

INTERNAL AUDIT INTERIM REPORT
1ST April 2019 – 31ST August 2019

(Head of Audit and Risk Management)

1 PURPOSE OF REPORT

- 1.1 This report provides a summary of Internal Audit activity during the period April to August 2019.

2 EXECUTIVE SUMMARY

- 2.1 The report summarises progress and outcome of work carried out by both internal audit contractors and the in-house team in accordance with the Annual Internal Audit Plan approved by the Governance and Audit Committee. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports

3 RECOMMENDATION

- 3.1 **The Governance and Audit Committee are asked to note the attached report.**
- 3.2 **The Governance and Audit Committee note the new assurance and recommendation priority definitions introduced which will be incorporated into the Internal Audit Charter for Governance and Audit Committee approval once their operational effectiveness is fully tested and confirmed.**

4 REASONS FOR RECOMMENDATION

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

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 No alternative options available.

6 SUPPORTING INFORMATION

- 6.1 Under the Council's Constitution and Scheme of Delegation the Director: Finance 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. Internal Audit are required to comply with the Public Sector Internal Audit Standards which set out the ethical and operational standards for internal audit.
- 6.2 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 March 2019. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham internal audit team 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. Reading Borough Council provide Counter Fraud support and training under this same agreement. 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.

- 6.3 In addition, as raised in the Head of Internal Audit's Annual Report for 2018/19, the assurance opinion definitions and recommendation priorities have been redefined to provide a clearer insight into the degree of severity of opinions and recommendations. The key changes are splitting the "Limited" opinion into inadequate and partial and priority 1 recommendations into critical and major. Additionally, the "Significant" audit assurance opinion which was used rarely due to the narrow way it was defined has been replaced with a "Good" opinion. This can be given even if recommendations have been raised, if these are only low priority.
- 6.4 During the year to date 13 audits have been fully completed. Three reports have been finalised with a "partial" assurance opinion and one follow up memo has been finalised with no opinion but a major recommendation. One report has been finalised with an "inadequate" opinion. This report was requested specifically by the Executive Director: Delivery to assess the robustness of the Council's response to the new General Data Protection Regulations (GDPR). As was expected, the audit identified a number of areas where improvements were required and has enabled a clear action plan to be developed and implemented. Subsequent to the audit being completed, Audit have been advised that the Council has secured confirmation that its approach to data protection will satisfy the requirements of the NHS Toolkit. Details of the findings of the other audits are included in the Head of Internal Audit's interim report.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 7.1 There are no significant legal implications arising from this report.

Director: Finance

- 7.2 There are no financial implications arising from this report. The work of internal audit is key to providing assurance about the effectiveness of the Council's internal control environment.

Equalities Impact Assessment

- 7.3 Not applicable.

Strategic Risk Management Issues

- 7.4 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

Other Officers

7.5 Not applicable.

8 CONSULTATION

8.1 Not applicable.

Background Papers

Annual Internal Plan 2019/20
Strategic Risk Register

Contact for further information

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**BRACKNELL FOREST COUNCIL
HEAD OF AUDIT AND RISK
MANAGEMENT'S INTERIM REPORT**

September 2019

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 August 2019 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 called the Head of Internal Audit Annual Opinion. The different categories of recommendation and assurance opinions are set out in the following tables.
- 2.3 Since 1st April 2019 we have been categorising our **audit opinions** according to our assessment of the controls in place and the level of compliance with these controls as follows::

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Adequate - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non- compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in

	priority.
	Partial - there are areas of weakness and/or non-compliance with control which put the system/process objectives at risk and undermine the system's overall integrity. Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number of areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

2.4 We formerly categorised our **audit opinion** according to the following:::

	Significant - there is a sound system of internal controls to meet the system objectives and manage risks and testing performed indicates that controls tested are consistently complied with
	Satisfactory - there is basically a sound system of internal controls to manage risk 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 and management of risks 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 and management of risks is inadequate leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

2.5 We now categorise our recommendations according to their level of priority as set out below:

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

2.6 We previously categorised our **recommendations** according to their level of priority as per the following.

	Priority 1- Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk.
	Priority 2 - Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk.
	Priority 3- Recommended best practice to improve overall control.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

