

**TO: GOVERNANCE AND AUDIT COMMITTEE**  
**28 JANUARY 2015**

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**INTERNAL AUDIT ASSURANCE REPORT**  
**April –December 2014**  
**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 2014. 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 contents of the attached report at Appendix 1.**
- 2.2 **The Governance and Audit Committee approve the Internal Audit Charter at Appendix 2.**

**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 Mazars Public Sector Internal Audit. Mazars 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 April 2014. The remaining audits are delivered by Reading and Wokingham Council's internal audit teams under an agreement under Section 113 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.

### **Internal Audit Charter**

- 5.3 With effect from 1<sup>st</sup> April 2013, a common set of Public Sector Internal Audit Standards (PSIAS) were introduced which are applicable to and mandatory for all UK public sector organisations including local authorities. PSIAS require the Council to formally define the purpose, authority and responsibility of internal audit in an internal audit charter which must be presented to and approved by senior management and “the Board”. The role of “the Board” is undertaken by the Governance and Audit Committee at Bracknell Forest Council. The Internal Audit Charter has been developed in accordance with PSIAS and is attached at appendix 1 for review and approval.

### **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**

Annual Internal Plan 2013/14  
Strategic Risk Register

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

**APRIL – DECEMBER 2014**

## 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 2014 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 four 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
  - Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.
- 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

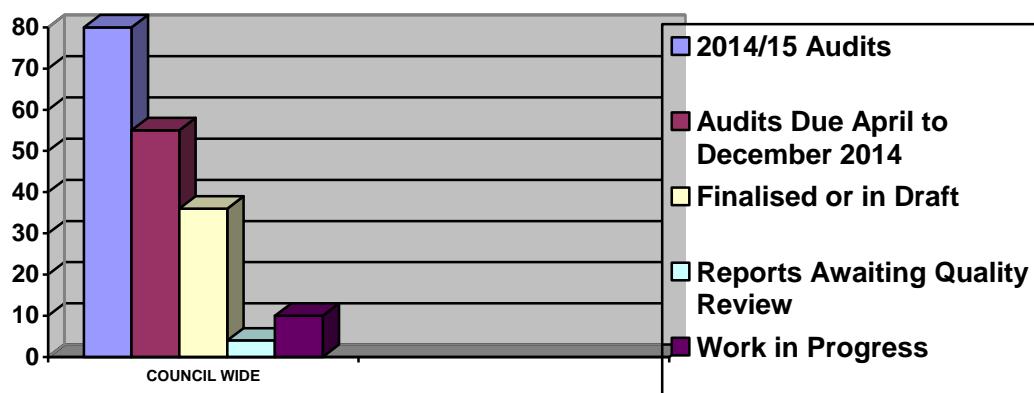
ASSURANCE LEVEL	DEFINITION
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in 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.

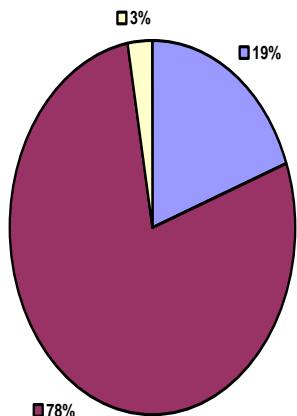
### **3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE**

- 3.1 The Annual Internal Audit Plan for 2014/15 was considered and approved by the Governance and Audit Committee on 1<sup>st</sup> April 2014. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, 25 reviews and grants will be audited under the Section 113 arrangement with Reading and Wokingham Borough Councils' Internal Audit Teams and 17 reviews and grants are scheduled to be audited in house.
- 3.2 During the period April to December 2014, 10 grants were certified, 1 memo was issued on compliance with NHS Pensions requirements, 28 reports were finalised, 8 had been issued in draft awaiting management responses, 4 were in draft awaiting internal quality review and in 10 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.

