

**GOVERNANCE AND AUDIT COMMITTEE  
JANUARY 2011**

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**INTERNAL AUDIT ASSURANCE REPORT  
April – December 2010**

**(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 2010. It covers work carried out by the 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 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 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 the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in April 2010. In addition, three audits within the Annual Internal Audit Plan were carried out internally, one VAT audit was carried out by a specialist from Deloitte and three audits were undertaken by Reading Borough Council's Internal Audit Team. 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 2010/11  
Contract Monitoring Records  
Quality Questionnaires  
NFI submissions  
CIPFA Code of Practice for Internal Audit  
Strategic Risk Register

### Contact for further information

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

**APRIL – DECEMBER 2010**

## 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 2010 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.
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 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 2010/11 was considered and approved by the Governance and Audit Committee on 29th April 2010. The delivery of the individual audits is largely undertaken by our contractors H.W. Controls and Assurance. Three audits have been undertaken by Reading Borough Council, 1 VAT audit has been undertaken by VAT specialists from Deloitte and 3 have been carried out in-house.
- 3.2 During the period April to December 2010, 1 grant claim audit and 25 reports were finalised, 21 reports had been issued in draft awaiting management responses, 12 were work in progress, 2 had been deferred to 2011/12 and 26 had not yet started (24 of which were scheduled as Quarter 4 audits). The assurance level given on reports finalised and issued in draft were as follows:

<b>ASSURANCE</b>	<b>APRIL – DECEMBER 2010</b>
Significant	4
Satisfactory	40
Limited	2
None	-
<b>Total</b>	<b>46</b>

- 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 2010.

**2009/10 AUDITS NOT PREVIOUSLY REPORTED TO GOVERNANCE AND AUDIT COMMITTEE**

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
<b>Children, Young People and Learning</b>												
Risk Management	15/3/10	10/12/10	No			X			-	3	1	Draft issued
<b>Adult Social Care and Health</b>												
Direct Payments	10/2/10	5/7/10	No			X			-	6	6	Draft issued

**2010/11 AUDITS**

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
<b>Chief Executive's Office</b>												
Risk Management	10/5/10	21/9/10	No	Yes	X				-	-	-	Finalised
	28/6/10	25/10/10	No – Exit meeting held after report was issued			X			-	6	1	Draft issued
Data Quality												
<b>Corporate Services</b>												
Risk Management	17/5/10	20/8/10	No			X			-	3	-	Finalised
Imprests	26/4/10	26/5/10	Yes	Yes		X			-	5	-	Finalised
Commercial Properties	25/5/10	8/6/10	Yes			X			-	2	-	Finalised
VAT – (D&T)	23/10/10	22/10/10	Yes			X			-	2	1	Draft

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
Council Tax Part 1 (Under Pericles)	2/8/10	15/10/10	Yes	Yes		X			-	7	1	<i>issued</i> Finalised
NNDR Part 1(Under Pericles)	10/8/10	25/10/10	Yes	Yes		X			-	6	-	Finalised
Design & Surveyors Services	9/8/10	7/9/10	Yes	Yes		X			-	4	-	Draft issued
Recruitment & Pre-employment Checks (RBC)	25/8/10	22/9/10	N/A – Exit meeting not held	Yes		X			-	4	3	Draft issued
Pericles Replacement IT Audit Part 1 (limited to the design of controls)	1/9/10	4/10/10	N/A – Exit meeting not held			X			-	1	-	Draft issued
Adherence to Government Connect (GSI code)												Not due as QTR 4 audit
Compliance with PCI Data Security Stds	20/9/10	20/10/10	Yes				X		2	-	1	Finalised
Budgeting/Budgetary Control	1/11/10											WIP
Treasury Management	4/10/10	27/10/10	Yes	Yes	X				-	-	-	Finalised
Creditors	5/10/10	6/12/10	No	Yes		X			-	2	1	Finalised
Debtors	11/10/10	14/12/10	Yes			X			-	2	-	Draft issued
Main Accounting inc. Reconciliations	15/11/10											WIP
Payroll	4/10/10	6/12/10	Yes			X			-	1	1	Draft issued but additional testing requested





Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
<b>Learning</b>												
School Census	8/6/10	23/11/10	No	Yes		X			-	4	8	Finalised
Off Site Activities	9/6/10											WIP - Draft report significantly overdue
<i>Sandy Lane Primary (in-house)</i>	19/4/10	4/5/10	Yes	Yes		X			-	7	1	Finalised
<i>Wildmoor Heath School (in-house)</i>	9/11/10	30/11/10	Yes				X		6	13	-	Draft issued
<i>The Pines Follow Up 09/10 Limited (in-house)</i>												<i>Not due as QTR 4 audit</i>
Cranbourne Follow Up 09/10 Limited	16/6/10	7/7/10	Yes			X			-	7	-	Finalised
Brakenhale	9/6/10	7/7/10	Yes	Yes		X			-	8	2	Finalised
Crowthorne Primary	14/6/10	8/7/10	No	Yes		X			-	12	1	Finalised
Great Hollands Primary	10/6/10	29/9/10	No			X			-	6	4	Draft issued
Meadow Vale Primary	24/6/10	13/7/10	Yes	Yes		X			-	3	6	Finalised
Winkfield St. Mary's	14/6/10	10/8/10	No	Yes		X			-	7	9	Finalised
Whitegrove Primary	13/7/10	21/8/10	No	Yes		X			-	9	11	Finalised
Wildridings Primary	21/6/10	15/7/10	Yes	Yes		X			-	4	4	Draft issued
Woodenhill Primary	24/6/10	15/7/10	Yes	Yes		X			-	3	3	Finalised
College Hall PR Unit	16/6/10	13/7/10	No			X			-	10	3	Draft issued
Extended Services	12/7/10	26/8/10	Yes	Yes		X			-	3	-	Finalised
Children's Trust	2/8/10	17/8/10	Yes	Yes	X				-	-	-	Finalised
Alders Family Centre	9/8/10											WIP - Draft report significantly overdue

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status
					Significant	Satisfactory	Limited	None	Priority			
									1	2	3	
Chestnut Family Centre	16/8/10											WIP - Draft report significantly overdue
The Spot Sandhurst - Youth Centre	1/9/10	16/12/10	Yes			X			-	11	1	Revised draft report issued
TRAX North Ascot Youth Centre	1/9/10	15/10/10	Yes	Yes		X			-	3	-	Finalised
Residential Placements	2/8/10	6/9/10	No			X			-	3	1	Draft issued but in process of being revised
SEN	19/7/10	3/8/10	Yes	Yes		X			-	4	1	Draft issued
Services to Schools	1/12/10											WIP
Framework (Children's System) IT audit												Not due as QTR 4 audit
Primary School Capital Strategy												Not due as QTR 4 audit
Post 16 Funding Transfer												Not due as QTR 4 audit
After Care Team												Not due as QTR 4 audit
<b>Adult Social Care and Health</b>												
<i>Stroke Grant Claim (in-house)</i>	7/6/10	22/6/10	<i>N/A – Exit meeting not applicable to grant claims</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Finalised
Contracting & Brokerage	23/8/10	7/10/10	Yes	Yes		X			-	5	-	Finalised



Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Satisfactory Client Questionnaire	Assurance Level				Recommendations			Status	
					Significant	Satisfactory	Limited	None	Priority				
									1	2	3		
Garden Project												2011/12	
Housing & Council Tax Benefits Part 1 (under Pericles)	2/8/10	18/10/10	Yes			X			-	4	-		Finalised
Recruitment & Pre-employment Checks (RBC)	18/10/10	3/10/12	Yes	Yes		X			-	6	4		Draft issued
Procurement & Ordering	15/12/10												WIP
Housing & Council Tax Benefits Part 2 (under Northgate)													Not due as QTR 4 audit
Car Parks (in-house)													Not due as QTR 4 audit
Tree Services													Not due as QTR 4 audit
Libraries													Not due as QTR 4 audit
Cash Spot Checks													Not due as QTR 4 audit
Housing Strategy													Not due as QTR 4 audit
New Choice Based Lettings (Northgate) IT audit													Not due as QTR 4 audit
Upgrade of Lifeline System (Tunstall) IT audit													Not due as QTR 4 audit
Upgrade of GIS IT audit													Not due as QTR 4 audit

- 3.4 To date, limited assurance opinions have been given for 2 audits, one of which is still in draft. 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
<b>Corporate Services</b>	<u>Compliance with new PCI Data Security Stds (IT Audit)</u> The overall conclusion for this audit was limited assurance as two Priority 1 recommendations were raised. The first related to issues noted with the physical siting of one of the IT application servers and the need to upgrade the PDQ machines at one Council site. Internal Audit has been advised that these issues have already been partially resolved. The second recommendation related to storage of details and we have been informed that this matter has now been addressed.
<b>Children, Young People and Learning</b>	<u>Wildmoor Heath School issued 30 November 2010 (agreed with Head Teacher)</u> Limited assurance was concluded overall for this audit due to 6 priority 1 recommendations being raised relating to governance arrangements, training, delays in banking and the need to improve the management and controls over the private fund. The Director of Children, Young People and Learning has advised that officers are working with the Head Teacher and the new Chair of Governors to address these issues.