- 3.1 The Annual Internal Audit Plan for 2019/20 was considered and approved by the Governance and Audit Committee on 27th March 2019. This will be updated for the new assurance and recommendation definitions once the operational effectiveness of these has been confirmed. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, IT audit is undertaken by TIAA Ltd and 9 reviews will be carried out under the Section 113 arrangement with Wokingham Borough Council's Internal Audit Team. In addition, all grants are scheduled to be audited in house.
- 3.2 During the period April to August 2019, 2 grants were certified, 1 memo without an opinion was finalised, 7 reports were finalised, 5 reports had been issued in draft awaiting management responses, 1 draft report was being discussed and in 16 cases audit work was in progress.
- 3.3 Delivery against the planned programme is behind original schedule due to the number of audits which have been requested to be deferred to later in the year, in order to provide more time to address previously identified weaknesses. Whilst there are always deferrals in any audit year and there are generally sound reasons for these audits to be deferred and 2 audits have been brought forward to compensate for this, the percentage of audit deferrals is significantly higher than in previous years. The main audit contractors, Mazars have already raised concern about pressure on resources to deliver the Plan that is now end-loaded and in some areas there will be pressure on officers where multiple audits will be ongoing for the same broader service areas in the same quarter.
- 3.4 Details on the status and outcome of all audits are attached at Appendix A. Audits which have been deferred from the original timetabling are clearly noted in the status column where they are marked with "D". A summary of the outcome of finalised and audits with reports issued in draft are set out below.

APRIL TO AUGUST 2019/2020 ASSURANCE LEVELS	NUMBER OF AUDITS		2018/19 ASSURANCE LEVELS	NUMBER OF AUDITS
Good	0		Significant	0
Adequate	7		Satisfactory	30
Partial	3		Limited	19
Inadequate	1		No Assurance	0
No assurance	0			
<u>Total for Audits with an Opinion</u>	11		<u>Total for Audits with an Opinion</u>	49

Follow Up Memos with Major Recommendation and no Opinion	1	Follow Up Memos with Priority 1 Recommendation and no Opinion	5
Other Follow Up Memos/ Reports with no Opinion	1	Other Follow Up Memos/ Reports with no Opinion	1
Total Audits	13	Total Audits	55
Grant Certifications	2	Grant Certifications	5

Major Control Issues

- 3.5 Audits which have identified major weaknesses will generally be revisited in 2020/21, to ensure successful implementation of agreed recommendations. No critical recommendations have been raised to date in 2019/20 however a number of major recommendations have been raised resulting in inadequate or partial audit opinions. Major weaknesses were identified at the following audits. Further detail is set out in Appendix C.

AUDITS WHERE MAJOR ISSUES HAVE BEEN IDENTIFIED	
COUNCIL WIDE	
●	GDPR
PEOPLE	
●	Disabled Facilities Grants
DELIVERY	
●	Home to School Transport. (Follow Up Memo. Also limited in 2016/17 and 2017/18 and 2018/19)
FINANCE	
●	Agresso IT system
SCHOOL GOVERNING BODIES	
●	School C

Update of 2018/19 Audits with Limited Assurance Opinions and/or Priority 1 Recommendations

- 3.6 Since April 2019, one report has been issued on audits previously issued with a limited opinion. This is home to school transport. A Major recommendation has been raised at this audit as noted in Appendix C. Appendix B sets out the audit position on the remaining limited assurance reports brought forward.

Quality Assurance and Improvement Programme

- 3.7 As shown below, 100% of the client questionnaires indicated the auditees were satisfied with the service. In 72% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
1st April to 31st August 2019	5	100%	72%
2018/19	20%	100%	70%

4. PROGRESS ON INTERNAL CONTROL ENVIRONMENT 2019/20

- 4.1 The weakening in controls reported during 2017/18 and 2018/19 has led to tighter monitoring and regular reports to CMT as audits are delivered to establish if there is improvement in the control environment.
- 4.2 The Head of Audit and Risk Management gave a presentation to the Corporate Management team on 14th August 2019 setting out the progress toward the opinion on the overall control environment for 2019/20 . This was based on audit work completed to date and the current level of re-scheduling of the audits and re-audits for 2019/20. It was noted that the late timetabling of re-audits of previous limited assurances means that there is uncertainty about progress towards addressing issues previously addressed. for 2019/20. In response to the presentation the following actions were agreed.
- DMTs should review what progress had been made in relation to each limited assurance and should provide these updates to the Head of Audit and Risk Management to demonstrate progress being made to show this was going in the right direction to address the issues identified at the audits.
 - DMTs should consider whether deferrals could be brought forward.

