

<b>TITLE</b>	<b>Business Assurance Annual Report 2011/12</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 28 June 2012
<b>WARD</b>	None Specific
<b>STRATEGIC DIRECTOR</b>	Muir Laurie, Director of Business Assurance and Democratic Services

#### **OUTCOME / BENEFITS TO THE COMMUNITY**

This report summarises the work of Business Assurance (Internal Audit and Investigations) for the 2011/12 year. The report contains the Head of Internal Audit's statutory opinion on the overall adequacy and effectiveness of the Council's internal control environment. This supports the 2011/12 Annual Governance Statement.

#### **RECOMMENDATION**

The Audit Committee is asked to note the Business Assurance Annual Report 2011/12 (attached).

#### **SUMMARY OF REPORT**

The executive summary of the report contains the Head of Internal Audit's opinion that Business Assurance can provide **Reasonable** assurance on the effectiveness of internal control for the year ended 31 March 2012. Specific details of significant control weaknesses are provided at section 2.8 of the report.

The Business Assurance opinion on the Council's risk management framework is that the Council is **Risk Managed** and that there is **Reasonable** assurance over the governance framework in operation.

Details of Internal Audit work and performance can be found in section 3 of the report. Details of Investigation work and performance can be found in section 4 of the report. A forward look detailing future developments in Internal Audit and Investigation that the Audit Committee should be aware of are detailed in section 5 of the report.

The Appendices contain detailed information on internal Audit reviews, definitions of assurance levels, priority ratings and historical performance.

## Background

The purpose of this report is to meet the annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government 2006 to include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. The Code of Practice also states that a written report should be provided to those charged with governance timed to support the Annual Governance Statement.

## Analysis of Issues

The Audit Committee should note the Annual Internal Audit Opinion and ensure that this is consistent with other assurances the Committee has received and is in accord with the Annual Governance Statement. The Audit Committee should consider whether Internal Audit has provided adequate coverage and assurance over the year.

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

### Other financial information relevant to the Recommendation/Decision

None

### Cross-Council Implications (how does this decision impact on other Council services and priorities?)

### Reasons for considering the report in Part 2

None

### List of Background Papers

- Internal Audit and Business Assurance Quarterly Plans
- Internal Audit and Business Assurance Quarterly Progress Reports
- Internal Audit Charter

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**BUSINESS ASSURANCE**

**ANNUAL REPORT**

**2011/12**

**Wokingham Borough Council**

**19 June 2012**



**WOKINGHAM  
BOROUGH COUNCIL**

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## 1. INTRODUCTION

- 1.1 This report summarises the main findings arising from the work of Business Assurance work completed in the 2011/12 financial year. There are two main strands to this work: Internal Audit and Investigations.
- 1.2 The CIPFA Code of Practice for IA in Local Government in the United Kingdom 2006 requires me as the Council's Director of Business Assurance and Democratic Services (DoBA&DS) to provide a written report to those charged with governance to support the Annual Governance Statement (AGS). Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function (assisted by the Investigations team) has supported the Council in meeting the requirements of Regulation 4 of the Accounts and Audit (Amendments) (England) Regulations 2011.
- 1.3 Business Assurance would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the year.

## 2. EXECUTIVE SUMMARY

### 2.1 Background

- 2.1.1 As Wokingham Borough Council's (WBC's) Head of Internal Audit, my opinion is provided to inform the Chief Executive (Interim) and Leader of the Council to assist them in completing their AGS, which forms part of the Statement of Accounts for the 2011/12 year. The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The Head of Internal Audit opinion meets the Council's statutory requirement under Regulation 4 of the Accounts and Audit (Amendments) (England) Regulations 2011.

### 2.2 Scope of Responsibility

- 2.2.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2.2.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Council has a responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

### 2.3 The Purpose of the System of Internal Control

- 2.3.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable and not absolute assurance of effectiveness.
- 2.3.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's vision, priorities, policies, aims and objectives. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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### 2.4 Annual Opinion Statement on the Effectiveness of the System of Internal Control

- 2.4.1 My opinion is based primarily on the work carried out during 2011/12 by the Council's Business Assurance Internal Audit (IA) team as well as a small number of reviews conducted by Deloitte & Touche Public Sector IA Limited. Where the work of the Business Assurance Investigations team has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming my opinion.
- 2.4.2 The IA quarterly plans for 2011/12 were developed to primarily provide the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance and risk management processes.

### 2.5 Basis of Assurance

- 2.5.1 All IA reviews have been conducted in accordance with the professional standards contained within the Chartered Institute of Internal Auditors International Standards for the Professional Practice of IA. An analysis of the IA work undertaken during 2011/12 is detailed at **Appendix A**.

### 2.6 Qualifications to the Opinion

- 2.6.1 The Council's IA function has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and members. The IA function has had sufficient resources to enable it to provide adequate coverage of the authorities control environment to provide the overall opinion. Consequently, there is no qualification to the Head of IA opinion.

### 2.7 Other Assurance Bodies

- 2.7.1 In formulating my overall opinion on the Council's system of internal control, I have taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions which included:
- The work of the Council's risk management, corporate governance, and information governance working groups.
  - MGS Consulting (Transformation Checkpoint Reports).
  - The Audit Commission's coverage.

