TO: **GOVERNANCE AND AUDIT COMMITTEE**
28 JANUARY 2014

INTERNAL AUDIT ASSURANCE REPORT
April –December 2013

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 2013. 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   RECOMMENDATIONS

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. 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 2013. The remaining audits are delivered by Reading and Wokingham Council's internal audit teams under an agreement under Section113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

6. **ADVICE FROM STATUTORY OFFICERS**

6.1 <u>Borough Treasurer</u>
Nothing to add.

6.2 <u>Borough Solicitor</u>
Nothing to add.

6.3 <u>Strategic Risk</u>
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 <u>Equalities Impact Assessment</u>
Not applicable

7 **CONSULTATION**

7.1 Not applicable.

<u>Background Papers</u>

Annual Internal Plan 2013/14
Strategic Risk Register

<u>Contact for further information</u>

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HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2013

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 2013 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

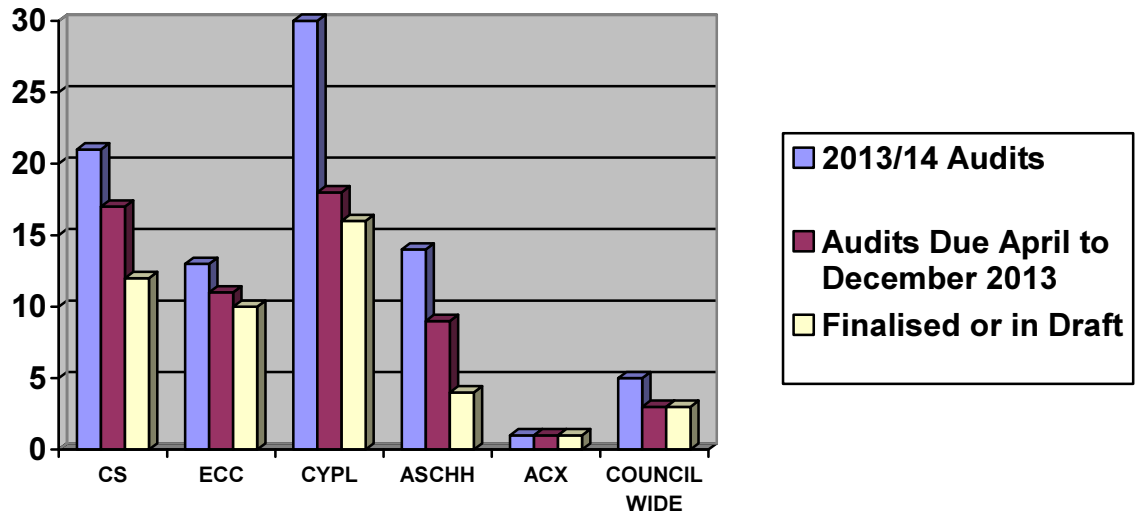| PRIORITY	DESCRIPTION
1	Essential – addresses a fundamental control weakness and must be brought to the specific attention of senior management and resolved.
2	Important – addresses a control weakness and should be resolved by management in their area(s) of responsibility.
3	Best practice – addresses 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 relevant Director and 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 senior management and the Section 151 Officer are informed at the earliest opportunity of any potential significant weaknesses or problem areas. Where satisfactory or significant assurance opinions are given, Directors receive copies of the final agreed report.
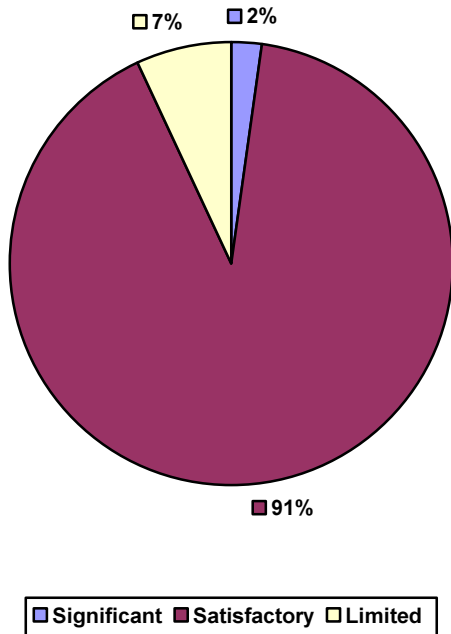