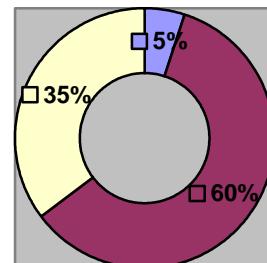
## SUMMARY OF PERFORMANCE APRIL – DECEMBER 2014



### ASSURANCE OPINIONS



### ANALYSIS OF RECOMMENDATIONS



■ Priority 1 ■ Priority 2 ■ Priority 3

■ Limited ■ Satisfactory ■ Significant

ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2014	FINAL AND DRAFT APRIL- DECEMBER 2013
Significant	7	1
Satisfactory	28	37
Limited	1	3
<b>Total for Audits Including an Opinion</b>	<b>36</b>	<b>41</b>
Grant Claim Certifications	10	6
Memos issued	1	1
<b>Total</b>	<b>47</b>	<b>48</b>

	Client Questionnaires		Draft Report Produced within 15 Days of Exit meeting
	Received	Satisfactory	
2014/15 to Date	14	100%	61%
2013/14	34	97%	70%

- 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, issued in draft or awaiting quality review at the time of writing this report and a further 10 already in progress. The majority of assurance opinions given were satisfactory with one significant and 7 limited opinions (2013/14: 1 for April to December and 4 for the full year). Most recommendations raised to date were priority 2. Only 3% 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
ADULT SOCIAL CARE, HEALTH AND HOUSING	<p><b><u>HEATHLANDS</u></b></p> <p>A limited assurance opinion was given due four priority 1 recommendations which were raised to address incomplete and out of date financial procedures, weaknesses in controls and accounting records for residents monies and income and banking of receipts and lack of progress in implementing recommendations had been raised and agreed with management at the previous audit in 2011. Management has now confirmed that actions have been implemented to address weaknesses found and ensured that the outstanding recommendations from the previous audit have been actioned where these remain appropriate. Heathlands will be re-audited during quarter 1 of 2015/16.</p>
CORPORATE SERVICES	<p><b><u>COUNCIL WIDE PROCUREMENT</u></b></p> <p>A limited assurance opinion was given due to a priority 1 recommendation in respect of waivers to Contract Standing Orders. The issues identified were approval of waivers being sought retrospectively and lack of sufficient evidence to support the justification that current contractors were the sole provider of the service. Action is being taken to remind officers to submit waivers on a timely basis to avoid the need for retrospective approval and to provide better supporting evidence for waivers submitted for approval.</p> <p><b><u>SURVEYORS SERVICES</u></b></p>

	<p>One priority 1 recommendation was raised which resulted in a limited assurance opinion. The priority 1 recommendation was in respect of delays in checking the quality of work undertaken by the reactive maintenance contractor and the amounts billed together with delays in billing by the contractor and the level of errors on bills raised. A review carried out by external consultants has identified areas for improvement in processes and a project is already scheduled to commence in January 2015 to implement improvements to these processes.</p> <p><b><u>DEBTORS</u></b></p> <p>A limited assurance opinion was given on this audit due to a priority one recommendation being raised as the auditor identified that there was no segregation of duties within the debtors IT system for the write off of debts. The Chief Technical Accountant have now implemented a compensating control to address this weakness.</p>
<b>CHILDREN, YOUNG PEOPLE AND LEARNING</b>	<p><b><u>WARFIELD SCHOOL</u></b></p> <p>A limited opinion was given due to the two priority one recommendations raised and overall weaknesses in the control environment. The first priority one recommendation was raised in response to weaknesses in the bank reconciliation process. The second priority one recommendation was raised to address the need to clarify the status of the WASPS nursery going forward and to address issues around identifying the full costs attributable to the nursery and review accounting procedures and processes for WASPS. Senior officers from the Education Authority are advising the School on the arrangements with WASPS and will be providing support to address weaknesses in the control environment.</p> <p><b><u>ST MICHAEL'S EASTHAMPSTEAD</u></b></p> <p>A limited opinion was given due to a priority one recommendation raised in respect of the private fund not being audited for three years. The School has advised that arrangements to audit the fund are now in place. The School will be re-audited next year.</p> <p><b><u>DIRECT PAYMENTS</u></b></p> <p>A limited assurance opinion was given on this audit due to a priority one recommendation to address weaknesses in financial monitoring of direct payments and the need to improve follow up of missing information and investigation of unreconciled transactions. Senior managers are now introducing a financial monitoring checklist to ensure that sufficient checks are undertaken in future.</p>