### 2.8 Significant Control Weaknesses

- 2.8.1 IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues, and control failures which arise during the year. **There were relatively few significant control weaknesses identified during 2011/12.** These included:
- A range of internal control failures in Property Services including contract and procurement regulations. A substantial programme of improvement work has been undertaken in this area by senior management with the support and assistance of Business Assurance, along with the use of an outside procurement specialist contractor. As a result, a great deal of progress has been made in strengthening controls in this area. However, it should be noted that there is still a lot of improvement work to be completed, although the direction of travel is positive. The Strategic Director of Resources has proactively requested Business Assurance to carry out further follow-up work in this area during 2012/13 to provide the necessary assurances that the improved control environment is operating effectively.

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- There was not a golden thread of 'SMART' objectives running through the Council's corporate planning framework to individual objectives and appraisals, leading to reduced accountability and poor performance measurement in some areas of the Council. Management action to address this has already begun.
- There has been improvement in controls over the security of confidential and sensitive data but there is a residual risk related to the need to effectively change behaviour related to this risk.
- The effectiveness of working relations between some senior officers and some Members was sub-optimal at times during part of the year. However, improving Member/officer relations is recognised as a priority by the council and there is recent evidence of improvements in this area.
- The performance management of staff was inconsistent across the council. This is being taken forward as part of the Council's Organisational Change Programme.
- There were weaknesses identified around the responsibility for the management of and transparency of Section 106 monies. A further IA follow-up review of this area will be conducted by Business Assurance during 2012/13.
- IA identified weakness in the controls around the monitoring of internet and email usage. The controls were found not to be fully operating in accordance with assurances previously provided to the Audit Committee. The robustness of this process can still be improved, although work has been undertaken to address this including software upgrades.

### 2.9 Internal Control Improvements

- 2.9.1 In addition to the action taken by senior management to address the significant control weaknesses, IA has identified during the year a number of areas where improvements have strengthened the control environment. These include:
- The revision of the Council's vision and priorities sets a clearer strategic direction of the authority.
  - The move to SMART working has created the potential for significant savings for the Council and the risks around this shift have been mitigated effectively so far.
  - The controls surrounding the Council's key financial systems remain strong during the transitional period created by a major reorganisation within the Finance department.

### 2.10 Internal Audit Assurance Opinions

- 2.10.1 During the 2011/12 financial year, there were **three** LIMITED assurance and **no** NIL assurance IA opinions out of a total of 41 IA assurance reports. All IA recommendations raised were accepted by management and progress is being made on implementing these recommendations. The key IA reviews conducted in the year included:
- The Contract Letting Property Services IA review identified an inadequate segregation of duties and underdeveloped awareness of potential conflicts of interest providing limited assurance in this area. As mentioned at para 2.8.1, Business Assurance has been closely involved in the work to strengthen controls in Property Services and assist with the facilitation of practical controls in this high risk area.
  - The key finding from the Internet and Email usage audit was a significant weakness in the internet monitoring process with insufficiently robust arrangements operating and limited usability of reports. There is therefore a significant risk related to managers being unable to detect and effectively deal with email or internet abuse and **Limited** assurance can be placed over the monitoring of internet and email usage.

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- The third report with an assurance opinion of **Limited** was Risk and Issue Management in the Transformation Programme. The Director of Transformation was aware of an inconsistent approach to risk management and engaged Business Assurance to conduct a review to establish the extent of this weakness. The review established that whilst some projects were being well managed for risk that there was limited assurance over the range of Transformation Projects.
- The high level review into the key financial systems operating at Optalis (the wholly owned Council social care company) identified one very high and four high risk recommendations. Our audit review highlighted that all these systems have been sufficiently established, although the controls over some remained in their infancy. Optalis 'went live' with the knowledge that some of its financial systems were not yet fully operational and therefore reliance was needed on the council for financial support and assistance. Since go-live date however, there has been steady progress to establish robust, independent systems. Overall the direction of travel of the company's financial systems and processes is positive with significant improvement.
- Of the council's key financial systems reviewed, Main Accounting, Budgetary Control, Cashiers, Creditors, Reconciliations and BACS had **Good** assurance and Debtors and Capital Accounting (including Fixed Assets) were both rated as **Reasonable**. These reviews provide a positive overall picture of the Council's major financial transactions. Consequently, from this body of work we are able to provide **Good** assurance that the Council's key financial systems are operating effectively. It should be noted that this has been achieved by the Finance department against the backdrop of the stresses and disruption of the structure review within the Finance department during 2011/12.