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

3.1   The Annual Internal Audit Plan for 2013/14 was considered and approved by the Governance and Audit Committee on 27th March 2013. The delivery of the individual audits is largely undertaken by our contractors Deloitte and Touche Public Sector Internal Audit. In addition, 22 reviews and grants will be audited under the Section 113 arrangement with Reading and Wokingham Borough Councils' Internal Audit Teams and 9 reviews and grants will be audited in house.

3.2   During the period April to December 2013, 6 grants had been certified (2012/13:3), 35 reports were finalised, 9 had been issued in draft awaiting management responses and in 11 cases audit work was in progress. A summary of performance to date is set out below. Details on the status and outcome of all audits are attached at Appendix A.

SUMMARY OF PERFORMANCE APRIL – DECEMBER 2013

- 2013/14 Audits
- Audits Due April to December 2013
- Finalised or in Draft

ASSURANCE OPINIONS

- Significant
- Satisfactory
- Limited

ANALYSIS OF RECOMMENDATIONS

- Priority 1
- Priority 2
- Priority 3
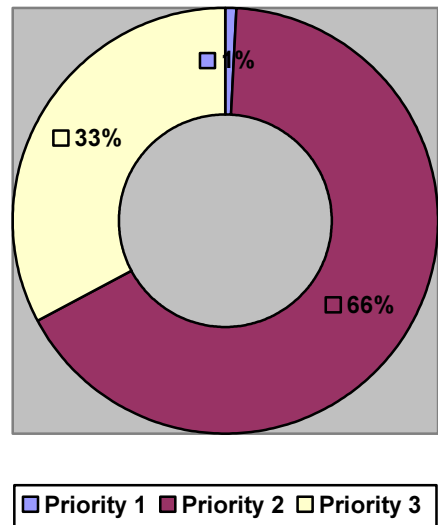
	Client Questionnaires		Draft Report Produced within 15 Days of Exit meeting
	Received	Satisfactory	
2013/14 to Date	34	97%	70%
2012/13	45	87%	60%

3.3   As noted above and Appendix A, delivery against the planned programme is on track with the bulk of quarter 1- 3 audits finalised or issued in draft at the time of writing this report and a further 11 already in progress. The majority of assurance opinions given were satisfactory with one significant and 3 limited opinions. (2012/13: 4 limited assurance opinions). Most recommendations raised to date were priority 2. Only 1% were at priority 1 level.

Significant Control Issues

3.4   All audits, which have generated a limited assurance opinion, will be revisited in 2014/15, to ensure successful implementation of agreed recommendations. The key weaknesses identified during the 3 finalised audits with a limited assurance opinion to date are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
ENVIRONMENT	Car Parking Whilst no priority one recommendations were raised in the audit report, the review of car parking identified a range of system weaknesses that resulted in an overall limited assurance opinion. The issues identified were the need to improve monitoring of the contractor's performance, the lack of clarity around payment terms for season ticket income and weaknesses in the application of procedures for ensuring this income is received and weaknesses in documented procedures, the reporting of penalty charge notices and documentation of risks. The Chief Officer met with officers and the contractor to identify how these matters can be addressed and audit have been informed that agreed actions have since been implemented.
CORPORATE SERVICES	Compliance with Payment Card Industry (PCI) Standards A limited assurance conclusion was given on the audit of arrangements for ensuring compliance with Payment Card Industry Data Security Standards (PCI DSS). The audit found that a formal framework to manage PCI DSS compliance had not been developed as the officer leading on the project to improve compliance had left the Council. PCI DSS Policy had not been defined and officers had not completed the Data Security Standard Self-Assessment Questionnaire (DSS SAQ) which is a tool developed by PCI to self-assess on-site data security. A priority 1 recommendation was raised to develop and implement a formal framework to support compliance with the PCI DSS requirements and complete the SAQ as part of this process. The Chief Officer: Customer Services has developed an action plan in consultation with the Chief Officer: Information Services and this will now be taken forward. As at December 2013 Audit have been informed that agreed actions are on track.
CHILDREN, YOUNG PEOPLE AND LEARNING	Wildmoor Heath Primary School A limited assurance opinion was given for the audit of this school due to continuing historic issues around delays in auditing and certification of private fund accounts. The current Head Teacher and Bursar are seeking to ensure these audits are up to date by March 2014. Senior officers from the local authority will be working with the

