

**GOVERNANCE AND AUDIT COMMITTEE
18 JANUARY 2010**

**INTERNAL AUDIT ASSURANCE REPORT
April – December 2009**

(Head of Audit and Risk Management)

1 INTRODUCTION

- 1.1 This report provides a summary of Internal Audit activity during the period April to December 2009. It covers work carried out by both the in-house resource and the Council's contractor H. W. Controls and Assurance. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports.

2 RECOMMENDATIONS

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

3. ADVICE FROM STATUTORY OFFICERS

- 3.1 Borough Treasurer
Nothing to add to the report

- 3.2 Borough Solicitor
Nothing to add to the report

- 3.3 Strategic Risk

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.

4 SUPPORTING INFORMATION

Background

- 4.1 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.
- 4.2 The provision of Internal Audit services is outsourced to H. W Controls and Assurance under a contract for 3 years which commenced on 1 April 2009 with an option to extend for a further 1 year. H.W Controls and Assurance are responsible for delivering the audits set out in the Annual Internal Audit Plan approved by the

Governance and Audit Committee in April 2009. In addition, one audit within the Annual Internal Audit Plan was carried out internally. The attached report summarises delivery to date on the audits approved under the Plan and other activities carried out in-house.

5 CONSULTATION

5.1 Not applicable.

Background Papers

Internal Audit Reports
Annual Internal Plan 2009/10
Contract Monitoring Records
Quality Questionnaires
NFI documentation
CIPFA Code of Practice for Internal Audit
Risk Management Training Courses
Risk Management Toolkit
Strategic Risk Register

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HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2009

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 2009 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

| ASSURANCE LEVEL | DEFINITION |
|-----------------|--|
| 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. |
| 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 provides the Borough Treasurer with details of all audits which have generated Priority 1 recommendations and, therefore, 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 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 2009/10 was considered and approved by the Governance and Audit Committee on 29th April 2009. The delivery of the individual audits in the Internal Audit Plan for 2009/10 is being undertaken by our new contractors H.W. Controls and Assurance who replaced Deloitte from 1 April 2009.
- 3.2 During the period April to December 2009, 27 reports were finalised, 12 had been issued in draft awaiting management responses, 6 were going through the quality review and response process and in 8 cases audit work was in progress. In addition, two grant claims have been audited. A summary of assurance levels is given below for the finalised and issued reports:

| ASSURANCE | APRIL – DECEMBER 2009 |
|------------------|------------------------------|
| Significant | 1 |
| Satisfactory | 35 |
| Limited | 3 |
| None | - |
| Total | 39 |

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 December 2009.

| Audit | Assurance Level | | | | Recommendations | | | Status |
|--|------------------------|---------------------|----------------|-------------|------------------------|----------|----------|-----------------|
| | Significant | Satisfactory | Limited | None | Priority | | | |
| | | | | | 1 | 2 | 3 | |
| Chief Executive's Office | | | | | | | | |
| Print & Design Follow Up 08/09 Ltd. | | X | | | | | 4 | Final |
| Data Quality | | X | | | - | - | - | Final |
| New Performance Management System – IT Audit | | X | | | | 1 | | Final |
| Corporate Services | | | | | | | | |
| Transport - vehicle maintenance, fuel cards & licenses | | X | | | | 3 | 1 | Final |
| Corporate Governance | | X | | | | 9 | 1 | Issued in draft |
| Hospitality Registers | | X | | | | 5 | 3 | Issued in draft |
| ICT Helpdesk – IT audit | | X | | | | 4 | | Final |
| Programme & Project Management – IT audit | | X | | | | 1 | 1 | Final |
| Computer Data Back-up – IT audit | | X | | | | | 1 | Issued in Draft |
| Staff Benefits | | X | | | | 5 | | Final |
| Physical and Environmental Controls –IT audit | | X | | | | 2 | 2 | Issued in Draft |
| Data Protection & Freedom of Information | | X | | | | 3 | 1 | Issued in Draft |
| Budget/Budgetary Control | | X | | | | 1 | | Final |

| Audit | Assurance Level | | | | Recommendations | | | Status |
|--|-----------------|--------------|---------|------|-----------------|---|---|--|
| | Significant | Satisfactory | Limited | None | Priority | | | |
| | | | | | 1 | 2 | 3 | |
| Cash Management | | | | | | | | WIP |
| Bank & Reconciliations | | X | | | | | 1 | Quality reviewed and awaiting issue in draft |
| Treasury Management | | X | | | | 1 | 3 | Issued in draft |
| Creditors | | X | | | | 6 | 5 | Submitted for quality review 21/12/09 |
| Debtors | | X | | | | 5 | | Quality reviewed and awaiting issue in draft |
| Main Accounting | | X | | | | 3 | 3 | Final |
| Capital & Fixed Assets | | | | | | | | WIP |
| Payroll | | X | | | | 4 | 1 | Quality reviewed and awaiting issue in draft |
| Council Tax | | X | | | | 6 | 1 | Quality reviewed and awaiting issue in draft |
| NNDR | | X | | | | 5 | 3 | Quality reviewed and awaiting issue in draft |
| Members Expenses | | | | | | | | WIP |
| Children, Young People and Learning | | | | | | | | |
| School Census | | X | | | | 3 | 4 | Final |
| Birch Hill Primary Follow Up 08/09 Ltd. | | X | | | | 1 | 1 | Final |
| Binfield Primary Follow Up 08/09 Ltd. | | X | | | | 3 | 1 | Final |
| Uplands Primary | | X | | | | 5 | 8 | Final |
| St. Margaret Clitherow Primary | | X | | | | 1 | 4 | Final |

