



INTERNAL AUDIT

Quarterly Progress Report April - June 2011

Our mission statement is toprovide a high quality cost-effective service, which adapts and responds to the Authority's needs based on achieving a high standard of professionalism and expertise in service delivery and also to contribute in achieving Value for Money Public Services.

1. INTRODUCTION

- 1.1 This report provides the Audit and Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report to the former CCEA Security Panel..
- 1.2 The report aims to:
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit in Q1.
 - Report back on those audit reviews outstanding at year end (31st March 2011) which have been finalised in Q1.
 - Advise you of significant issues where controls need to improve to effectively manage risks.
 - Track progress on the response to audit reports and the implementation of agreed audit recommendations

2. BACKGROUND

- 2.1 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 2.2 The 2011/12 Internal Audit original plan was agreed at CMT and the CCEA Panel (previously responsible for discharging the role of the Audit Committee) on the 22nd March 2011 and 13th April 2011 respectively.
- 2.3 Subsequent amendments to the approval of the original plan will be agreed in consultation with Corporate Directors and reported to the Committee throughout the year.
- 2.4 In accordance with our Internal Audit Charter, we will give an assurance opinion on the effectiveness of internal controls each time we complete an assurance review.

3. ASSURANCE FRAMEWORK

3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture.

3.2 The audit assurance opinion framework is as follows:

Level	System Adequacy	Control Application
Full	Robust framework of controls ensures objectives are likely to be achieved.	Key/compensating controls exist and are applied consistently and effectively
Substantial	Sufficient framework of key controls for objectives to be achieved but control framework could be stronger.	Key controls exist but there may be some inconsistency in application
Limited	Risk that objectives will not be met, or are being met without achieving efficiency and effectiveness.	Key controls exist but are not applied, consistently and effectively
Minimal	Objectives are not being met and/or risks are not being effectively identified and managed.	Key controls do not exist

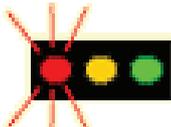
1.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

1.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner.

1.4 We intend to follow up those audits where we have given either limited or minimal assurance.

1.5 We define the priority of our recommendations arising from each audit as follows:

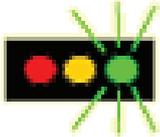
Priority rating for performance improvement observations raised



Priority 1 (High): A fundamental system weakness, which presents material risk and required urgent attention by management.



Priority 2 (Medium): A significant weakness, whose impact or frequency presents an unacceptable risk to objective, which should be addressed by management.



Priority 3 (Low): The system objectives are not exposed to any significant risk, but the recommendation merits attention.

3. SUMMARY OF AUDIT FINDINGS

Corporate Resources

	Draft	Final	RECS			Assurance
3.1 Accounts Receivable - debt recovery process	24 March	7 April	0	1	2	Substantial

3.1.1 Daily and monthly reconciliations were tested in detail, and it was noted that the principal control balances agreed. There was a minor difference between the systems on the monthly reconciliations, which although not particularly material, will require further investigation.

3.1.2 Debt collection performance was briefly reviewed and in particular arrears. It was noted that levels of arrears towards the end of 2011/12 remain broadly the same as at the same time in 2010/11, although the total value of invoices is about £1 million less. It was also an observation that current systems used to monitor and chase sundry debts across directorates are fragmented at best and possibly not as effective as they should be.

3.1.3 A sample of write offs was reviewed and was noted to have been appropriately recorded, authorised and processed under the existing procedures, however there are plans to revise systems in the near future to be improve efficiency and to better reflect procedures already operating in Revenues.

3.1.4 It is recognised that the existing Sundry Debtors system is no longer properly fit for the Council's purpose(s), hence it is planned that, at some point in 2011/12, the Council will cease to use it, and that all data will be transferred to a new system that is more appropriate to the Council's business needs.