### **Quality Assurance and Improvement Programme**

- 3.5 As shown above in section 3.2, client satisfaction levels have improved from 97% to 100% for the year to date. All grants were certified in accordance with Government departments' deadlines. In 61% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

### **4. RISK MANAGEMENT**

- 4.1 Between April and December 2014, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG) and twice by the Corporate Management Team (CMT) and reported to the Governance and Audit Committee on 14<sup>th</sup> July 2014. A further update to the Governance and Audit Committee is included on this agenda. A review of progress on actions to address strategic risks was carried out in December 2014. Directorate risk registers continue to be monitored regularly at Departmental Management Teams.

## **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 in October 2014 and it is expected that matches for investigation will start coming through in quarter 4 of 2014/15.

### **Single Person Discount**

- 5.2 In order to identify potential mis-claiming of Council Tax Single Person Discount (SPD), the Revenues team procured external consultants to carry out a data matching exercise. The exercise was undertaken during quarter 3 and matched credit records to households claiming SPD to highlight cases where there appeared to be more than one occupant at the property. In such cases, letters were sent to the recipient of the SPD to query if they were the sole occupier. The exercise has resulted in 239 households confirming that they were no longer entitled to receive the discount which resulted in a reduction of £84k in SPD awards. In addition, 230 households did not respond as requested despite reminders and therefore their SPD has been cancelled. It is anticipated that some of these cases will now re-claim the discount so the final figure for SPD award reduction in respect of these cases is not yet known.

### **Other Counter Fraud Initiatives**

- 5.3 During quarter 2 the Council participated in two successful joint funding bids for counter fraud grant monies. One bid was led by Reading Borough Council in partnership with Civica and a number of housing associations for data matching for counter fraud purposes and the other was led by Pendle Borough Council and is a partnership consortium between 13 LA members and 2 private sector suppliers for targeting fraud and error within the Council Tax Reduction (CTR) caseloads of Local Authorities by applying data matching and analytics. We are currently awaiting information from the lead authorities on how these initiatives will be progressed.

### **Benefits Investigations**

- 5.4 Up to 30<sup>th</sup> November 2014, the Council had a Benefits Investigation Team which was located within the Benefits section of Housing in Adult Social Care, Housing and Health. The Team consisted of a Senior Investigations Officer and one Investigation Officer. During the investigation of claims, Officers interviewed witnesses, took statements, carried out surveillance and interviewed under caution with a view to taking prosecution action. All cases were investigated, however many would prove to

be unfounded and some may have created an overpayment as a result of an error which would have been recovered through normal recovery procedures.

- 5.5 During 2014/15, the Team received 432 referrals. As a result of work undertaken by the Investigation Team, the sanctions applied during this period were 15 Formal Cautions, 10 Administration Penalties (a 30% penalty on top of overpaid benefit) and 2 successful prosecutions. The sanctions which resulted were from investigations initiated as follows:
- 22 referrals from the benefits team;
  - 4 Housing Benefit Matching Service; and
  - 1 referral from Council Tax
- 5.6 The total amount of overpayments including cases treated as incorrect benefit only and sanctions cases was £125,974.02. The total amount of sanction only overpayments was £86,294.74. The financial gain to the Council from Administration Penalties was £12,137.26.
- 5.7 On 1st December 2014, the benefit fraud investigators transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions as part of the national government programme of centralising the investigation of welfare benefit fraud. Going forward, Bracknell Forest fraud cases for housing benefit will be investigated by SFIS. At this stage the full impact of SFIS is unclear. SFIS may set de-minimus levels for fraud investigation which could mean that potential frauds that would have been investigated by our in-house team will not be pursued by SFIS . Authorities will refer potential fraud cases that they become aware of to SFIS for investigation and will be required to provide information to support these investigations as SFIS will have no access to our benefit records. It is anticipated that local authorities will be expected to carry out an initial review and sift of NFI data matches to identify cases for investigation by SFIS.