- 3.5 At the time of writing 27 completed client satisfaction questionnaires not previously reported had been received since April 2010. These are an important tool for monitoring contractor performance and it is disappointing that these have been returned for only 27 out of the 46 reports issued. We will chase outstanding questionnaires. The results are summarised as follows:

AUDIT YEAR	SATISFIED	NOT SATISFIED	TOTAL
2010/11	27	-	27

- 3.6 There were no questionnaires returned between April and December 2010 where the auditee was not satisfied with the audit.
- 3.7 The tables in section 3.3 show progress on delivery, the start date for each audit and hence the time scale for delivering audits. H W Controls and Assurance contract specification sets out the formal indicators for measuring performance which the contractors have committed themselves to in signing the contract with the Council. The key indicator for measuring performance for individual audits is issue of a draft report within 15 working days of holding the exit meeting. As detailed in the table in 3.3, out of the 46 audits finalised or issued in draft, 2 did not have an exit meeting. Of the remaining 44, 2 were in house audits, 1 was carried out by the VAT Deloitte auditor and 1 was carried out by Reading Internal Audit team. In all cases the target as set for HW had been achieved by the in-house team, Deloitte and Reading Internal Audit Service.

- 3.8 Of the audits that had been delivered by H W Controls and Assurance, in 26 out of 40 cases (65%) the target had been met. This is consistent with HW's annual performance for 2009/10 when they also met the target in 65% of cases.

#### **4. RISK MANAGEMENT**

- 4.1 A fundamental refresh of the Strategic Risk Register was undertaken during the first few months of 2010/11 and following agreement at the Corporate Management Team (CMT) the new format of the Register was reviewed and approved by the Executive in September 2010. The new format of the Register incorporates actions to address risks and will be reported through the Corporate Performance Overview Report. As previously, the Strategic Risk Register continues to be updated and reviewed by Strategic Risk Management Group (SRMG) and CMT on a quarterly basis. The last update was approved by CMT on 8 December.
- 4.2 To ensure that all significant operational risks are identified and managed, CMT agreed on 30 June 2010 that Directorate Risk registers should be developed to replace the risk factors in the Service Plan. First drafts of these have already been produced for most directorates.
- 4.3 The Head of Audit and Risk Management is currently looking in to the processes used to assess risk for savings proposals. Risk management can play a vital part in assessment of proposals by ensuring that officers consider the impact of their proposals for service recipients, partners, other departments and the Council as a whole. The purpose of this is not to hinder change but to facilitate it by ensuring that before any decision is taken, officers are fully aware of the wider implications, all officers whose departments are affected have identified the steps needed to address these implications before making the final decision and any necessary mitigating action is put in place before the change is implemented. Investing time to carry out a risk assessment to support each proposal will inform the decision making process and save time and costs in the longer term.

#### **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 2010/11 Internal Audit coordinated the submission of the mandatory data for the latest cycle of the exercise. Resulting matches will be returned in the first few months of 2010 and will then be investigated within service areas.