	Draft	Final	RECS			Assurance
3.2 Main Accounting	24 March	12 April	0	2	1	Substantial

3.2.1 On the whole there are robust daily bank reconciliation processes in place to ensure that a complete and accurate reconciliation is undertaken. Some minor anomalies were identified as part of this process. Suspense transactions are reviewed on a regular basis, cleared accordingly and correctly amended within the appropriate feeder systems and General Ledger.

3.2.2 Some procedural recommendations were made with regards to the processing of journals, but it has not been possible for management to agree them all because of resource constraints.

	Draft	Final	RECS			Assurance	
3.3	Fixed Assets/Capital Accounting	31 March	18 April	0	1	0	Substantial

3.3.1 There are adequate controls in place governing the revaluation, identification acquisitions and disposals of fixed assets.

Education & Children's Services

	Draft	Final	RECS			Assurance	
3.4	Schools Extended Services	30 March	5 April	0	0	3	Substantial

3.4.1 This audit was scheduled as part of the cross cutting review of schools' systems and was aimed at establishing the processes in place to manage the extended services on offer by schools'.

3.4.2 On the whole adequate procedures and systems are in place to manage the extended services offered by schools. There appears to be an overall ad hoc approach in relation to the collection of income with some being received in advance, others in arrears, with a daily, weekly or monthly frequency, within the same school. This approach to booking sessions and collection of income, coupled with manual records increases the likelihood of mistakes occurring. Advisory recommendations were made to address these points

3.4.3 Whilst it is appreciated that there is a community/welfare benefit for providing these services, this needs to be weighed up against the financial implications of providing the services at a loss. All clubs sampled were reported as running at a loss.

3.4.4 We recommended that where there was no evidence of recent reporting to the Governing Body, that a policy on the way in which the clubs should be run and the circumstances in which the welfare benefits should override the requirement to obtain income is established and approved by the Governing Body.

	Draft	Final	RECS	Assurance
3.5	Moorlands Primary School	16 March	1 3 5	Limited

3.5.1 For the past financial year the School has been, and still is being, subject to an independent review and at the same time, the management and staffing in the school has also changed. It is our view that this has undoubtedly impacted on the control environment, and specifically internal financial control(s).

3.5.2 Governors decided early in the 2010/11 financial year to consolidate their meetings into single monthly Governor Meetings. On viewing the minutes of these meetings, it appears that there has been limited discussion or review of the school's financial and budget position.

3.5.3 Over the past financial year the School has had a high turnover of staff leaving such as teachers, main office staff and governors, including the chair of governors. This has increased the workload for all staff, specifically the School Business Manager.

3.5.4 Based upon the audit testing undertaken, it is our opinion that there are weaknesses in financial control and responsibility in the school. In particular, there is a need for strengthening:-

- Governors to attend training to understand their roles and responsibilities and to review and agree the Governing Body Terms of Reference
- The approval of Terms of Reference and the School's Financial Procedure Manual by governors
- Updating of finance procedures, asset records/registers and to remove 2 former staff members from the staff list
- The safe keeping of cash and security of personnel records to be tightened by keeping the School Business Manager's office locked during the day if not in use for any long period of time.
- Checking IT controls over system access
- The adequate separation of duties over key tasks needs to be evidenced
- Clerking responsibilities to be reviewed. To comply with best practice, the Clerk to Governors should preferably be a person independent of the School.

Note: between the issuing of the draft report and the agreement of the final report the school has acted immediately to implement internal audit recommendations.

