but 1 critical recommendation was raised around Portman Close
● Cyber Security	Currently being re-audited
FINANCE	
● Agresso IT System	Re-audited in quarter 3 of 2020/21 and 2 major recommendations were raised.
● Business Rates	Currently being re-audited
PLACE, PLANNING AND REGENERATION	
● Ringway Street Lighting	Due to followed up in quarter 1 of 2021/22
PEOPLE	
● Disabled Facilities Grants	Due to re-audited in quarter 4
● Forestcare	Due to re-audited in 2021/22

2019/20 AUDITS IDENTIFYING SIGNIFICANT ISSUES

● Social Care Pathway	Due to followed up in quarter 1 of 2021/22
● Public Health	Due to followed up in quarter 1 of 2021/22
● Loans for Housing Rents and Deposits	To be followed up as part of the debt management audit in quarter 4
● Deprivation of Liberties	Due to followed up in quarter 1 of 2021/22
● Three schools	Due to re-audited in quarter 4 dependent on access during the pandemic