## Fraud and Irregularity

- 5.2 As previously reported to the Governance and Audit Committee, in August 2010, the Borough Treasurer was notified by the Department for Works and Pensions (DWP) of a case of a breach of the Memorandum of Understanding with the DWP by one member of staff accessing their own records. The situation was investigated by Internal Audit. The individual concerned resigned during the investigation and before any disciplinary action could be considered. The DWP was satisfied with the way that the Council dealt with this matter and is taking no further action. However, a number of actions were agreed with the Benefits team to tighten controls.
- 5.3 In addition the following minor irregularities were reported to Internal Audit during the year: -
- In April, Bracknell Day Services informed Finance that their safe had been broken into and petty cash totalling £193.06 had been stolen. Internal Audit contacted the manager to establish if they needed any advice.
  - In May, Internal Audit received a letter from a benefit claimant who had just advised the Benefits Team that due to her increase in savings she was no longer entitled to benefit. However, she was concerned that she had not received the benefits in accordance with her assessment during 2009/10 and 2010/11 and was concerned that monies due to her had been diverted. Audit confirmed that the Benefits system showed that no benefit payments had been made in respect of her claim during this time.
  - Revenue Services contacted Internal Audit in July as a member of the public claimed that they had paid £30 into one of the handi-tills but these monies had not been credited against their account. Internal Audit investigated this allegation and responded to the individual concluding that there was no evidence of the amount being received into the handi-till and advising that Audit were of the view that that the controls over the monies deposited in the handi-till were robust.
  - In November, Internal Audit were notified by ECC HR of an investigation into excessive dry cleaning bills at Easthampstead Conference Centre. Internal Audit provided advice to HR October 2010 for the purposes of their investigation. HR concluded there was no evidence of irregularity but new procedures have been introduced to tighten controls.
  - In November, ECC HR contacted Internal Audit asking for advice on the investigation into a one-off payment made directly to an individual instead of the charity for which he worked. Internal Audit provided advice to HR on matters to be considered in investigating this case and ensuring controls were properly complied with for the future. It was concluded that no irregularity had arisen.
- 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 All cases referred are investigated, however many can be unfounded and some may create an overpayment which falls outside our guidelines to investigate, that is it is an error rather than fraud. In some cases an overpayment is identified that is enough to proceed but there is not the level of evidence available to meet the Crown Prosecution Services' 'level of evidence test' to take to court and if we do not meet that requirement we cannot other any sanction so any overpayment is just recovered by the Benefits team through normal recovery procedures.
- 5.6 During the period 1 April to 14 December 2010, the Compliance Officer undertook 390 successful visits and the Team received 461 fraud referrals of which 309 arose from data matching and 152 were mainstream referrals from sources such as the cheatchasers line, assessor referral and revenue recovery.
- 5.7 As a result of work undertaken by the Investigation and Compliance Team, the sanctions applied during this period were 25 Formal Cautions, 12 Administration Penalties (a 30% penalty on top of overpaid benefit) and 16 successful prosecutions, one of which has gone to Appeal. There was 1 unsuccessful prosecution where the magistrate decided to give the defendant the "benefit of the doubt" despite the fact that he could offer no evidence to support his claims that he had provided information to the Housing Benefits Department.
- 5.8 The statistics analysing cases for quarter 3 were still being compiled at the time of drafting this report. For quarters 1 and 2, the sanctions which resulted were from investigations initiated as follows:
- 15 from data matching
  - 11 referrals from the Compliance Officer
  - 6 from Housing Benefit Assessors
  - 2 from joint working with jobcentreplus
- 5.9 The main reasons for referrals during quarters 1 and 2 were as follows:
- 10 Job Seekers Allowance ceased but the claimant failed to inform the Housing Benefit Department
  - 12 were income related
  - 7 were working and claiming
  - 5 undeclared tax credits.

### **Other Investigations**

- 5.10 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.

- 5.11 The review established that the service level agreement with Bracknell Forest Homes to maintain records on deposits and rents for the small number of properties maintained by the Council ceased with effect from 1 February 2010. The financial functions of the Council's ABRITAS housing Options IT system were from this point used for recording debts, cash receipts and direct debits relating to these deposits and rents.
- 5.12 Transferring data to the new system was a labour intensive exercise. Whilst details of properties, rents and arrears payable to the Council for temporary accommodation had been fully and accurately put on to ABRITAS, at the time of the initial audit fieldwork in July, only 2 out of the 594 deposit loans had been fully input on ABRITAS. *The Chief Officer: Housing advised on 27th October that all data transferred from Bracknell Forest Homes has now been entered on to ABRITAS.*
- 5.13 At the time of the audit, limited action was being taken on debt recovery. One of the key reasons for this appears to be the lack of resource to obtain all the necessary information to enable debts to be chased. *The Chief Officer: Housing advised on 12 January 2011 that following the Audit, the work on consolidating and validating all information on debts has now been completed. This information is now contained in the one system and places the Council in the strongest position it has ever been to manage current and historical debt. There is dedicated staff resource to chase current rent arrears debts and deposit and rent in advance loan debts. Now that the historical information has been reconciled it is possible to write off old debts. Even so, debts that are written off will still be passed to the debt collection agency as in some cases it has been possible for that agency to recover old debt.*
- 5.14 A list of actions had been agreed with the Chief Officer: Housing to address the weaknesses identified. Internal Audit will follow up progress on these actions as part of the Housing Strategy audit.