Environment Culture and Sport

	Draft	Final	RECS	Assurance	
3.6	Street Care	8 April	*	2 7 0	N/A

- 3.6.1 The Environmental Protection Act 1990 (EPA 1990) sets out a Legal requirement for Cleansing. Section 89 of the EPA 1990 makes certain Duty Bodies responsible for keeping their land clear of litter and refuse and their highways clean. It also gives both local authorities and citizens a basis from which to take legal action to get areas that are degraded by litter and refuse cleaned up, if standards are not being met.
- 3.6.2 Faced with the departure of key members of management, budget constraints and pending transformation of the Service, the Head of Environment & Consumer Services requested that internal audit conduct a review to assist in identifying the main risks the service faces, provide an opinion on the robustness of existing control frameworks and ascertain what the implications would be if resources were diminished. The audit also reviewed business continuity plans, health & safety processes and performance management.
- 3.6.3 Despite the enthusiasm and operational capabilities of the team, we have reservations about the viability of Operational Management to deliver strategic change and planned savings.
- 3.6.4 Operational Management have a strong overview of the control environment and the ability to highlight spare capacity efficiencies within the existing planned work schedule. However, outside of budgetary control more work needs to be undertaken to understand ‘activity’ costs so that possible further efficiencies can be realised.
- 3.6.5 The trend analyses of motor, public and employer liability insurance claims indicate the numbers of incidents have reduced. However the Service is unable to confirm what the contributory factors or reason(s) for this improvement are, as this information has never been fed back into the risk management process. The analysis shows the historical risk exposure relates to refuse collection which accounts for 78% (No. 177) of all incidents and 92% (£228k) of insurance costs over last 5-years.
- 3.6.6 Operational management fully recognise that systems must be improved to allow the evidencing of performance as this will be measured by public survey in the future, rather than national indicators.

* This report is still at a draft stage and although the findings have been agreed a response to the audit recommendation is still being drawn up.

	Draft	Final	RECS			Assurance	
3.7	Grounds Maintenance	27 May	16 June	1	1	1	N/A

3.7.1 An investigation was commissioned in response to the receipt of allegations received in respect of Grounds Maintenance operations at Prospect Park concerning:

- Agency staff turning up for work and being sent home whilst still being paid
- Abuse of the fuel system by withdrawal of petrol and/or diesel from the council facility for private use

3.7.2 These allegations were of a very general nature and did not give times or dates which may have enabled clearer identification of any specific details which could be related to the record reviewed.

3.7.3 From the details supplied it has clear that control over the management of fuel issues of petrol and diesel are weak and that management information is not made available that would allow tighter control over fuel issues. This has been highlighted with the service area responsible for the management of fuel.

3.7.4 The weakness of management control means that any allegation of wrongdoing or abuse is neither capable of proof nor capable of refutation. The failure to link fuel issue to operational requirements would indicate that there is substantial risk that abuse could take place.

3.7.5 The system of invoicing used by the current supplier of agency staff needs to be improved to ensure that the invoices supplied accurately match to the purchase orders raised and that they are submitted in a timely fashion. Audit found no evidence of any issue regarding work not being done but this was only after a time consuming hunt through a large number of invoices submitted at various times.

3.7.6 The use of sub contractors who supply goods and services should be reviewed to ensure that they meet the council requirements in respect of tendering. It is noted that the sub contractors used seem to be the same each year and do not appear to have formal contracts with the authority as they are supplying an aggregated service across a number of expenditure codes that stays just under the £50K limit that should trigger a formal tendering process.

3.7.7 A positive management response to the recommendations contained within the audit report have been agreed.

Housing & Community Care

	Draft	Final	RECS	Assurance
3.8	Rent Accounting	18 April	0 2 1	Substantial

3.8.1 The Housing Rents service manage and account for the council's stock of housing properties, ensuring the maximum possible collection of rental income due. Income is collected as quickly and efficiently as possible, and where arrears occur, these are identified and monitored. Where appropriate and possible, prompt action is taken by the service to recover arrears.

