



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

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. 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 22nd 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.

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

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	
Corporate Services												
Mobile devices	28/3/11	24/6/11	Y			X				1		Final
Environment Culture and Communities												
Purchasing and ordering	15/12/10	1/7/10	Y			X				1		Final
Adult Social Care and Health												
Emergency Duty Team	26/4/11	23/8/11	Y				X		5	8	5	In draft awaiting management responses

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	
Chief Executive's Office												
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
Corporate Services												

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
Children, Young People and Learning												
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
Environment, Culture and Community													
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
Adult Social Care and Health												
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>CHILDREN YOUNG PEOPLE AND LEARNING</p>	<p><u>Binfield CE Primary School</u> 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>ADULT SOCIAL CARE AND HEALTH</p>	<p><u>Headspace</u> 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><u>Emergency Duty Team</u> 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 31st 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 14th October there were 11 cases pending court hearing.
- 5.10 For the period April to 14th 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.