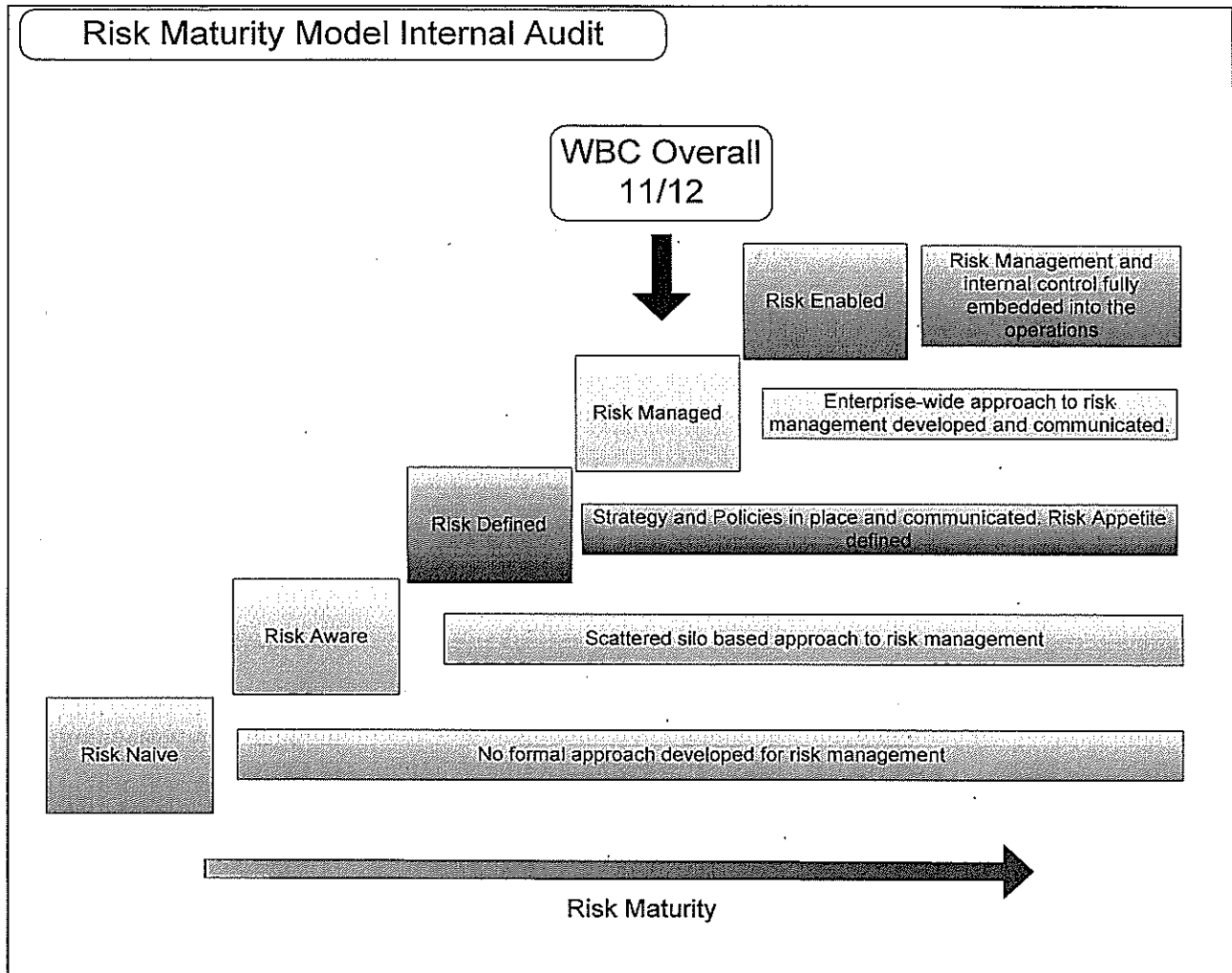
### 2.11 Summary

- 2.11.1 The significant control weaknesses listed at para 2.8 were identified during 2011/12, all recommendations were agreed by management and are being addressed and therefore do not require specific disclosure in the Annual Governance Statement. A more detailed analysis of the IA work carried out during 2011/12 is shown at Section 3 of this report.