| Audit | Assurance Level | | | | Recommendations | | | Status |
|---------------------------|-----------------|--------------|---------|------|-----------------|---|---|--------|
| | Significant | Satisfactory | Limited | None | Priority | | | |
| | | | | | 1 | 2 | 3 | |
| Bracknell Leisure Centres | | | | | | | | WIP |
| CONFIRM – IT audit | | | | | | | | WIP |

- 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 2010/11, to ensure successful implementation of agreed recommendations. The key weaknesses identified during the two audits with a limited assurance opinion are as follows:

| DIRECTORATE | AUDITS WITH LIMITED ASSURANCE CONCLUSION |
|--|--|
| Children, Young People and Learning | <p><u>Cranbourne Primary School</u> Limited assurance was given for this audit due to one Priority 1 recommendation being raised but also because of the high number of recommendations in general. In total, one Priority 1, twelve Priority 2 and six Priority 3 recommendations were raised. The Priority 1 recommendation was to address the fact that contrary to the contractual agreement, electricity had not been re-charged to the pre-school since the contract inception in 2006. Weaknesses resulting in Priority 2 recommendations included the absence of internal financial procedures, the School Development Plan only covering 1 year instead of 3, letting charges not being reviewed since 2005, the last completed audit of the private fund being 2006/07 and two references not being obtained in the case of 1 new starter.</p> |
| | <p><u>The Pines School</u> This audit was carried out in-house. The report was still subject to final agreement at the time this report was produced. The audit opinion was limited assurance in this case again due to one Priority 1 recommendation and the high number of recommendations overall – eighteen including fourteen Priority 2 and three Priority 3. The Priority 1 recommendation was in response to CRB and List 99 checks not being completed for 2 supply teachers. Weaknesses resulting in Priority 2 recommendations included applications, references, evidence of CRB checks, etc not being filed on personnel files, the inventory not being updated since early 2007, blank cheques not being crossed through as cancelled, absence of checking of site controller's overtime and compliance with working time directive, cheques received not being banked for several weeks.</p> |

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|---|---|
| Environment, Culture and Communities | <p><u>Sustainability</u> The draft report has 16 recommendations including 2 Priority 1 recommendations but is currently at discussion stage and hence a verbal update will be provided at the meeting.</p> |
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3.5 At the time of writing 28 completed questionnaires had been received for audits undertaken during 2009/10. 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:

| AUDIT YEAR | SATISFIED | NOT SATISFIED | TOTAL |
|------------|-----------|---------------|-------|
| 2009/10 | 25 | 3 | 28 |
| 2008/09 | 82 | 7 | 89 |

3.6 Detail of questionnaires where auditees were not satisfied with the audit.

| Audit title | Reason for unsatisfactory response | Audit's response |
|--------------|---|--|
| Ascot Heath | <p>The auditor was very late arriving on the first day. She was only on site two days and only for a few hours each day.</p> <p>On leaving on the second day, the auditor said she would not hold an exit meeting but would be happy to discuss the report once issued.</p> <p>When the report was received the BFC Contract Manager was contacted about these issues and subsequently HW arranged an exit meeting.</p> <p>Following the exit meeting a further 2 recommendations were added to the report that had not been discussed at the exit meeting.</p> | <p>In future, the HW Contract Manager will ensure that the auditee is fully aware of any changes in arrival time.</p> <p>An exit meeting was held on the 7th July 2009. Following manager review a further 2 recommendations were appropriate which were discussed with the school via telephone (a method which is no longer used - all meetings are now held face to face).</p> <p>The school expressed concern with the time the auditor spent on site. Whilst it is the HW approach to complete all compliance testing on site and then take documents away for review, the general approach to school auditing will be assessed prior to the next raft of school audits. HW will engage in training/discussions with the BFC Contract Manager.</p> |
| Data Quality | <p>There were clear misunderstandings in the report which undermined the value of the draft report.</p> <p>Testing was omitted during the initial review and was conducted by a more senior auditor at the last minute.</p> <p>The draft report was delivered late and to a low quality standard. The two recommendations raised were of limited practical value. (NB these were later removed).</p> | <p>Misunderstanding and inaccuracies can arise, especially during lengthy, complex audits. The process of moving from a "draft" report to "final" is to, inter alia, iron out such issues. In this instance however, we have used terminology that was cited by the auditee during fieldwork</p> <p>It is for the auditor to decide, during the course of the audit as to what constitutes a major element of the audit. There is an ongoing process of assessing risk (before and during an audit) and the auditor will "flex" the focus of testing if necessary in accordance with this process.</p> <p>A report can always be delivered quicker but the auditee, in this instance, was kept aware of the status of the audit and report. Our meetings with the auditee to discuss status have been minuted and are on the audit file. The audit reported against the agreed audit brief points and no remarks were shared with us at draft stage about the overall quality.</p> |
| Transport | Whilst the audit was well planned | The presentation of the poor first draft of the |

