

**OVERVIEW AND SCRUTINY COMMISSION  
23 NOVEMBER 2006**

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**INTERNAL AUDIT HALF YEARLY ASSURANCE REPORT  
April 2006 – September 2006  
(Director of Corporate Services - Finance)**

**1 INTRODUCTION**

- 1.1 This report provides a summary of Internal Audit activity during the period April 2006 to September 2006. 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 30 September will be reported verbally to the Commission and included in future assurance reports.

**2 HEAD OF FINANCE'S OPINION (1.4.06 to 30.9.06)**

- 2.1 **From the work undertaken during the period, the Head of Finance is of the opinion that the general system of internal controls in place at Bracknell Forest Borough 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 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 reported directly to the Overview and Scrutiny Commission. In July 2006 the Commission considered a discussion document from the Borough Treasurer detailing the advantages and disadvantages of audit committees. In response to this a decision was made to amend the terms of reference of the Commission to be more specific over audit issues. In addition, two Commission members have now been appointed to have special responsibility for audit matters. The Commission remains the mechanism by which action to address significant weaknesses in internal control can be escalated.

3.3 In line with best practice the Council has signed an audit protocol with D&T and the Council's external auditor, KPMG. It sets out the roles and responsibilities of each of the parties, together with agreed standards for the delivery of audit work. For the last five years KPMG have been able to rely fully on the work of Internal Audit resulting in the reduction of the overall level of external audit fees.

3.4 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 (KPMG) audit of the annual accounts.

Computer audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities.

3.5 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

3.6 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.

### 3.7 Audit Approach and Assurance Opinion

The Contract Manager (Audit) provides the Borough Treasurer and the Head of Finance with details of all audits which have generated category 1 recommendations and, therefore, a limited (or no) assurance opinion. This ensures that the Section 151 Officer is informed at the earliest opportunity of any potential weakness or problem area. Directors are also notified of every audit report issued within their Directorate and the resulting assurance level.

## 4 RESULTS OF AUDITS APRIL 2006 – SEPTEMBER 2006

4.1 During the period April 2006 – September 2006, 53 reports have been issued being 42 relating to the 2006/07 audit plan and 11 finalising work that commenced as part of the 2005/06 plan. 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 2006
Full	0
Satisfactory	50
Limited	1
No	0
No opinion given	2
<b>Total</b>	<b>53</b>

4.2 All audits, which have generated a limited assurance opinion, will be revisited in 2007/08, or earlier if appropriate, to ensure successful implementation of agreed recommendations. Details are given in Appendix B.

### 4.3 Feedback from Quality Questionnaires

At the time of writing 37 completed questionnaires out of a possible 50 had been received, which is a return rate of 74%. All unsatisfactory evaluations are followed up. The results are summarised as follows:

DEPARTMENT	SATISFIED	NOT SATISFIED	TOTAL
Chief Executive	1	0	1
Corporate Services	7	0	7
Education, Children's Services & Libraries.	19	1	19
Environment & Leisure	3	1	4
Social Services & Housing	5	0	5
<b>Total</b>	<b>35</b>	<b>2</b>	<b>37</b>

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

Audit title	Reason for unsatisfactory response	Audit's response
Emergency Planning & Civil Contingency	Draft report late, poor communication with auditees.	D&T manager has contacted auditee and discussed complaint. No other complaints have been received about this auditor.
Coopers Hill Youth Centre	Poor communication with auditee, draft report late and contained factual errors.	D & T manager has visited auditee and a revised draft report has been issued. No other complaints have been received about this auditor.

The contract is monitored very closely and, if an unsatisfactory auditor is identified, a request is made for them to be removed from working on BFBC audits. There have been two instances of auditors being removed from BFBC audits during the current contract period.

## 5 OTHER INTERNAL AUDIT ACTIVITIES

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

### 5.1 National Fraud Initiative 2006/07

As in previous years the Council is participating in the National Fraud Initiative (NFI) 2006, which is a bi-annual data matching exercise co-ordinated by the Audit Commission. During the period, arrangements were made to ensure that the following key actions would be completed in line with the Audit Commission's NFI 2006/07 timetable:

- Nomination of key contacts
- Submission of creditor test data (first time this has been included)
- Issue of Fair Processing Compliance Notices to data subjects
- Extraction of data in correct format and
- Submission of data.

5.2 The data from BFBC will be matched with that of the other bodies taking part in the initiative and the authority is expected to receive the output from the exercise at the end of January 2007. Once received, the data will be analysed to identify matches that need to be investigated for possible cases of fraud.

As a result of audit work related to the 2004/05 NFI exercise, fraudulent claims totalling £44,006 were identified and appropriate actions taken against the persons responsible.

### 5.3 Best Value Performance Indicators (B V P I 's)

This year our external auditors carried out all of the audit work relating to the BVPI out-turn figures. In preparation for this work Internal Audit made pre-audit visits to areas which were considered high risk to ensure that auditees were adequately prepared should KPMG include them in the sample tested.

### 5.4 Irregularities & Investigations

Two minor cases of missing cash were reported to audit during the first half of this year; appropriate advice was given and both cases have been resolved. Audit also assisted with two investigations into potential irregularities. There are some outstanding issues to be resolved and details will be reported to the Commission once these have been concluded.

