

**OVERVIEW AND SCRUTINY COMMISSION  
20 NOVEMBER 2008**

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**INTERNAL AUDIT HALF YEARLY ASSURANCE REPORT  
April 2008 – September 2008**

**(Head of Audit and Risk Management)**

**1 INTRODUCTION**

- 1.1 This report provides a summary of Internal Audit activity during the period April 2008 to September 2008. It covers work carried out by both the in-house resource and the Council's contractor Deloitte & Touche Public Sector Internal Audit Ltd (D&T) and provides an overall assurance opinion to the Council and its management for the first half of the year. Any significant developments since the time of writing will be reported verbally to the Commission and included in future assurance reports.

**2 RECOMMENDATIONS**

- 2.1 **The Overview and Scrutiny Commission are asked to note that from the work undertaken during the period, the Head of Audit and Risk Management is of the opinion that the general system of internal controls in place at Bracknell Forest Council accord with proper practice, except for those specific areas, detailed in Appendix B of this report, where significant control weaknesses have been identified.**

**3 SUPPORTING INFORMATION**

**Background**

- 3.1 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.
- 3.2 Corporate governance best practice requires the Authority to have an audit committee, or equivalent, which enables the Borough Treasurer to formally report the activity of Internal Audit to Members. Under the Council's scrutiny arrangements Internal Audit activity is at present reported directly to the Overview and Scrutiny Commission and two Commission members have been appointed to have special responsibility for audit matters. The Commission is currently the mechanism by which action to address significant weaknesses in internal control can be escalated. The responsibility for this is currently under review.
- 3.3 The provision of Internal Audit services is outsourced to Deloitte and Touche PSIA Ltd. The contract with Deloitte expires on 31 March 2009 and a tender process compliant with EU Procurement Regulations and Council Contract Regulations is ongoing to re-let the contract from 1 April 2009. It is expected that the process will be fully completed by mid February with the successful

tenderer being in place to deliver the 2009/10 audit plan. A review of the Audit Strategy will be carried out in parallel with the re-tendering process to reflect the organisational changes that have taken place.

- 3.4 Internal Audit has established a good working relationship with the Audit Commission, the Authority's new External Auditors. Regular tripartite meetings have taken place between the Head of Audit and Risk Management, Deloitte and the Audit Commission since their appointment. This has enabled us to agree responsibilities of each of the parties and standards for the delivery of audit work to avoid duplication and maximise the reliance that the Audit Commission can place on Internal Audit work performed.
- 3.5 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.
- 3.6 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

### 3.7 Assurance Opinion Classifications

OPINION LEVEL	DEFINITION
Full Assurance	There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.
Satisfactory Assurance	There is basically a sound system of internal controls although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited Assurance	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.

### 3.8 Audit Approach and Assurance Opinion

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 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.

## 4 **RESULTS OF AUDITS APRIL 2008 – SEPTEMBER 2008**

- 4.1 During the period April 2008 to September 2008, reports on 52 internal audit reviews have been issued being 43 relating to the 2008/09 audit plan and 9 completing work that commenced as part of the 2007/08 plan, which has now been fully delivered. A full schedule of the completed audits and their assurance opinions is set out in Appendix A. A summary of assurance levels is given below:

ASSURANCE	APRIL – SEPTEMBER 2008
Full	1
Satisfactory	46
Limited	5
<b>Total</b>	<b>52</b>

- 4.2 All audits, which have generated a limited assurance opinion, will be revisited in 2009/10, or earlier if appropriate, to ensure successful implementation of agreed recommendations. Details are given in Appendix B.
- 4.3 The number of limited assurance and no assurance opinions remains at a similar level to previous years. A total of six limited assurances were given in 2007/08 and nine in 2006/07 plus one no assurance.
- 4.4 Feedback from Quality Questionnaires

At the time of writing 39 completed questionnaires had been received since the last Internal Audit Assurance Report in June 2008. 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:

AUDIT YEAR	SATISFIED	NOT SATISFIED	TOTAL
2007/08	7	0	7
2008/09	29	3	32

- 4.6 Detail of questionnaires where auditees were not satisfied with the audit.

