

**GOVERNANCE AND AUDIT COMMITTEE
6 NOVEMBER 2012**

**INTERNAL AUDIT ASSURANCE REPORT
April –September 2012
(Head of Audit and Risk Management)**

1 INTRODUCTION

- 1.1 This report provides a summary of Internal Audit activity during the period April to September 2012. It covers work carried out by both 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 RECOMMENDATION

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

3 REASONS FOR RECOMMENDATION

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

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 No alternative options available.

5 SUPPORTING INFORMATION

Background

- 5.1 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.
- 5.2 The provision of Internal Audit services is largely outsourced to Deloitte Public Sector Internal Audit under a contract which commenced on 1 April 2012. Deloitte 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 2012. In addition, 10 audits were by other providers as set out in Section 3.1 of my report. The attached report summarises delivery to date on the audits approved under the Plan and other activities carried out in-house.

6. ADVICE FROM STATUTORY OFFICERS

6.1 Borough Treasurer
Nothing to add.

6.2 Borough Solicitor
Nothing to add.

6.3 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.

6.4 Equalities Impact Assessment
Not applicable

7 CONSULTATION

7.1 Not applicable.

Background Papers

Internal Audit Reports
Annual Internal Plan 2012/13
Contract Monitoring Records
Quality Questionnaires
NFI submissions
CIPFA Code of Practice for Internal Audit
Strategic Risk Register

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HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – SEPTEMBER 2012

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 September 2012 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
1	Essential – addresses a fundamental control weakness and must be brought to the specific attention of senior management and resolved.
2	Important – addresses a control weakness and should be resolved by management in their area(s) of responsibility.
3	Best practice – addresses a potential improvement or amendment issue.

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 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 2012/13 was considered and approved by the Governance and Audit Committee on 27th March 2012. The delivery of the individual audits is largely undertaken by our contractors Deloitte and Touche Public Sector Internal Audit. Deloitte 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 2012. In addition, to date 10 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 September 2012, 8 full reports with an opinion were finalised, 15 had been issued in draft awaiting management responses and in 10 cases audit work was in progress. In addition, 2 grant claims have been certified/declarations made, 1 memo had been finalised on benefit spot checks (see below) and 1 memo in support of the YPLA/bursary schemes grant was awaiting finalisation. In these cases memos were produced in place of reports as the reviews were targeted work rather than full systems reviews. A summary of assurance levels is given below for the finalised and draft reports issued.

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ASSURANCE	APRIL- SEPTEMBER 2012/13	2011/12
Significant	-	8
Satisfactory	19	64
Limited	4	4
No Assurance	-	-
Total for Audits Including an Opinion	23	76
Grant Claim Certifications/Declarations	2	2
Memos issued	2	7
Total	27	85

- 3.3 In response to the weaknesses identified by the External Auditors on the 2009/10 Housing Benefit and Council Tax Subsidy grant claim, the Chief Executive agreed with the Head of Audit and Risk Management that Internal Audit would carry out unannounced spot check visits during 2011/12. Whilst a number of errors and weaknesses were identified and set out in the memos for 2 spot checks, results overall were positive and indicated a reduction in the level of errors. It has been agreed that 2 further spot checks will be undertaken in 2012/13. The first spot check has been completed. Whilst one incorrect assessment arising from human error was found in the sample testing performed, the results of the spot check continue to indicate that the level of errors has reduced. Given results to date, the second spot check will not be unannounced.
- 3.4 The table below provides details by directorate on audits finalised, at draft stage and in progress setting out their status as at 30th September 2012.

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2011/12 AUDITS

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Adult Social Care, Housing and Health											
Personal Budgets											Work in progress

2012/13 AUDITS

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations			Status	
				Significant	Satisfactory	Limited	None	Priority				
								1	2	3		
Assistant Chief Executive's Office												
Data Quality											Work in progress	
Compulsory Purchases											Not due as QTR 4 audit	
Corporate Services												
Bus Service Operators Grant BSOG	23/5/12	13/6/12	Y	N/A – Grant certification								Final
Employment Status (Council-wide)											Work in progress	
Procurement (Council-wide)											Not due as QTR 4 audit	
Transport	21/5/12	26/6/12	Y		X				2	9	Final	
Agresso Upgrade (IT audit)	24/4/12	4/7/12	Y		X				3	2	Draft issued	
Disaster Recovery (IT audit)	25/6/12	24/9/12	Y			X		2	4	1	Draft issued	
Back Up Procedures (IT)											Deferred to QTR 4	

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Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	1	2	3	
											QTR 3 audit
NNDR											Not due as QTR 3 audit
Procurement cards											Not due as QTR 4 audit
Information Security & Info. Risks- IT audit											Not due as QTR 4 audit
Adherence to Government Connect- IT audit											Not due as QTR 4 audit
Children, Young People and Learning											
Edgbarrow Secondary	21/5/12	16/7/12	Y		X				2	6	Final
Garth Hill College (plus assets)	21/5/12	10/7/12	N		X				11	7	Draft issued
Sandhurst Secondary	14/5/12	14/6/12	N		X				5	4	Draft issued
Ascot Heath Infant	28/5/12	17/7/12	N			X		1	9	6	Draft issued
Binfield Primary (Limited 2011/12)	1/5/12	8/6/12	N		X				8	2	Final
Cranbourne Primary	9/5/12	14/6/12	N		X				7	4	Draft issued
Holly Spring Infant & Nursery	23/4/12	31/5/12	N		X				7	3	Draft issued
Jennett's Park	28/5/12	16/7/12	N			X		2	6	1	Draft issued
The Pines	11/6/12	21/9/12	N		X				10	5	Draft issued
Uplands Primary	14/5/12	18/7/12	N			X		1	9	4	Draft issued
Kennel Lane Special School											Not due as QTR 3 audit
St. Margaret Clitherow											Not due as QTR 3 audit
School Census	18/6/12	23/8/12	N		X				4	4	Draft issued