3.8.2 The audit review concluded that:-

- Access to OHMS¹ system is closely monitored
- Tenants are advised to set up a direct debit for their rent charges and these are completed promptly and monitored regularly
- The percentage increase of the rent charge has been applied within the guidelines
- arrears accounts show that all correspondence to date has been recorded
- Write-offs, accounts in credit and refunds are monitored, recorded in OHMS and signed off by the approving officers
- The daily reconciliations reconcile and are stored in order with the supporting documentation and signed off by the officer who prepares them

3.8.3 Minor weaknesses were identified and subsequent recommendations have been made.

¹ Northgate OHMS – Housing Rents management system

Cross Cutting

	Draft	Final	RECS	Assurance	
3.9	Section 106 Agreements	30 th March	18 th April	7 1 0	Limited

- 3.9.1 Section 106 (S106) of the Town and Country Planning Act 1990 provides a statutory basis for use of deeds (or “planning obligations”) to secure money for this purpose, and gives local authorities very powerful remedies to collect outstanding money. This can take the form of agreements between the owners of the development site, and the council, or by unilateral undertaking, commonly used where there is an appeal, and given by the owners of the development site to the council.
- 3.9.2 Money required as the result of a specific development and planning consent is intended for use(s) that mitigate the effect of that development, to bring it in line with the objectives of sustainable development as articulated through relevant local, regional or national planning policies. RBC’s Supplementary Planning Guidance provides an essential pre-determinant in justifying the figures required from developments.
- 3.9.3 The Authority is partly reliant upon S106 funding to be able to implement capital projects within education, leisure and transport and sometimes other services. Numerous officers and services are often involved in the processes surrounding S106 funding. Previously Internal Audit have reported that there has been no overall specific control system to support the identification, recording, receipt and spending of monies and the reconciliation of it to Council financial systems. In addition, certain Councillors have queried some aspects of the accounting of the s106 receipts RBC collects and have raised issues around the policy framework, clarity, transparency and co-ordination of the process and reporting of them.
- 3.9.4 In order to address these matters the Chief Executive commissioned Wokingham Borough Council (WBC) Internal Audit to undertake an independent review to assess the usage of S106 receipts and establish the legal position on correcting misallocations of S106 receipts in the Council’s accounts and the current methods used to allocate spend. The review also looked to assess the current practice regarding how section 106 receipts are assigned to, and spend approval is obtained for, individual projects and how this corresponds with the Council’s Capital Programme and spending priorities.
- 3.9.5 The review highlighted the need to improve transparency in the entire S106 process by establishing initially a clear Council policy and a clearly defined and documented ‘end-to-end’ process that all S106 agreements should follow. A new web-based database has been implemented and is being ‘populated’ by council officers and this will greatly improve the recording and monitoring of S106 agreements. The council is working to define how services and finance processes will feed into the new database to ensure the process is joined up.

- 3.9.6 The report finds that historically, no senior manager has had overall responsibility for the corporate co-ordination and management of S106s and therefore the system has insufficient council-wide co-ordination, strategic control and direction. As a consequence, it has been recommended that a senior manager is identified to ensure that in future there is leadership and accountability for the S106 process. Having a senior manager that provides a strategic overview of the S106 process, will enable the council to adopt a more corporate approach to the use of S106 monies and assist the council in achieving its strategic aims.
- 3.9.7 In line with the Terms of Reference of the review, the auditors investigated S106 instances surrounding the Multi Use Games Area at Prospect Park. They found that the allocation of S106 monies during the year end closure of accounts for 2007/08 had been wrongly undertaken in respect of this scheme. As identified by officers, the audit confirmed that there was insufficient oversight of the detailed arrangements regarding the allocation of funds related to S106s within the detailed process of closing the 2007/08 accounts. Once this control weakness had been identified, measures were put in place to strengthen controls.
- 3.9.8 The misallocations of monies, while important in their own right were, in the context of the Council's overall financial arrangements, technically defined from an accounting perspective, as 'non material' (in the 2010/11 accounts £325k of such accounting errors were identified over a period of 4 years). However, the controls in place at the time were insufficient to enable them to be picked up by management. It was through a Member raising queries with the Finance & Legal Services teams that lead them to being discovered and addressed.
- 3.9.9 The manner in which S106 monies are allocated, at year end as opposed to as they are spent or as part of an ongoing process, has also lead to 'Decision Book' decisions not always being consistent with how monies have been used. Allocating the S106 agreements to expenditure as part of the closing of the accounts annual process is done with a view to maximising their use within the agreed legal terms and to use capital borrowing as a last resort. There is also the view that allocating S106 monies as part of an ongoing process during the course of the year would provide greater clarity and accountability.
- 3.9.10 The recommendations and management response to them, which address the issues raised above, are shown on the following page.