| | | |
|--|---|---|
| | <p>and executed the process fell apart on presentation of the draft report. The first draft was full of spelling mistakes, bad grammar and incorrect information. A meeting took place with the audtee, auditor and manager. At this meeting the auditor paid little attention and made no notes of what the audtee was trying to convey. Subsequently, the audtee received a personal apology from the Partner, the report was re-written and the audtee was happy with the revised version.</p> | <p>report was due to poor version control and the HW internal protocol for version control has been re-iterated to the auditors. The auditor concerned has been reassigned and all BFC audits have been allocated to other, more experienced auditors. All comments made by the audtee were addressed and included in the amended report which has now been approved by the audtee.</p> |
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4. RISK MANAGEMENT

- 4.1 The Strategic Risk Register continues to be updated quarterly. The most recent version was approved by the Executive on 15th December 2009. Since July, risk management training has been provided to building surveyors, Adult Social Care Senior Managers and Environment Culture and Communities Senior Managers. Training is to be provided to Children, Young People and Learning Senior Managers on 12 January 2010.
- 4.2 The Risk Management Toolkit has been amended to provide more detailed guidance for managers on completing the strategic risk section of reports for decision. As part of the Service Planning process guidance has also been issued to directorates on identifying risk factors and developing strategic risk action plans.
- 4.3 In addition, internal audits are to be undertaken in each directorate in the next quarter focusing on risk management and in particular the management of operational, project and change management risk.

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. During the first half of 2008/09 Internal Audit coordinated the submission of the mandatory data for the latest cycle of the exercise. Resulting matches were returned in the first few months of 2009 and are currently being investigated within service areas. Further details on the outcome of these investigations is provided in a separate report to the Governance and Audit Committee.

Fraud and Irregularity

- 5.2 In May 2009, Internal Audit were informed of a suspected theft by an employee at the Crematorium. This was subsequently admitted by the employee and Internal Audit assisted with the investigation. This indicated that the theft amounted to several thousand pounds. Following a disciplinary hearing, the employee was dismissed. The case was referred to the Police but no charges were brought.

- 5.3 In addition the following minor irregularities were reported to Internal Audit during the year:

Following on from previous scam invoices over the last 2 years, in June 2009, Internal Audit were advised of 2 scam invoice for bogus job adverts by the Environment, Culture and Communities' HR team. A Fraud Alert was issued to Bracknell All Users. In addition Trading Standards were informed so that they could notify the local Trading Standards team from where the invoices had originated and add these cases to the national Trading Standards database. Trading Standards also wrote to three organizations in June 2009 advising them that there actions could be considered an offence under the Fraud Act 2006. To date, Internal Audit has not been advised of any further cases.

In September 2009, 4 direct debit confirmation forms and payment schedules relating to magazine subscriptions were sent to the Coral Reef who referred these to Internal Audit. Internal Audit confirmed that the accounts and sort codes listed did not relate to any Council bank accounts and advised Accounts Payable that no payments should be made. It was confirmed that no previous payments had been made to this organization.

Small amounts of cash (£20 & £10) were found to be missing from Downshire Golf Club in April and November 2009. Internal Audit gave immediate advice for improvement in control.

Two forged £20 notes were paid into the Bracknell Leisure Centre in May and June 2009. The incident was reported to the police, but no more has been heard as it would be impossible to trace the source or recover the funds.

- 5.4 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.
- 5.5 During the period 1 April 2008 to 16 December 2009, the Compliance Officer carried out 300 proactive visits and the Team received 698 fraud referrals from data matching, anonymous phone calls/letters, the cheatchasers hotline/emails, overpayments in excess of £500 and from Housing/Council Tax and other staff at the Council. Each referral is assessed in terms of quality of information and reliability of source before determining if a full investigation is required. During this period 138 cases were investigated.
- 5.6 The Team's investigations identified overpayments totalling £118,807.47 and brought 9 successful prosecutions. In addition 27 formal cautions and 8 Administration penalties (a 30% penalty on top of overpaid benefit) were imposed in 8 cases.