- CMT should review progress regularly and undertake deep-dive reviews of any issue on which progress was not being made, even if action had been taken.
- 4.3 While these actions provide reassurance that issues are being closely monitored, it is too early in the year to provide any reasonable prediction of the overall opinion for the year.

5. RISK MANAGEMENT

- 5.1 The Strategic Risk Register has already been reviewed twice by the Strategic Risk Management Group (SRMG), and the Corporate Management Team and once by the Governance and Audit Committee in 2019/20. Deep dives on individual risks are now to take place at the Governance and Audit Committee starting with the cyber and business continuity risks in September 2019.
- 5.2 Directorate risk registers are already in place and being reviewed quarterly for the Delivery and Central Directorates. Significant progress has been made to develop a People risk register drawing together the risks for the previous Children, Young People and Learning and Adult, Social Care, Health and Housing directorates.
- 5.3 In addition, the terms of reference for the Strategic Risk Management Group and the membership have been reviewed to avoid duplication with other working groups, in particular the Information Management Group.

6. FRAUD AND IRREGULARITY

National Fraud Initiative (NFI)

- 6.1 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. The core mandatory data submitted in the autumn of 2018 was on:
- payroll
 - pensions
 - trade creditors
 - housing waiting lists
 - housing benefits (provided by the DWP)
 - council tax reduction scheme

- council tax (required annually)
- electoral register (required annually)
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)

Matches for investigation have now started to come through for investigation and the outcome will be reported in due course.

Benefits Investigations

- 6.2 An update on Benefit fraud investigations was provided to the Governance and Audit Committee in June 2019. Detailed reporting will next be provided in the Head of Audit and Risk Management's Annual report in January..

Counter Fraud Training

- 6.3 A further 2 counter fraud awareness sessions available to all Council staff were held in June. One more session is planned in September together with a session for bursars specifically targeted for schools. In addition, the third Counter Fraud newsletter was published in August.

Potential Irregularities

- 6.4 During quarter 1 and 2, a number of potential concerns have been raised which Reading Counter Fraud are assisting with. These all relate to external parties and to welfare services and social care. In addition, the in-house team reviewed an allegation around social care provision that was considered to be unfounded and an abuse of media procurement accounts by a care recipient which could not be proven.

APPENDIX A

2018/19 AUDITS

* Draft report produced within 15 working days of exit meeting to discuss audit findings
 "D" Audit deferred at service areas request

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
COUNCIL WIDE Governance Under the New Structure	29/3/19	27/6/19	X	N/A – Memo. No opinion given				10		Draft issued

2019/20 AUDITS

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
COUNCIL WIDE Officer Expenses (Ltd 2018/19)	10/6/19	12/8/19	✓									Draft being discussed
Debt Management Including the Accounts Receivable Team (Joint audit Ltd 2018/19)												"D". Quarter 4 audit
Purchase Cards (Ltd 2018/19)												Late Quarter 2 audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Absence Management – (Ltd 2018/19)												Quarter 4 audit
Procurement	1/8/19											Work in progress
Risk Management												Quarter 4 audit
Revenue Budgeting/Transformation savings												Quarter 3 audit
Alternative Delivery Models												Quarter 3 audit
IT AUDIT Social Media (Ltd 2018/19)												“D”. Quarter 3 audit
Cyber liability (Ltd 18/19)												Quarter 3 audit
IT asset management (Ltd 18/19)												Late Quarter 2 audit
Enterprise Agreement (Ltd 18/19)												Quarter 3 audit
Enterprise Programme (365 Project) Review												Quarter 3 audit
Remote Access VPN Solution												“D”. Quarter 3 audit
ICT Continuity Management												Quarter 4 audit
GDPR	6/6/19	19/7/19	✓				✓		12	10	2	Final
Agrosso IT system	13/5/19	19/7/19	✓			✓			2	4	1	Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
2017/18)												determine when this can be audited.
Domiciliary Care Follow up (Ltd 2018/19)												To be followed up as part of the Contracts audit in Quarter 4
ASC Residential care contracts Follow up (Ltd 2018/19)												"D". To be followed up as part of the Contracts audit in Quarter 4
Direct payments Follow up (Ltd 2018/19)												Late Quarter 2 audit
CSC Residential Contracts	24/6/19											Work in progress
Parenting assessments under FSM												"D". Late Quarter 2 audit
FSM Strategy Meetings												Late Quarter 2 audit
Fostering reviews												Quarter 4 audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
												Quarter 2 audit
PEP Follow up (Ltd 2017/18 and 2018/19)												Late Quarter 2 audit
Services to Schools												"D". Quarter 4 audit
SCHOOLS School AI (Limited in 2017/18 and 2018/19)												Quarter 4 audit
School B (Limited in 2016/17)	17/6/19	11/7/19	✓		✓					4	1	Final
School CI (due 2018/19 but deferred)	5/6/19	7/8/19	X			✓			2	8	1	Draft issued
School D	1/7/19	7/8/19	X		✓					1	2	Draft issued
School E												Quarter 3 audit
School F												Quarter 3 audit
School G												Quarter 3 audit
School H												Quarter 3 audit
School I												Quarter 3 audit
School J												Quarter 3 audit
School K												Quarter 3 audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
School L (Limited 2017/18 and 2018/19)												Quarter 4 audit
THEMED SCHOOL AUDITS Safeguarding/Governance												Quarter 3 audit