## 2.12 2011/12 Year Opinion

### 2.12.1 Risk Management



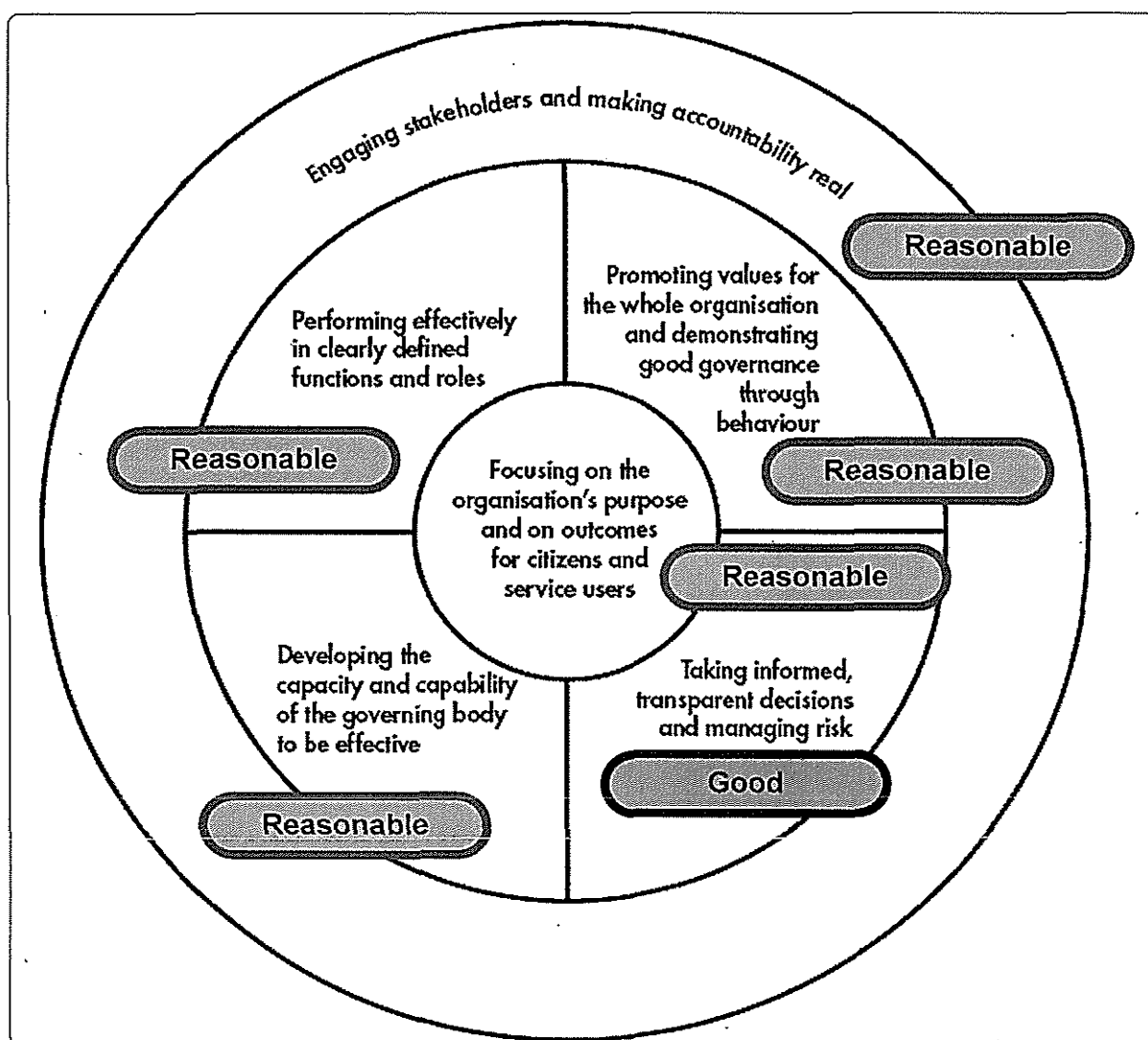
- The IA opinion on the effectiveness of the Council's risk management arrangements is **based on the Chartered Institute of IA's Risk Maturity Model**. IA have identified that there is a formal approach to risk management with an Enterprise Risk Management Strategy and Policy in place and widely communicated. The Council has adopted a dynamic approach to defining its risk appetite with each of the Council's strategic risks assigned an individual risk appetite. The Council's approach to risk management encompasses the entirety of the Council's operations although there are weaknesses related to management of risk in projects and in partnerships. The corporate risk register is established and being facilitated by risk champions who are members of the risk management group. **The IA assessment of the Council's risk management maturity is that the Council was RISK MANAGED as at 31 March 2012.**

### 2.12.2 Governance

- The IA opinion on the effectiveness of the Council's governance arrangements is **based on the Langland's Report on Good Governance Standard for Public Services**. The Langland's report contains best practice governance in the public sector (see diagram on page 7). There remains good evidence that the council is clear about its purpose with a clearly defined vision, priorities and underpinning principles, although there is scope for these to be further embedded within service planning.

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- The Council is performing adequately but an increased focus on performance outcomes would improve effectiveness. There is scope for improvement in improving relationships between members and officers. The initial promotion of the Council's values has subsided and there remains work to be done to promote the Council's values more widely in particular to external stakeholders. There was good evidence to support the Council taking informed transparent decisions. There is scope to improve the effectiveness of communications surrounding decisions. Risk Management is assessed separately - see para 2.12.1.
- The development of the capacity and capability of the governing body to be effective is reasonable. While there has been action on member training there remains improvements to be made in attendance. There has been independent evaluation of the effectiveness of the Audit Committee. There is reasonable evidence to support the Council's effective engagement with stakeholders and efforts to make accountability real. There have been a number of improvements in the staff appraisal process. **The overall governance arrangements were assessed by IA as REASONABLE.**