**Other Potential Irregularities**

- 5.8 During the period April to December 2014, the Royal Borough of Windsor and Maidenhead (RBWM) detected 2 cases of misuse of Bracknell Forest blue badges in their borough. In both cases these were confiscated and returned to Bracknell Forest Council. In one case no further action was taken and in the second case the individual was given a caution to conclude the matter with RBWM.
- 5.10 In September, a potential issue was raised with refunds at one of the outlying sites. This was investigated in the relevant department and the Investigating Officer found no evidence of any irregularity.

**APPENDIX A****2013/14 AUDITS**

\* draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date Draft Report	Key Indicator Met *	Assurance Level				Recommendations			Status	
				Significant	Satisfactory	Limited	None	1	2	3		
<b>Children, Young People and Learning</b>												
SEN	27/03/14	03/07/14	Yes		✓				3	2	Final	
<b>Corporate Services</b>												
Council Wide Procurement	22/04/14	12/6/14	Yes				✓		1	7	1	Final

**2014/15 AUDITS**

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status		
				Significant	Satisfactory	Limited	None	1	2	3			
<b>Grants</b>													
Better Bus	18/3/14	21/3/14	N/A	N/A – Grant certification						Final			
Bus Subsidy Grant	01/07/14	17/07/14	N/A	N/A – Grant certification						Final			
IER	12/06/14	23/06/14	N/A	N/A – Grant certification						Final			
Troubled Families Grant (May)	13/05/14	15/05/14	N/A	N/A – Grant certification						Final			
Sustainable Transport Grant	03/07/14	17/07/14	N/A	N/A – Grant certification						Final			
Pinch Point	14/07/14	17/07/14	N/A	N/A – Grant certification						Final			
Public Health	25/4/14	10/7/14	N/A	N/A – Grant certification						Final			
Troubled Families (August)	10/07/14	13/08/14	N/A	N/A – Grant certification						Final			

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Local Block Funding and Highways and Integrated Transport	17/07/14	2/9/14	N/A	N/A – Grant certification							Final
Bus Operators Grant	11/12/14		N/A	N/A – Grant certification							Final
Green Deal											Not due - Qtr 4 audit
<b>Council Wide Audits</b>											
Corporate Charge Cards											Not due - Qtr 4 audit
Officers expenses	19/08/14	18/9/14	Yes		✓				2	3	Final
Procurement											Deferred to qtr 1 of 2015/16
DBS checks excl schools	09/06/14	3/7/14	Yes		✓				2	1	Final
Hospitality Registers	4/8/14	8/10/14	Yes		✓				3	2	Final
Capital & Fixed Assets	24/11/14										Work in progress
<b>IT Audits</b>											
PCI compliance	17/11/14										Work in progress
PSN											Not due - Qtr 4 audit
Mobile devices	1/9/14	16/10/14	No		✓				6	2	Final
Network Infrastructure											Not due - Qtr 4 audit
Remote working	12/9/14	22/10/14	No		✓				1		Draft issued
ICT Helpdesk	26/8/14	12/11/14	No								Draft received for review
School Back-Ups	24/4/14	18/6/14	Yes		✓				4		Final
Library IT System											Not due - Qtr 4 audit