### 5.5 Schools

Central Government have introduced a requirement for schools to reach a consistent standard for financial management. This is being phased in starting with a target for all secondary schools to reach this standard by 31 March 2007. Internal Audit have been working closely with Education, Children's Services and Libraries to ensure that the authority's obligations under this scheme are met, but without imposing any unnecessary burdens on schools. The Borough Treasurer will be required to sign a statement in August 2007 detailing how many of Bracknell's secondary schools have met the standard and how many are still working towards compliance.

### 5.6 Strategic Planning

Work has started to produce a new long term strategic audit plan, which will drive the Internal Audit activities over the next three years. This is being drawn up by a risking process and over the next few weeks a draft version is expected to be completed for discussion with each directorate before seeking the external auditors and the Commission's views.

## **Background Papers**

Internal Audit Reports  
Internal Audit Annual Plan 2006/07  
Contract Monitoring Records  
Quality Questionnaires  
NFI documentation

### Contact for further information

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APPENDIX A

TABLE OF ASSURANCES

April 2006 – September 2006

REPORT	ASSURANCE LEVEL				RECOMMENDATIONS			
	Full	Satisfactory	Limited	None	CATEGORY			AGREED
					1	2	3	
<b>Chief Executives</b>								
Partnerships & Joint Arrangements		X				1		1
BVPI (pre KPMG audit review)								N/A
<b>Corporate Services</b>								
Design & Print Services		X				3	1	4
Depot Security		X				5	1	6
Vehicle Workshop & Fuel Cards		X				3	1	4
E-Mail Security IT		X				1		1
Payroll & Personnel IT System		X				7	1	7*
Pericles IT System (CT & Hsg Benefits)		X				1		1
IT Change Controls		X				2		2
Imprest Review		n/a						n/a
<b>Education, Child &amp; Libs.</b>								
Education Centre		X					3	3
Personnel Services inc. CRB checks		X					1	1
PLASC		X				2		Reply o/s
Adastron House		X				1	6	7
Binfield C E Primary		X				4	3	7
Birch Hill Primary		X				2	6	8
Easthampstead Park School		X				2	5	7
Great Hollands Primary		X				7	6	13
St. Joseph's R C Primary		X				1	8	9
St. Michael's Easthampstead C E Prim.			X		2	4	3	Reply o/s
Uplands Primary		X				2	1	3
Wildridings Primary		X				1	4	5
Woodenhill Primary		X				4	3	7
Coopers Hill Youth Centre		X					2	Reply o/s
Admission Service & Supply of Places		X					1	1
St. Michael's C E Primary		X				4	3	7
Children & Families Residential		X				2		2
Direct Payments – Children		X				7		Reply o/s
<b>Environment &amp; Leisure</b>								
Bracknell Market		X				2		2
Leisure Cash Spot Checks		X						N/A
GIS (Geographical Info System) IT		X				10	1	11
CONFIRM (Highways System) IT		X				3		3
Weighbridge Follow Up Ltd 05/06		X				3		3

REPORT	ASSURANCE LEVEL				RECOMMENDATIONS			
	Full	Satisfactory	Limited	None	CATEGORY			AGREED
					1	2	3	
<b>Social Services &amp; Housing</b>								
Receiverships & Appointeeships		X				1	1	Reply o/s
Section 31 Arrangements & Charges		X				1		1
Easthampstead Caravan Park		X				1		Reply o/s
Service Charges – Leasehold Flats		X				1		Reply o/s
Forestcare IT Systems		X				2	1	3
Housing & Property Repairs		X				5	1	6
Direct payments - adults		X				8		Reply o/s
Glenfield		X				2	4	Reply o/s
SWIFT – IT system		X				2	1	3
<b>05/06 REPORTS ISSUED 06/07</b>								
<b>Corporate Services</b>								
Elections & Electoral Registration		X				2	4	6
Disaster Recovery Arrangements IT		X				5		Reply o/s
Network Review & Security IT F/up Ltd		X				4	2	6
<b>Education, Children's &amp; Libraries</b>								
Book Purchasing/Stock Control Library		X				4	1	5
Recoupment		X				1	1	2
Kennel Lane School		X				6	1	7
Meadowvale School		X				5	4	9
Brakenhale School		X				4	6	6
<b>Social Services &amp; Housing</b>								
Older People/Phy Dis- Homecare		X				4	1	5
Learning Disability Residential		X				2		2
Forestcare		X				3	1	4

\*Note

One category 2 recommendation was not agreed by the auditee during the period. Internal Audit considered the explanations received and concluded that failure to implement this would not materially affect the Council's overall internal control environment, as alternative controls are in place.



**DETAILS OF LIMITED ASSURANCE OPINIONS**

**April 2006 – September 2006**

During the period, one limited assurance opinion was awarded. Detail of this audit is given below:

St. Michael's Easthampstead C. E. Primary

This school has been given a limited audit assurance opinion based on two Priority 1 recommendations. One relates to inadequate pre-employment checks and the other concerns poor control over the school's Private Fund. The report is still at the draft stage, as a response has not yet been received. The Group Accountant (Education, Children's Services & Libraries) will be visiting this school to ensure that all recommendations are implemented and the report is expected to be finalised by the end of the Autumn Term.