Audit title	Reason for unsatisfactory response	Audit's response
Binfield Primary School	The exit meeting only took place with the bursar and there was no mention of limited assurance at the meeting. The assurance level was later told to the bursar by telephone, but the auditor did not ask to speak to the head teacher. However, the head teacher agrees that controls over CRB checks need to be tighter.	The head teacher was on a course when the audit took place and the head phoned the auditor to say she could be called back if necessary. The auditor asked the bursar if she wanted to wait for the head, but she said she could report back to her.  The limited assurance was identified at Deloitte's management review stage and a phone call was made to the

		<p>school.</p> <p>All school auditors have been reminded of the importance of having the exit meeting with the head teacher.</p>
St. Josephs Catholic Primary School	<p>The exit meeting took place long after the initial audit visit.</p> <p>The draft report was issued late, it was not clear and the findings did not fully reflect the exit meeting and explanations given at that exit meeting.</p>	<p>The first planned exit meeting had to be cancelled because of the head teacher's absence &amp; then the auditor was on leave.</p> <p>The Deloitte manager has contacted the school to clarify the issues in question in the report and a revised draft report was issued on 28.10.08.</p>
Highways (Main Contractor)	Auditor dealt with wrong people, didn't appear to understand the system, produced the report late and the recommendations were not useful.	Awaiting response from Deloitte when the report is finalised.

## 5 OTHER INTERNAL AUDIT ACTIVITIES

Internal Audit has also been involved in the following key activities during this period:

### 5.1 National Fraud Initiative 2008 (NFI)

The NFI is a biennial data matching exercise conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies and has operated since 1996. Bracknell Forest Council is obliged to take part and during this first half year Internal Audit has co-ordinated the submission of the mandatory data required for the new cycle of the exercise. All data was successfully received by the Audit Commission on time and the resulting matches, which the authority is required to follow up, are due to be received in late January 2009.

### 5.3 Irregularities & Investigations

Internal audit assisted with an investigation into the possible sale of Bracknell Forest Council (BFC) scrap metal by an employee. The value of metal sold was estimated at £500 over two years, but the ownership of all of the metal could not be fully established. The investigation identified some weaknesses in the handling of waste at the depot and these will be followed up by the inclusion of an appropriate audit in the 2009/10 audit plan.

Two schools were subject to cheque frauds during the school summer holidays. Bogus cheques for £15,596 and £4860 were produced by unknown persons.. Schools were requested to carry out bank reconciliations to identify any further cases but none were identified. The banks involved fully reimbursed the schools and the incidents were reported to the police, who are in the process of following them up.

In addition the following minor irregularities were reported to Internal Audit during the period:

Small amounts of cash (£10, £10 & £20) were found to be missing from the Look In over a period of two weeks in May 2008. Internal audit gave immediate advice for improvement in control and a full audit was carried out which resulted in limited assurance. (Details in Appendix B) No further incidents have been reported.

In April 2008 £85 went missing from a petty cash tin in Easthampstead House and other incidents of small personal items going missing from the building at around the same time were also reported. Advice was given to the section involved to improve control and an e-mail was sent staff in the building to alert them of the risk of theft. The money was not recovered, but no further incidents have been reported.

The income received from the car park contractor was found to be £248 short in August 2008. At the time of writing the matter is still being investigated by the contractor.

Three forged £20 notes were paid into the Bracknell Sports Centre café over a weekend in April 2008, when a computer fair was taking place there. The incident was reported to the police, but no more has been heard as it would be impossible to trace the source or recover the funds. Internal Audit e-mailed all other Council establishments where cash is taken to warn them and recommend that they check notes carefully.

An employee used her Council workplace as an address for credit card statements. Audit advised that this was a matter for management disciplinary action and the credit card company's fraud section and that management should inform the credit card companies concerned. There was no loss to the Council.

Two other establishments reported small amounts of missing cash during the period; advice on improved control was given in both cases and the audit plan was updated to ensure that both units receive an audit visit this year.

In addition to the work undertaken by Internal Audit on fraud and irregularities, there is an Investigation and Compliance Team within the Benefits section of Housing in Environment Culture and Communities. This Team investigates potentially fraudulent claims for benefits and undertakes proactive visits to claimants to verify their continuing entitlement to benefits. A summary of the investigations and outcomes of the Investigation and Compliance Team will be reported separately to the Overview and Scrutiny Commission.