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
E+ card and system (IT/ general audit)											Not due - Qtr 4 audit
Leisure Management System											Deferred to 2015/16 as a new system is now being procured.
Information security in schools follow up											Not due - Qtr 4 audit
<b>Corporate Services</b>											
Budgets/Budgetary Control	8/10/14	27/11/14	No		✓				2	1	Draft issued
Cash Management	22/9/14	16/10/14	Yes		✓				1		Final
Treasury Management	15/07/14	4/8/14	Yes		✓				1		Final
Creditors	13/10/14	11/12/14	Yes								Draft received for review
Debtors	15/9/14	16/10/14	No			✓		1	7	3	Draft issued
Main Accounting inc recs	29/09/14	17/11/14	No		✓						Final
Payroll	30/10/14		Yes								Work in progress
NHS Pension Scheme Assurance	31/3/14	28/4/14	N/A	N/A – Assurance memo provided in respect of NHS Pensions							Final
Insurance	23/06/14	29/07/14			✓				1	2	Final
Members Allowances & Expenses	17/11/14										Work in progress
Data protection	11/9/14	30/9/14	Yes		✓				3	2	Final
Surveying Services	3/9/14	16/10/14	Yes			✓		1	4		Final
Commercial Properties inc. Rents and estates	12/05/14	14/07/14	No		✓				2	3	Final

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
management											
Council Tax	30/9/14	14/10/14	Yes		✓				5	3	Final
Business Rates	3/11/14	15/12/14	Yes								Draft received for review
Health & Safety	9/6/14	1/8/14	Yes		✓				6		Final
<b>Children, Young People and Learning School Audits</b>											
School Funding	23/6/14	20/6/14	Yes	✓							Final
Ascot Heath CE Junior											Not due - Qtr 4 audit
Birch Hill Primary											Not due - Qtr 4 audit
College Town Infants											Not due - Qtr 4 audit
College Town Junior											Not due - Qtr 4 audit
Crownwood Primary											Not due - Qtr 4 audit
Foxhill Primary	05/06/14	03/07/14	Yes		✓				7	11	Final
Garth Hill											Not due - Qtr 4 audit
Harmanswater Primary											Not due - Qtr 4 audit
Holly Spring Junior											Deferred to Qtr 4
Owlsmoor Primary											Deferred to Qtr 4
St Joseph's RC Primary											Deferred to Qtr 4
St Michael's Sandhurst CE Primary	19/05/14	03/07/14	No		✓				4	9	Final
St Michael's E'hampstead CE Primary	13/10/14	4/11/14	Yes			✓		1	7	2	Draft issued
Warfield CE Primary	09/06/14	18/9/14	No			✓		2	5	6	Draft

## Unrestricted

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
											Qtr 4 audit
Public Transport (following Bus Strategy)	9/11/14	19/12/14	Yes		✓				2		Draft issued
Building control and land charges	22/04/14	16/9/14	No		✓				3	3	Final
Car Parking- follow up	22/04/14	20/06/14	Yes	Follow up of previous limited assurance no opinion given						1	Final
Cemetery & Crematorium	06/05/14	20/8/14	No		✓				3	2	Final
Highways Management											Not due - Qtr 4 audit
Waste Collection	28/08/14	22/10/14	No		✓				8	3	Not due - Qtr 4 audit
Open for Business – Regulatory Services											Not due - Qtr 4 audit
<b>Adult Social Care, Housing and Health</b>											
Performance Financial Assessments & Benefit Checks	30/06/14	1/10/14	No		✓				2	2	Final
Controcc payments and receipts											Not due - Qtr 4 audit
Deputyships & Appointees											Not due - Qtr 4 audit
Older people and long term conditions											Not due - Qtr 4 audit
Heathlands – residential & day services	02/06/14	04/08/14	Yes			✓		4	7	1	Final
Bridgewell Unit	24/11/14										Work in progress
Direct payments	1/12/14										Work in progress
Learning Disability Provider Service	23/06/14	08/08/14	No		✓				1	8	Final

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Housing and Council Tax Benefits	1/12/14										Work in progress
Housing Applications etc.	4/8/14	26/9/14	No		✓				6		Draft issued
Housing Rents and Deposits	12/05/14	8/12/14	No								Work in progress
Forestcare	09/06/14	07/08/14	No		✓				6	2	Final