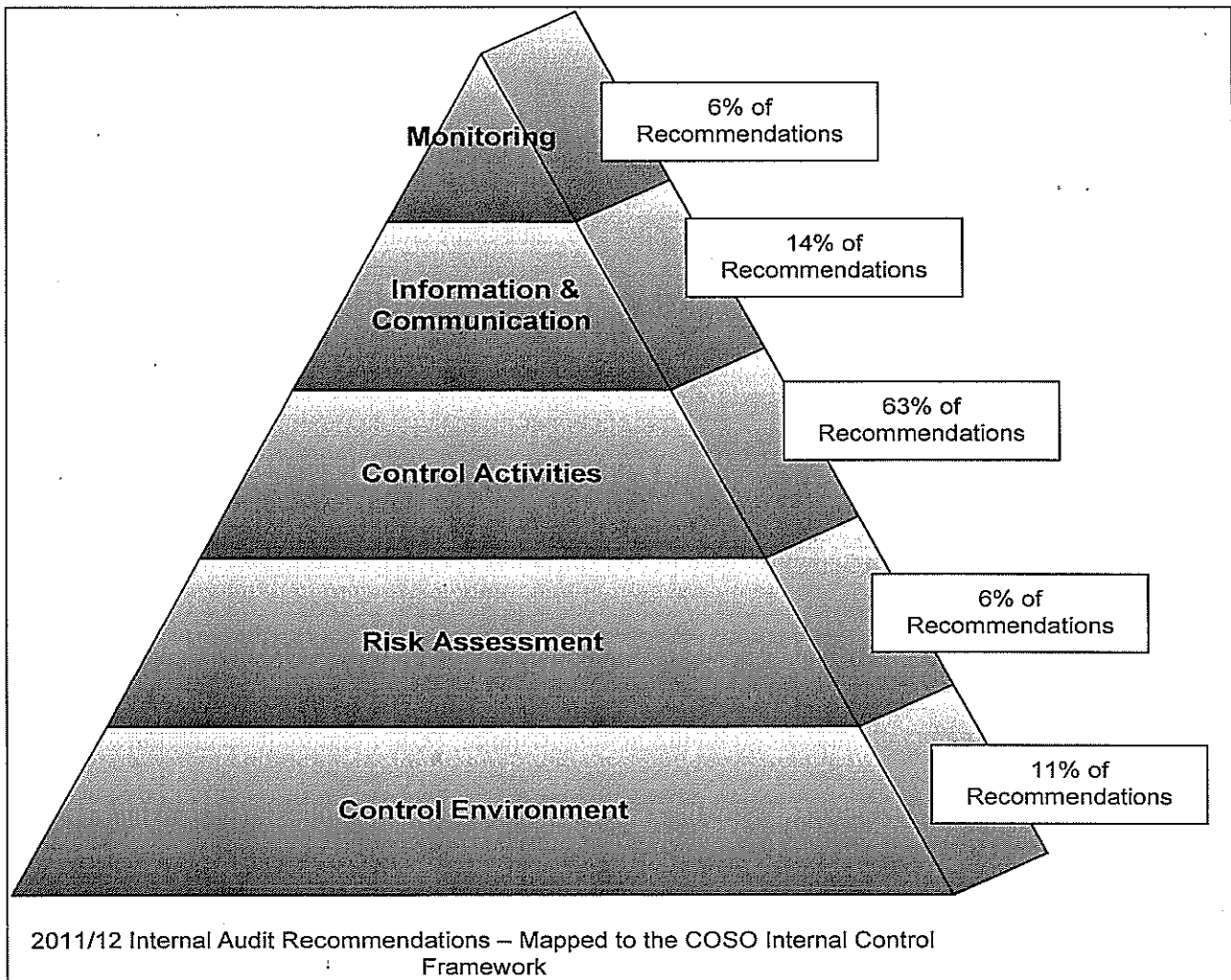


### 2.12.3 Internal Control

- The IA opinion on the Council's internal control system is based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee.

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- The recommendations raised by IA and accepted by management have been categorised by each of the five components of the framework (see diagram below). As expected, the majority of recommendations (108; 63%) related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. Monitoring is another significant areas with a common theme related to improving budget management in some areas of the council.
- From the IA work undertaken in 2011/12, and the other sources of assurance referred to in para 2.7, it is my opinion that we can provide **REASONABLE** assurance that the system of internal control that has been in place at the council for the year ended 31 March 2012 accords with proper practice, except for any details of significant internal control issues referred to in para 2.8.



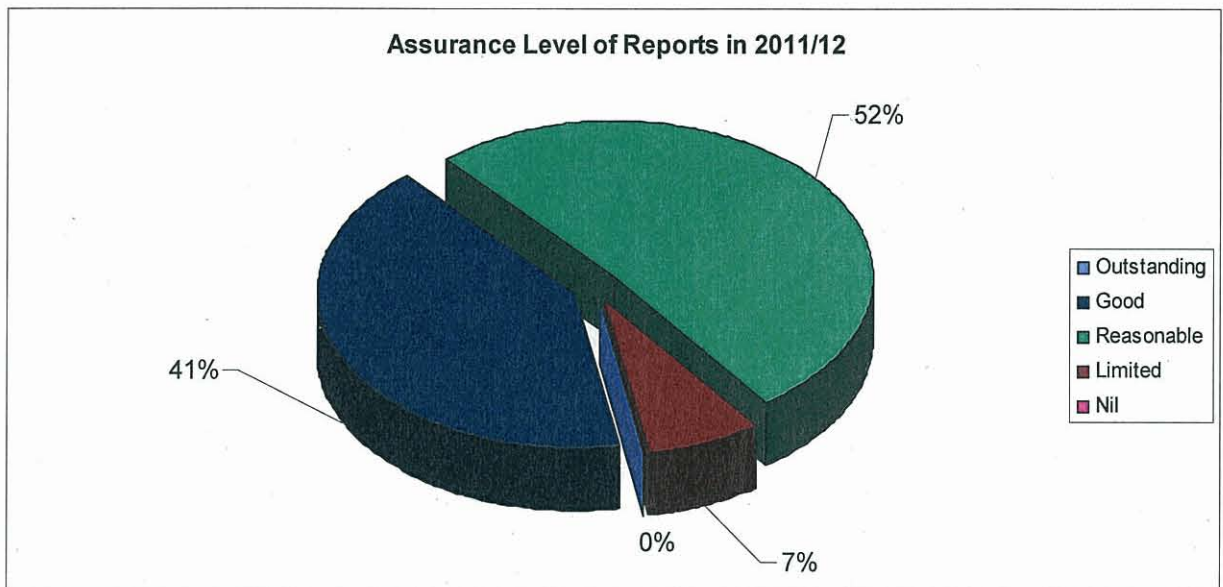
### 3. ANALYSIS OF INTERNAL AUDIT ACTIVITY 2011/12