#### 5.4 Financial Management Standards in Schools (FMSiS)

All schools are required to meet this standard by 31 March 2010. This has to be achieved over a period of four years and the Council produced a strategy to manage this, which has proved to be practical and cost effective, as no external evaluations have been carried out. The position of schools at the end of the second year, being 31 March 2008, was as follows:

	Secondary	Primary	Special
Total number of schools in BFC	6	30	1
Number of schools considered to be currently meeting FMSiS without external assessment.	5	8	0
Number of schools due to meet FMSiS by 31.3.08 or previously, considered to be currently <b>not</b> meeting the standard.	1	5	1
Number of schools to be assessed at 31.3.09 or 31.3.10.	0	17	0

Eleven more primary schools are currently carrying out self assessments against the standard and are required to submit these to be reviewed by members of staff from Internal Audit and Social Care and Learning by 31 December 2008. The submission date has been brought forward this year to allow schools more time to address any weaknesses identified before the 31 March 2009 deadline. In addition, the seven schools previously assessed, but failing to meet FMSiS, are required to re-submit updated self-assessments for review.

#### 5.5 Audit of Local Area Agreement Expenditure 2007/08

This was audited by the contractor during the period and was found to be satisfactory.

#### Background Papers

Internal Audit Reports  
Internal Audit Annual Plans 2007/08 & 2008/09

Contract Monitoring Records  
Quality Questionnaires  
NFI documentation  
FMSiS Returns  
CIPFA Code of Practice for Internal Audit

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## APPENDIX A

### TABLE OF ASSURANCES

2007/08 AUDITS COMPLETED APRIL TO SEPTEMBER 2008

CLIENT QUESTIONNAIRE RESPONSE	REPORT	ASSURANCE LEVEL				RECOMMENDATIONS			
		Full	Satisfactory	Limited	None	CATEGORY			AGREED
						1	2	3	
	<b>CORPORATE THEMES</b>								
Satisfactory	Contracting & Procurement			✓		3	5		8
	Voluntary Sector Grants		✓				4		Still in draft
	<b>CORPORATE SERVICES</b>								
Satisfactory	Home to School Transport		✓				6	1	7
Satisfactory	AGRESSO (Application only)		✓				4	1	5
Satisfactory	Disaster Recovery (IT & General)		✓				5	1	6
	<b>EDUCATION, CHILDREN &amp; LIBRARIES</b>								
	Early years		✓				3	1	Still in draft
	<b>ENVIRONMENT &amp; LEISURE</b>								
Satisfactory	Easthampstead Park		✓				3	2	5
	<b>SOCIAL SERVICES &amp; HOUSING</b>								
Satisfactory	Phys. Dis. & Older People (Other Services)		✓					4	4
	<b>IT AUDITS</b>								
Satisfactory	Electronic Soc. Care Record (Carestore)		✓				1	1	2

# APPENDIX A

## TABLE OF ASSURANCES 2008/09 AUDITS COMPLETED APRIL 2008 – SEPTEMBER 2008

CLIENT QUESTIONNAIRE RESPONSE	REPORT	ASSURANCE LEVEL				RECOMMENDATIONS			
		Full	Satisfactory	Limited	None	CATEGORY			AGREED
						1	2	3	
	<b>CORPOARTE THEMES</b>								
Satisfactory	Data Protection/Freedom of Information		✓				7	2	9
Satisfactory	Hospitality Registers		✓				1	2	3
Satisfactory	CRB Follow up of 07/08 recs		✓				2	1	3
	<b>CHIEF EXECUTIVES</b>								
Satisfactory	Print & Design Services			✓		1	5	5	Still in draft
	<b>CORPORATE SERVICES</b>								
Satisfactory	Departmental PC Controls		✓				3		3
Satisfactory	Anti-Virus/Spyware/Adware		✓			0	0	0	0
Satisfactory	Staff Expenses Follow Up		✓					2	2
Satisfactory	Sickness Recording & Reporting		✓				4	1	5
Satisfactory	Email Security & Internet Review		✓				8		8
Satisfactory	Network Review & Security		✓				8	1	9
	Software Licensing Review		✓				2	1	Still in draft
	<b>SOCIAL CARE &amp; LEARNING</b>								
	School Census		✓				3		Still in draft
Satisfactory	School Improvement (Process for allocation)	✓				0	0	0	0
Unsatisfactory	St Joseph's Catholic Primary		✓				3	1	Still in draft
	Owlsmoor Primary		✓				1	1	2
Satisfactory	Holly Spring Junior		✓				4	1	5
	Crownwood Primary		✓				3	2	Still in draft
	Birch Hill Primary			✓		1	3	5	Still in draft
Unsatisfactory	Binfield Primary			✓		1	3	8	Still in draft
	Kennel Lane Sch F/up Ltd 07/08		✓				3	3	Still in draft
Satisfactory	Garth Hill Sch		✓				1	2	3
Satisfactory	Edgebarrow Sch		✓				1	3	4
Satisfactory	Early Years (Family Tree Nursery)		✓				11	3	14
	Downside Resource Centre		✓				2		Still in draft