	school to provide support and advice and ensure that action is being taken to implement the agreed recommendations.

Quality Assurance and Improvement Programme

3.5   As shown above in section 3.2, client satisfaction levels have improved from 87% to 97% this year. Only one unsatisfactory questionnaire was received from a school and arose due to delays in reporting. This has been followed up internally and with the auditee and the audit provider. Performance against the key target for our providers, that draft reports should be produced within 15 days of the exit meeting has also improved from 60% to 70%.

4. RISK MANAGEMENT

4.1   Between April and December 2013, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team (CMT) and once at Executive Briefing. Directorate risk registers continue to be monitored regularly at Departmental Management Teams.

4.2   The Council participated in the CIPFA Benchmarking exercise for risk management in 2013 which confirmed that risk management is working effectively at Bracknell Forest Council.

5. COUNTER FRAUD 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 2012 and matches were received back in during 2013 on

- Blue Badge parking permits
- - Creditors history
- - Creditors standing data
- - Concessionary Travel passes
- - Housing Benefits claimants
- - Insurance claimants
- - Market traders
- - Personal alcohol licences
- - Pensions
- - Payroll

- - Private residential care homes

- - Taxi drivers

5.2 Whilst there is still some ongoing work on Housing and Council Tax Benefits matches, investigation work is complete in all the other areas covered by the exercise. The outcome of all investigations for this NFI round has resulted in one prosecution, 1 formal caution and 1 Administration Penalty arising from benefit matches.

5.3 Data is due to be submitted in February 2014 to match Council Tax single person discounts to the Electoral Roll and the matches following this will be received back later in 2014 for follow up.

Benefits Investigations

5.4 The Benefits 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.

5.5 During the period 1st April to 20th December 2013, the Team received 458 referrals. As a result of work undertaken by the Investigation Team, the sanctions applied during this period were 27 Formal Cautions, 15 Administration Penalties (a 30% penalty on top of overpaid benefit) and 9 successful prosecutions.

5.6 The sanctions which resulted were from investigations initiated as follows:

- 26 referrals from the benefits team

- 14 Housing Benefit Matching Service

- 3 joint working with Job Centre Plus

- 3 NFI data matches

- 2 Royal Mail do not redirect

- 1 Anonymous

- 2 from the Cheatchasers reporting line.

5.7 In respect of the 9 successful prosecutions, total overpayment of benefit was assessed at £84,773 and five 12 month community orders were given with a total of 780 hours of unpaid work and £596 costs. Fines of £140 were imposed.

5.8 As noted above, 15 Administration Penalty cases have been applied totalling £14,434 which is collected in addition to the overpayments of benefit caused by the claimant not reporting changes in their circumstances.

Other Irregularities

5.9   The 2011/12 Head of Internal Audit Opinion report which came to Governance and Audit Committee in July 2012 referred to two cases of employee irregularity. One of these cases was referred to the Police. This related to a conflict on interest in a direct payment and excessive rates/ hours charged to the Council. This was investigated in Adult Social Care, Housing and Health and following a disciplinary procedure held in her absence the employee was found to have committed gross misconduct and was dismissed. The Police have now informed the Investigating Officer that it has been agreed that the individual has a case to answer and have agreed a charge of fraud by abuse of position contrary to section 1 and 4 of the Fraud Act 2006.   The Police are currently looking in to steps that can be taken to extradite the individual.