- 3.1 The fundamental role of the IA function is to provide the Council's Corporate Leadership Team (CLT), Audit Committee and other key stakeholders with independent assurance of the adequacy, effectiveness and efficiency of the system of internal control, risk management and governance at WBC. IA fulfils this role by carrying out appropriate work in accordance with the quarterly IA plans as agreed by CLT and the Audit Committee. IA also reports on any major weaknesses identified, together with recommendations for improvements.
- 3.2 The IA work carried out on each system in 2011/12 may be summarised by the assurance level achieved (**ref Appendix B**) as per the table below:

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Assurance Level (including Schools)	Number of IA reports 2011/12
Outstanding	0
Good	17
Reasonable	21
Limited	3
Nil	0
<b>Totals</b>	<b>41</b>

3.3 The levels of assurance achieved on a percentage of areas audited are depicted in the graph below:



3.4 The graph above (para 3.3) highlights the **positive news** for the council that more than **99%** of the areas audited in 2011/12 were assessed by IA as **Reasonable** or **Good assurance** levels.

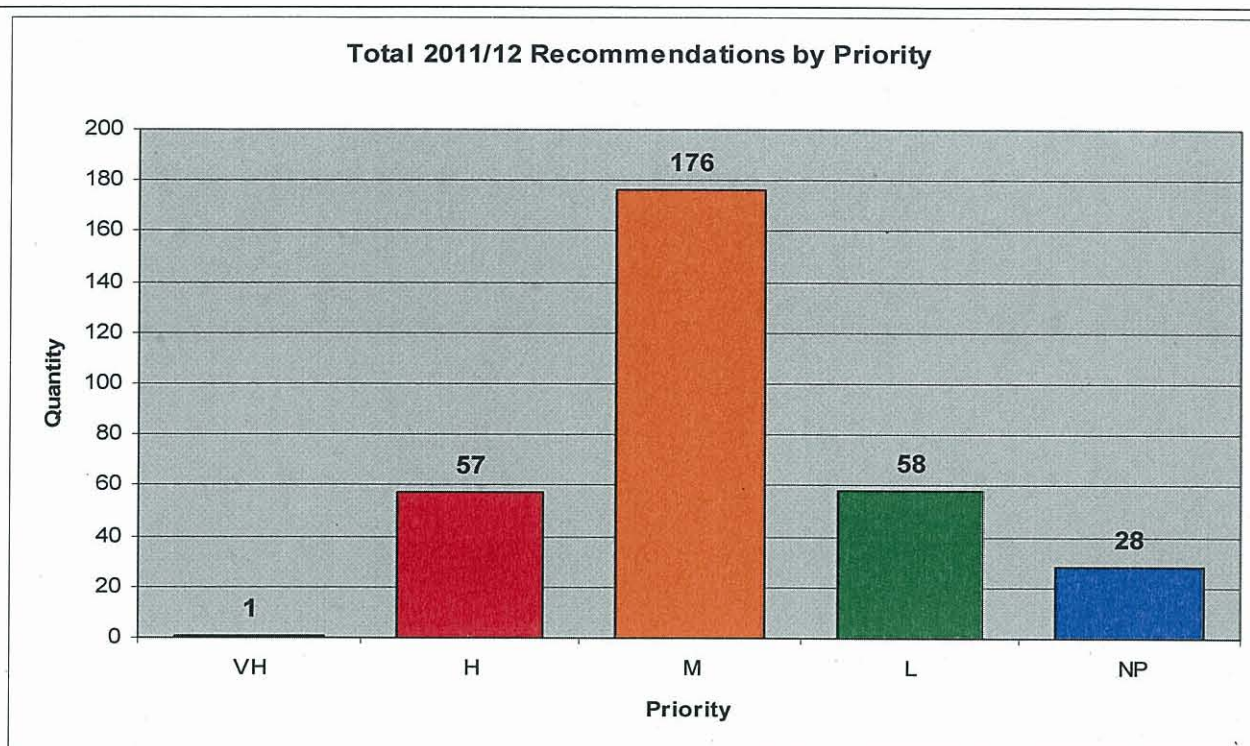
3.5 The individual audits carried out during 2011/12 are listed at **Appendix A**. This indicates assurance levels achieved and provides an analysis of recommendations made (in accordance with the priority levels outlined at **Appendix C**). There continues to be a high level of acceptance of IA recommendations by management.