APPENDIX B

AUDITS WHERE MAJOR ISSUES HAVE BEEN IDENTIFIED IN 2018/19	CURRENT AUDIT POSITION
COUNCIL WIDE	
<ul style="list-style-type: none"> ● Debt Management 	To be re-audited in quarter 4
<ul style="list-style-type: none"> ● Purchase Cards 	To be re-audited in quarter 3
<ul style="list-style-type: none"> ● Absence Management 	To be re-audited in quarter 4
<ul style="list-style-type: none"> ● Social Media 	To be re-audited in quarter 3
PEOPLE	
<ul style="list-style-type: none"> ● Adult Social Care Pathway (late 2017/18 audit) 	Follow up audit to be agreed
<ul style="list-style-type: none"> ● SEN Resource Provisions (Follow Up Memo. Also limited in 2017/18) 	To be re-audited in 2020/21
<ul style="list-style-type: none"> ● Personal Education Plans (Follow Up Memo. Also limited in 2017/18) 	To be re-audited in late quarter 2
<ul style="list-style-type: none"> ● Forestcare (Follow Up Memo. Also limited in 2017/18) 	To be re-audited in quarter 4 as part of the Council wide debt management audit
<ul style="list-style-type: none"> ● Adult Social Care Pathway (Qtr 4 2017/18 Audit) 	To be re-audited in quarter 4 as part of the Contracts audit
<ul style="list-style-type: none"> ● Housing Rents and Deposits 	To be re-audited in quarter 4
<ul style="list-style-type: none"> ● Adults Residential Care 	To be re-audited in quarter 4 as part of the Contracts audit
<ul style="list-style-type: none"> ● Direct Payments 	To be re-audited in late quarter 2
<ul style="list-style-type: none"> ● Public Health 	To be re-audited in late quarter 2
<ul style="list-style-type: none"> ● Domiciliary Care 	To be re-audited in quarter 4 as part of the Contracts audit

DELIVERY	
<ul style="list-style-type: none"> ● Car Parks 	Follow up audit to be agreed
<ul style="list-style-type: none"> ● Cyber Security (Also Limited Assurance in 2017/18) 	To be re-audited in quarter 3
<ul style="list-style-type: none"> ● IT Asset Management (Also Limited Assurance in 2015/16) 	To be re-audited in quarter 3
<ul style="list-style-type: none"> ● Enterprise Agreement 	To be re-audited in quarter 3
<ul style="list-style-type: none"> ● Business Rates (Also Limited Assurance in 2017/18) 	To be re-audited in quarter 3
<ul style="list-style-type: none"> ● Council Tax (Also Limited Assurance in 2017/18) 	To be re-audited in quarter 3
FINANCE	
<ul style="list-style-type: none"> ● Creditors System (Also limited in 2017/18, 2016/17, 2015/16 and 2014/15) 	To be re-audited in quarter 4
PLACE, PLANNING AND REGENERATION/FINANCE	
<ul style="list-style-type: none"> ● CIL/S106 	Audit in progress
SCHOOL GOVERNING BODIES	
<ul style="list-style-type: none"> ● School A (Also Limited Assurance in 2017/18) 	To be re-audited in quarter 4
<ul style="list-style-type: none"> ● School L (Also Limited Assurance in 2017/18) 	To be re-audited in quarter 4