Rec No.	Priority	Recommendation	Management Response	Action Owner & Date
1	HIGH	There should be single senior manager with overall accountability for the strategic oversight of S106 agreements, including responsibility for the co-ordination of S106 agreements across the council.	Agreed. The detailed role and responsibilities will need to be confirmed so as to respect the statutory role of the Council's Section 151 Officer in terms of the overall advice on the financial position of the Council (budget, final accounts, use of resources, governance, etc) which is the statutory responsibility of this post-holder, as well as that of the Head of Legal Services.	Chief Executive Officer July 2011
2	HIGH	The process for allocation and spending of S106 monies should be clearly defined and formally approved in line with financial regulations, including the need to obtain the relevant officer and Member approval.	Agreed. A formal procedure for the entire S106 process, from the negotiating and formulation of the legal agreement through to the allocation of receipts and monitoring of compliance of obligations needs to be documented and approved. More specifically, it is suggested that an annual report is submitted to Cabinet (or possibly via Decision Book) in January setting out provisional allocations of S106 contributions, subject to final expenditure for the year, with the final formal Cabinet approval being sought by June (when the accounts have to be signed off) for the proposed use of receipts and that the report on the final accounts seeks formal approval to use each S106 receipt.	Chief Executive Officer October 2011
3	HIGH	When the council wishes to use S106 monies which are not in line with the legal agreement, written permission should be promptly sought from the developer before proceeding.	Such cases would be the exception rather than the rule, and the process for agreeing such a change should be incorporated in the documented procedure referred to above. Subject to officer endorsement by the Heads of Planning and Legal any proposal would need formal approval by Planning Applications Committee, with immediate effect.	Chief Executive Officer June 2011
4	HIGH	In line with CIPFA guidance and in order to ensure transparency and good governance arrangements across the council, there should be a fully operational Audit Committee supported by a sufficient training programme to ensure it is clear in its roles and responsibilities and able to discharge its duties effectively.	An Audit and Governance committee will be set up at the AGM in May. Dates are already in the meeting calendar for the municipal year 2011/12.	Chief Executive Officer May 2011

Rec No.	Priority	Recommendation	Management Response	Action Owner & Date
5	HIGH	The introduction of a council policy for S106 agreements should be considered by Members.	<p>This recommendation appears to refer to an agreed approach to how such contributions are secured and used, in terms of the exact nature and scope of the use, the extent of any geographical fettering and how they would contribute to the capital programme. A balance needs to be struck between securing and maximising funds to support the more strategic facilities and infrastructure that will serve both the new development and the wider population while continuing to mitigate the more local impacts through the improvement and of local facilities.</p> <p>This will be incorporated in, and ultimately scrutinised by, the comprehensive review of the planning obligations policy that will incorporate the new Community Infrastructure Levy regulation. This work is programmed to take place early in 2012. The revised policy will undergo public consultation/scrutiny, be considered by an independent inspector before formal adoption by Council.</p>	Chief Executive Officer October 2012
6	HIGH	The Supplementary Planning Guidance: Planning Obligations under S106 of the Town and Country Planning Act 1990 should be reviewed and updated as appropriate.	Refer to recommendation 5 above.	Chief Executive Officer December 2011
7	HIGH	The council should either identify a current working group or consider introducing a new working group to co-ordinate the allocation and spend of S106 monies.	As part of revising arrangements for property and asset management and the capital programme, a new officer working group is being set up and its remit includes monitoring of S106's - the prospective Property/Assets Operational Group on which both HoF, HoP and a representative from Legal Services will sit (the chair has yet to be agreed).	Chief Executive Officer July 2011
8	MEDIUM	The council should consider employing an officer using S106 monies to facilitate the operational co-ordination of S106 agreements.	<p>The council has already established a limited resource to monitor S106 contributions and to maintain the new S106 database located within the Planning section. This is expected to be funded by S106 monitoring fees, although the economic downturn has impacted on this.</p> <p>However, we are reviewing how this resource could be increased, not least to support the new role proposed above. It is suggested that the additional resource be subsidised in the short-term by remaining Housing & Planning Delivery Grant.</p>	Chief Executive Officer July 2011