CLIENT QUESTIONNAIRE RESPONSE	REPORT	ASSURANCE LEVEL				RECOMMENDATIONS			
						CATEGORY			AGREED
		Full	Satisfactory	Limited	None	1	2	3	
Satisfactory	The Look In			✓		1	7		8
Satisfactory	Webroster New IT System		✓				4	3	7
	Homecare Follow Up		✓				1	2	Still in draft
	Financial Assessments & Benefits Checks		✓				3	2	Still in draft
Satisfactory	Governor Services		✓					2	2
Satisfactory	Youth Offending Service		✓				1	1	2
Satisfactory	Mental Health (Day Services)		✓				7	2	9
	Garth Hill Capital Project		✓				3		Still in draft
	<b>ENVIRONMENT CULTURE &amp; COMM.</b>								
Unsatisfactory	Highways (Main Contractor)		✓					3	Still in draft
Satisfactory	The Look Out		✓				1	1	2
Satisfactory	UNIFORM Planning System		✓				2	2	4
Satisfactory	Leisure Management System		✓				8	2	10
Satisfactory	Environmental Health Follow Up		✓				1		1
Satisfactory	Edgebarrow & Sandhurst Sports Centres Follow Up		✓			0	0	0	0
Satisfactory	Forestcare Follow Up		✓				3		3
Satisfactory	Cemetery & Crematorium		✓				1	2	3
Satisfactory	Emergency Planning		✓				2	3	5
Satisfactory	Coral Reef including Catering		✓				9	1	10
n/a	Leisure Cash Spot Checks		✓						n/a

## **APPENDIX B**

### **DETAILS OF LIMITED ASSURANCE OPINIONS**

**April 2008– September 2008**

#### **2007/08 (Finalised July 2008)**

##### **Contracting and Procurement**

Three Priority 1 recommendations were made in this report resulting in a limited assurance opinion.

The three Priority 1 recommendations covered the following specific areas:

- The signing and storage of contracts;
- Regular review of suppliers to identify large spends and procedures for following these up and
- Action to address issues of non-compliance which are of a commercial and confidential nature and which have been fully reported to Members.

An Action Plan to address procurement weaknesses has been developed and is to be agreed by Council on 26 November 2008. A Working Group has been established to implement and monitor progress on the Action Plan.

#### **2008/09**

##### **The Look In**

The Look in was audited following a series of incidents of low amounts of cash going missing and there had been similar incidents at this establishment in 2007, when advice was given to improve controls.

The Limited Assurance opinion resulted from a Priority 1 recommendation made over the physical security at the café. Tighter control is needed over the access to and storage of keys and procedures over the use of the alarm system.

##### **Birch Hill Primary School (Still at draft report stage)**

A weakness was identified over the delays in obtaining CRB checks, which resulted in a Priority 1 recommendation and a limited assurance opinion. In addition, only one of the two required references could be evidenced for one new member of staff. It is also noted that recommendations had been made in two previous audit reports (2004/05 and 2006/07) concerning pre-employment checks. However, these related to references and qualification checks rather than CRB checks and so did not result in limited assurances.

The school have requested that Deloitte return to the school to look at additional evidence before the report is finalised.

#### **Binfield Primary School (Still at draft stage)**

This limited assurance has also resulted from a Priority 1 recommendation being made over pre-employment checks. The most significant concern was a delay in sending off the CRB disclosure form for one member of staff.

This report is still in draft stage and a formal response to a revised draft, which was issued to the school at the end of September, is awaited from the head teacher before the report can be finalised.

#### **Print & Design Service (Still at draft stage)**

A weakness in compliance with Council Contract regulations was identified which resulted in a Priority 1 recommendation and a limited assurance opinion. This report is still in draft stage and a formal response to the revised draft is outstanding. The issue of non-compliance identified during this review will be addressed as part of the Action Plan referred to under the 2007/08 Contracting and Procurement review above.