3.6 The following table provides details of the recommendations raised during 2011/12:

Analysis of Recommendations	2011/12
Number of recommendations raised	<b>292</b>
Number of recommendations agreed	<b>292</b>
Number of alternative actions proposed	<b>0</b>
Percentage of recommendations agreed	<b>100%</b>
Number of recommendations withdrawn/not agreed	<b>0</b>

3.7 The breakdown of IA recommendations by priority rating (per **Appendix C**) is given in the graph below.

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3.8 This graph highlights that there was **only 1 Very High priority recommendation** raised by IA in 2011/12. In addition, **less than 20%** of the recommendations raised by IA in 2011/12 were **categorised as High priority**. This in part reflects an overall improvement in the Council's control environment during 2011/12. Refer to **Appendix D** for further comparative graphical analysis of IA recommendations.

### 3.9 Follow-up Activity

3.9.1 Follow-up of all IA recommendations is completed on an ongoing basis as part of the quarterly Business Assurance Plans approved by CLT and the Audit Committee. The follow-up procedure used to establish the status of recommendations includes management being requested to supply evidence to confirm that recommendations have been implemented. This evidence is then independently verified by IA and consequently there is a high level of assurance that recommendations to address control weaknesses are being implemented by management.

3.9.2 There have been **183 2010/11 recommendations followed-up** to date and **153 (over 83%) had been fully implemented**, with sufficient evidence that the agreed management actions have been implemented. Of the **44 High priority** recommendations raised in 2010/11 that have been followed-up, **93%** have been verified by IA as fully implemented.

### 3.10 Internal Audit Performance 2011/12

3.10.1 The 2011/12 IA Key Performance Indicators (KPIs) were approved by the Audit Committee on the 29 September 2008. The details of the status of the KPIs as at 14 June 2012 for 2011/12 audits are detailed in the table on page 11. As can be seen in the table, overall IA performance against the 2011/12 KPIs has generally been satisfactory against what are recognised as very ambitious KPI targets.

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KPI	DESCRIPTION OF KPI	TARGET	ACTUAL	Cumulative STATUS
IA1	IA Terms of Reference agreed with the relevant manager before commencement of audit testing (for all planned IA reviews)	100%	100% (41/41)	GREEN
IA2	Draft IA reports issued within 15 working days of exit meeting	90%	66% (27/41)	RED
IA3	Draft IA reports issued within 50 working days from the commencement of audit testing	95%	68% (28/41)	RED
IA4.1	Very High Priority IA recommendations implemented in agreed timescale	98%	~% (0/0)	GREEN
IA4.2	High Priority IA recommendations implemented in agreed timescale	95%	93% (41/44)	AMBER
IA4.3	Medium Priority IA recommendations implemented in agreed timescale	90%	81% (112/139)	AMBER
IA5	Final IA reports issued within 15 working days of draft report	85%	75% (31/41)	AMBER
IA6.1	Very High risk recommendations accepted by management	100%	100% (2/2)	GREEN
IA6.2	High risk recommendations accepted by management	98%	100% (58/58)	GREEN
IA7	Medium and low risk recommendations accepted by management	95%	100% (232/232)	GREEN
IA8	The administrative arrangements for the internal audit review were good rated as agree or strongly agree (as per post audit questionnaire)	95%	89% (24/27)	AMBER
IA9	The internal audit review was conducted to a high standard rated as agree or strongly agree (as per post audit questionnaire)	95%	93% (26/28)	AMBER
IA10	The review has benefited your area and provides you with the necessary management assurance rated as agree or strongly agree (as per post audit questionnaire)	95%	96% (27/28)	GREEN
IA11	The internal audit added substantial value rated as agree or strongly agree (as per post audit questionnaire)	95%	81% (22/27)	RED
IA12	High risk audits completed to draft report stage by 31st March	95%	74% (25/34)	RED
IA13	Medium and low risk audits completed to draft report stage by 31st March	85%	88% (7/8)	GREEN

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3.10.3 During 2011/12 there have been some significant changes to IA resource, including the reduction in the use of external contractors for IA work and the departure of a highly experienced member of staff. Whilst this has had a negative impact on IA KPI performance in the year, it has provided opportunities for internal promotion within the team as well as the recruitment of an apprentice trainee Internal Auditor. Further to that, at the time of issuing my annual Head of Internal Audit Opinion in this report, there is only one 2011/12 IA review that has yet to be completed to draft report stage (Payroll).