2012/13 AUDITS

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Children, Young People and Learning											
Fostering	19/4/2013	22/8/13	X		✓				3	3	Final
Corporate Services											
Back-Up procedures	26/3/13	8/7/13	X		✓				4		Final
Compliance with PCI Standards	17/4/13	25/6/13	X			✓		1			Final

2013/14 AUDITS

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Grants											
Bus Service Operators Grant BSOG -2012/13 (Corp. Services)	30/5/13	4/6/13	✓	N/A – Grant certification							Final
Short Breaks Grant (Children, Young People and Learning)											Awaiting instruction for audit
Troubled Families Grant –July Submission (Children, Young People and	16/7/13	29/7/13	✓	N/A – Grant certification							Final

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Learning)											
Capital block maintenance grant	17/9/13	24/9/13	✓	N/A – Grant certification							Final
Sustainable transport grant	17/9/13	31/10/13	✓	N/A – Grant certification							Final
Better Bus Grant											Not due. QTR 4 audit
<u>Additional Audit</u> Bus Service Operators Grant BSOG - Dec 2013 (Corp. Services)	11/11/11	18/11/13	✓	N/A – Grant certification							Final
<u>Additional Audit</u> Fuel poverty grant- (ECC)	24/7/13	25/7/13	✓	N/A – Grant certification							Final
Council Wide Audits											
Council Wide Officer Expenses	17/6/13	18/7/13	✓		✓				5		Final
Council Wide Absence Management	29/4/13	3/7/13	✓		✓				7	2	Final
Banner Stationery Contract	30/9/13	5/11/13	✓		✓				3	1	Final
Council Wide Procurement											Not due. QTR 4 audit
Acquire – food supplies contract											Not due. QTR 4 audit
Commensura Agency Contract											Audit no longer required
Assistant Chief Executive's Office											

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Compulsory Purchase Orders	2/12/13	13/12/13	✓		✓				1	2	Draft issued
Corporate Services											
Electoral Services	23/4/13	17/6/13			✓				2	2	Final
Members Exps, Allowances & Hospitality	8/4/13	31/5/13	✓		✓				10	1	Final
Treasury Management	26/7/13	12/9/13	X		✓				2		Final
Creditors											Not due as QTR 4 audit
Debtors	23/9/13	8/11/13	✓		✓				1		Final
Main Accounting	31/7/13	30/8/13	✓		✓						1	Final
Localisation of Business Rates	15/10/13	14/11/13	✓		✓				9	4	Draft issued
Payroll and Pre-Employment Check	6/11/13										Work in progress
Cash Payments Management	7/10/13	11/12/13	✓		✓				2		Draft issued
Council Tax	30/9/13	14/11/13	✓		✓				6	4	Final
Business rates	2/12/13										Work in progress
Times Square Works											Not due. QTR 4 audit
Procurement cards											Deferred o 2014/15 due to low number of cards issued to date
Corporate Services - IT Audits											
Front Line	19/8/13	6/11/13	X		✓				3		Draft issued
Change	12/8/13	5/11/13	X		✓				5		Final

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Management											
Software Licenses	16/9/13	7/11/13	X		✓				3		Final
Disaster Recovery	9/12/13										Work in progress
PSN											Not due. QTR 4 audit
Operating System											Not due. QTR 4 audit
Agresso											Not due. QTR 4 audit
Compliance with PCI Standards											Deferred to 2014/15 as recommendations from previous audit not due for implementation until June 2014
Children, Young People and Learning School Audits											
Ascot Heath Infants School (Following limited assurance opinion in 2012/13)	20/5/13	31/5/13	✓		✓				6	4	Final
Jennett's Park CoE Primary School (Following limited assurance opinion in 2012/13)	30/9/13	15/10/13	✓		✓				3	3	Final
Uplands Primary School (Following limited assurance opinion in 2012/13)	7/5/13	25/6/13	✓		✓				9	4	Final
New Scotland Hill	23/9/13	2/10/11	✓		✓				7	1	Final