	Draft	Final	RECS			Assurance
3.10 Web, Credit, Debit and electronic payments	8 April	14 June	2	3	0	Limited

3.10.1 The purpose of this audit was to review risks and controls, in conjunction with best practice guidance provided by PCI DSS², surrounding the electronic payments received and processed by the Council. The review looked at ICT controls over areas such as network security and access controls to ICT hardware and secondly to look at end user practices on secure processing and storage of information in respect of electronic payment for services through web and e-pay.

3.10.2 Following benchmarking of existing processes and practices against industry standards the audit identified areas where improvements are needed to ensure full compliance with PCI standards can be met. Work is in hand to correct weaknesses identified in the audit and achieve full compliance.

3.10.3 The authority has encouraged good operator practices to support its businesses and in isolation these systems are secure and enable secure processing of customer data as stand alone operations. The key areas of weakness are the overall infrastructure requirements and ensuring corporate security policy matches the industry standards in areas like leave policy and transaction logging.

3.10.4 Whilst the report has identified the need for improvements, it is important to recognise that no evidence has been identified that sensitive data has been inappropriately accessed. A positive management response to the audit recommendations has been received.

² The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data, principally credit & debit card details. The standard has 4 levels related to transaction volumes. At the Council's level we are required to self certify the position based on a PCI approved independent penetration testing report.

		Draft	Final	RECS			Assurance
3.11	Project Days & Software licensing control	29 March	21 April	1	6	1	Limited

3.11.1 The existing ICT contract gives a provision for a certain amount of days per month for projects arising from changing practices and business transformation. These project days are charged at a discounted price and should be appropriately controlled and approved to ensure they are being issued against prioritised projects to allow the Authority to achieve its strategic direction and value for money.

3.11.2 Although the processes in place to capture all new IT projects exist, they do not appear to be adhered to across the Council. Through discussions it is clear that a common process is not followed, and that both parties have a different view on what is expected. It is our opinion that whilst the IT commissioning procedures are well documented, they have not been well publicised, which has resulted in an inconsistent approach to the commissioning of IT projects.

3.11.3 New IT commissioning and monitoring arrangements are in the process of being considered under the new Corporate ICT structure and following the award of the new ICT contract, restrictions on the use of contract days will be clear, and that the rates chargeable outside of these will be agreed and documented.

3.11.4 The audit expressed concern over the accuracy of the software universe as reported to be installed on individual laptop and desktop assets. Future plans to improve the control framework in terms of identifying unexpected software are in development.

3.11.5 The Council has responsibility for ensuring that it purchases sufficient software licences and remains compliant with the conditions attached to licences. The Council's external ICT provider has a duty to monitor this compliance and to advise the Council should there be material non-compliance or when a decision to make a change to the ICT service has a licensing impact.

3.11.6 Non-Microsoft software and licence conditions are not held centrally and therefore unknown to the ICT Service. Despite licence records held and managed by a third party, it was not possible to reconcile the number of licenses to the number of users. There is a risk that without a robust registering and monitoring process the Authority could exceed the licences purchased for software used.

3.11.7 A positive management response has been received to the report.