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Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations			Status	
				Significant	Satisfactory	Limited	None	Priority				
								1	2	3		
Benefits											QTR 3 audit	
Emergency Duty Team - 1 (Ltd. 2011/12)												Work in progress
Emergency Duty Team - 2 (Ltd. 2011/12)												Not due as QTR 4 audit
Community Response & Reablement	28/9/12	25/9/12	Y		X				4	4		Draft issued
Mental Health												Deferred to QTR 4
CONTROCC Payments/Receipts												Not due as QTR 3 audit
Transfer of Public Health												Not due as QTR 4 audit
Older People												Not due as QTR 4 audit
Financial Assessm'ts & Benefit Checks												Not due as QTR 4 audit
Council Tax Benefits Reforms												Not due as QTR 4 audit
Older People												Not due as QTR 4 audit

- 3.4 To date, limited assurance opinions have been given for 4 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 four audits with a limited assurance opinion are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
<p>CHILDREN YOUNG PEOPLE AND LEARNING</p>	<p><u>Ascot Heath Infant School (in draft)</u> Weaknesses in pre-employment checks resulting in a priority one recommendation plus the high number of priority two recommendations led to an overall limited assurance opinion. Senior officers from the local authority are working with the school to provide support and advice and ensure that action is being taken to implement the agreed recommendations.</p>
	<p><u>Uplands School (in draft)</u> Weaknesses in pre-employment checks resulting in a priority one recommendation plus the high number of priority two recommendations led to an overall limited assurance opinion. Senior officers from the local authority are working with the school to provide support and advice and ensure that action is being taken to implement the agreed recommendations.</p>
	<p><u>Jennet's Park School (in draft)</u> Two priority one recommendations were raised at this audit leading to an overall limited assurance opinion. These related to the absence of an inventory for the school's assets and weaknesses in the banking arrangements for the school' private funds. Senior officers from the local authority are working with the school to provide support and advice and ensure that action is being taken to implement the agreed recommendations.</p>
<p>CORPORATE SERVICES</p>	<p><u>Disaster Recovery (in draft)</u> A limited assurance opinion was concluded as two priority one recommendations were raised. These were to address weaknesses in the documentation of disaster recovery plans and in the arrangements for alternative data sites and the contractual arrangements for the provision of core services in the event of a business continuity incident. The Chief Officer has advised that work is now on-going to develop more detailed documentation of ICT disaster recovery plans. The contract for core provision of services is now in place and officers are meeting with the contractor shortly to review options for alternative data sites.</p>

- 3.5 At the time of writing 12 completed questionnaires had been received since April 2012 for 2012/13 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
10	2	12

- 3.6 The unsatisfactory questionnaires all related to schools which raised concerns around the delays in the issue of draft reports. This has been followed up with the contractor.

4. RISK MANAGEMENT

- 4.1 During the first half of 2012/13 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 on 25th September 2012.

- 4.2 The Strategy identifies the key risk management priorities for the next 12 months which will be monitored by SRMG. These priorities are :

- to monitor implementation of any actions identified from the business continuity testing exercise scheduled for October 2012 and consider the effectiveness of arrangements for promoting effective business continuity arrangements throughout the Council and the ICT solutions in place for responding to business continuity incidents
- on-going work to identify the Council's "information assets" and their associated risks.
- six monthly monitoring of progress on actions to address strategic risks
- review of arrangements in place to maintain and monitor Directorate Risk Registers and risk logs should be in place for all major projects and programmes

- 4.3 The Strategic Risk Register has been reviewed quarterly by the SRMG to date during 2012/13 and is now reviewed every 6 months by CMT. CMT last reviewed the Register on 2nd May 2012. 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 is now due to be submitted for the 2012 exercise. Matches will be received back in stages in early 2013 for investigation within the relevant departments.

Fraud and Irregularity

- 5.5 During the period Internal Audit investigated an allegation of an ex employee working at another organisation whilst technically still in the employment of and being paid by the Council. The loss to the Council was insignificant although a car loan remains outstanding. Regular repayments are currently being made.
- 5.6 A number of other minor irregularities were reported to Internal Audit during the period.
- 5.7 In addition to the work undertaken by Internal Audit on fraud and irregularities, there is a Benefits Investigation Team. The Investigation Team is located within the Benefits section of Housing in Adult Social Care, Housing and Health. It is therefore outside of the management of the Internal Audit Team. The Team consists of a Senior Investigations Officer and one Investigation Officer. During the investigation of claims, Officers interview witnesses, take statements, carry out surveillance and interview under caution with a view to taking prosecution action. All cases are investigated, however many can be unfounded, some may create an overpayment as a result of an error and are recovered through normal recovery procedures.
- 5.8 As a result of work undertaken by the Investigation and Compliance Team, the sanctions applied during this period were 35 Formal Cautions, 17 Administration Penalties (a 30% penalty on top of overpaid benefit) and 8 successful prosecutions.
- 5.9 The sanctions which resulted were from investigations initiated as follows:
- 2 from NFI data matching;
 - 7 from other data matching;
 - 18 referrals from the Compliance Officer;
 - 25 from Housing Benefit Assessors;
 - 1 from Council Tax;
 - 1 from the Cheatchasers line;
 - 5 from joint working with jobcentreplus; and
 - 1 was highlighted by return of mail
- 5.10 The main reasons for referrals during the period were as follows:
- 7 living together undeclared;
 - 30 were income related;
 - 10 were working and claiming;
 - 7 undeclared tax credits;
 - 4 were not resident;

- 1 undeclared rent reduction; and
- 1 had an undeclared non-dependent