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Primary School											
Wildmoor Heath Primary School	11/11/13	20/11/13	✓			✓		1	7	1	Final
Winkfield St Mary's CoE primary School	4/11/13	29/11/13									Work In Progress
College Hall Pupil Referral Unit											Not due. QTR 4 audit
Crowthorne CoE Primary School											Not due. QTR 4 audit
Great Hollands Primary School											Not due. QTR 4 audit
Wooden Hill Primary School											Not due. QTR 4 audit
Meadow Vale Primary School											Not due. QTR 4 audit
Sandy Lane Primary School											Not due. QTR 4 audit
Wildridings Primary School											Not due. QTR 4 audit
Whitegrove Primary School											Not due. QTR 4 audit
Easthampstead Park School											Not due. QTR 4 audit
Children, Young People and Learning Cross-Cutting School Audits											
Procurement in Schools	30/9/13										Work In Progress
Information Security in Schools	13/5/13	25/7/13	X	Opinion not given as agreed with CYPL. Findings were based on sample visits to 7 schools. Recommendations were raised for					79	9	Draft issued

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
				each school and the central ICT team in CYPL							
Free School Meals	23/5/13	12/7/13	✓		✓				1		Final
Children, Young People and Learning – Other Audits											
Bracknell Forest Education Centre	29/4/13	27/6/13	✓		✓				3	3	Final
Life Long Learning	22/4/13	16/5/13	✓		✓				2	2	Final
Youth Services	14/10/13	5/12/13	X						1	5	Final
Direct Payments	12/8/13	5/11/13	✓		✓				4	1	Draft issued
Post Project Evaluations	9/9/13	18/10/13	✓		✓				2	3	Final
Rowans and Sycamores Children Centre	24/7/13	25/9/13	X		✓				3	2	Final
Willows and Maples Children's Centre	24/7/13	25/9/13	X		✓				2	2	Final
Adoption	29/10/13	4/12/13	X		✓						4	Draft issued
SEN											Not due. QTR 4 audit
Environment, Culture and Communities											
Integrated Transport	12/8/13	14/11/13	X		✓				1		Final
Highways – Reactive maintenance	15/8/13	12/12/13	X	✓							Final
Public Realm Contracting											Audit no longer required

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Car Parks	21/5/13	13/8/13	✓			✓			11	5	Final
Adaptations	29/4/13	12/7/13	✓		✓				3	3	Final
Bracknell Leisure Centre	29/7/13	6/9/13	✓		✓				6		Final
Edgebarrow and Sandhurst Leisure Centres	13/5/13	26/7/13	✓		✓				2	1	Final
Downshire Golf Club	20/8/13	8/9/13	✓		✓				2		Final
Tree Services - Purchasing											Work In Progress
Libraries											Not due. QTR 4 audit
Statutory Inspections											Not due. QTR 4 audit
Cash Spot Checks											Not due. QTR 4 audit
Environment,Culture and Communities – IT Audits											
Library system											Deferred to 2014/15
Leisure management system											Deferred to 2014/15
Adult Social Care, Housing and Health											
Learning Disability											Work In Progress

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
.											
Brokerage	2/12/13										Work In Progress
Direct Payments .	12/8/13	5/11/13	✓								Draft issued for discussion
Contracting	5/10/13	28/11/13	✓		✓				6	6	Draft issued
Emergency Duty Team Follow up audit following the limited assurance conclusion at the 2011/12 audit											Not due. QTR 4 audit
Blue Badges	10/9/13	28/11/13	X		✓				3	3	Final
CONTROCC	5/10/13	3/12/13	✓		✓				2	3	Final
Hosted Public Health Arrangements	28/10/13										Work In Progress
Housing & Council Tax Benefits	21/10/13										Work In Progress
Council Tax Benefits and Welfare Reforms											Merged into main housing benefits audit
Housing Benefit Spot Checks	2/12/13										Work In Progress

Audit	Start Date	Date Draft Report Issued	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Social Fund Payments											Not due. QTR 4 audit
Supporting People											Not due. QTR 4 audit
Housing Rents/Deposits											Not due. QTR 4 audit
Adult Social Care, Housing and Health – IT Audits											
Rostering and Monitoring System											Not due. QTR 4 audit