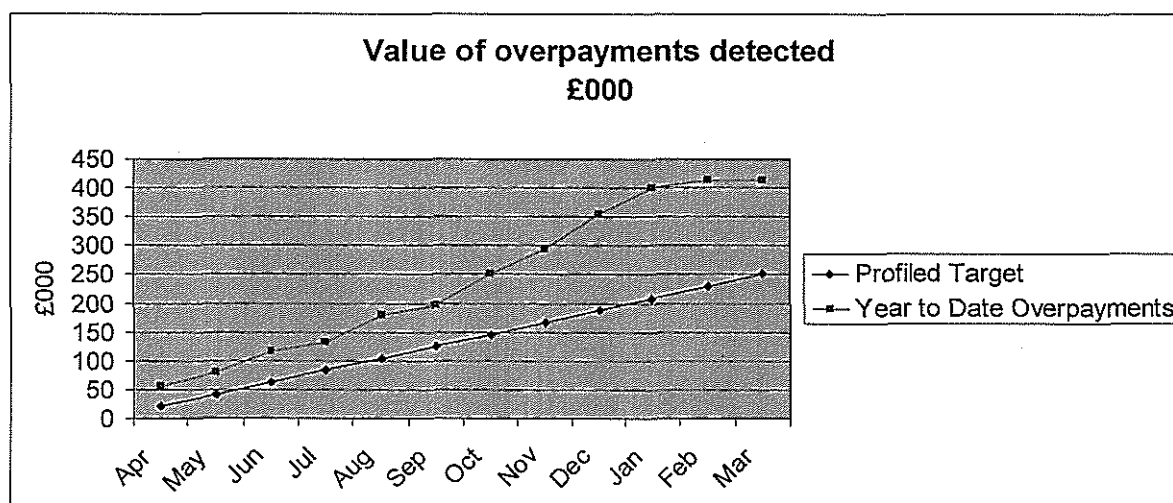
3.10.4 There are issues that continue to arise around timeliness of IA reporting, although this is mainly as a result in delays in receiving management responses. The delayed implementation of IA recommendations is clearly a management responsibility although IA continues to proactively attempt to influence this process.

### 4. ANALYSIS OF INVESTIGATIONS ACTIVITY 2011/12

#### 4.1 Benefits & Housing Fraud Work

4.1.1 The annual target of identifying overpaid benefits (this can be due to either fraud or error) was **increased from £200k to £250k for 2011/12**. This increase represents the highest target that the council has ever set in this area.

4.1.2 Nevertheless, despite the 25% increase in the target, over **£413k of overpaid benefits has been identified by Business Assurance in 2011/12**. This is clearly an extremely positive result for the team and the council, particularly given the reduced Business Assurance staff resource available for benefit fraud investigations. The graph below highlights this:



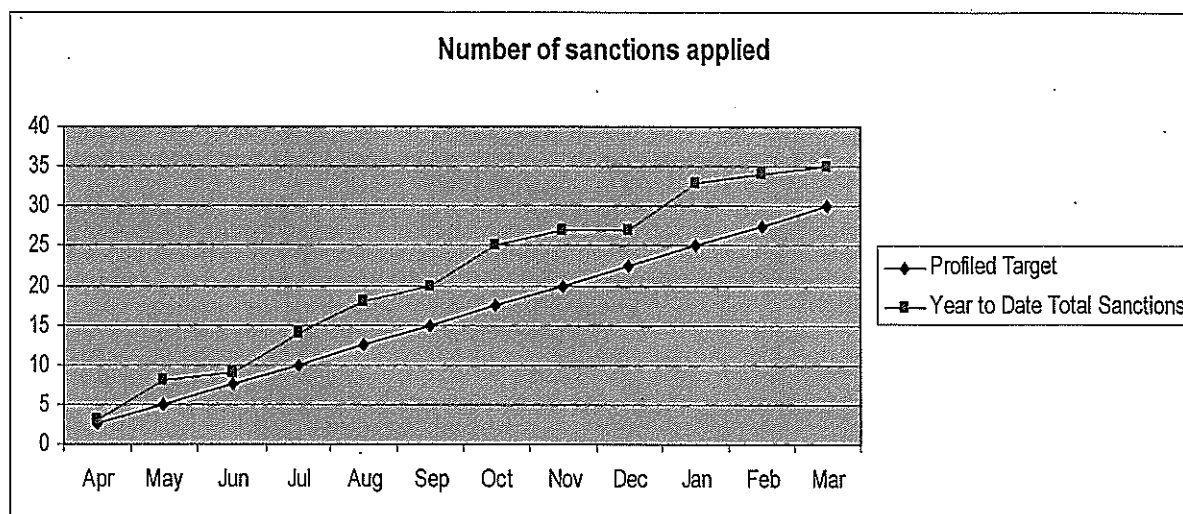
4.1.3 Where evidence indicates an offence has been committed in benefit fraud investigations, the offender can be offered:

- a formal caution (a warning, but the offence must be admitted); or
- an administrative penalty (which is a 30% fine on top of any overpaid benefit identified); or
- the Council will prosecute (for more serious cases).

4.1.4 These actions are referred to as 'sanctions' and the Business Assurance Investigations team has an **annual target of achieving 30 sanctions**.

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- 4.1.5 In total **279** benefits/housing investigations were completed in 2011/12 resulting in **35 sanctions** being issued; 8 cautions, 15 administrative penalties and **12 prosecutions**.



- 4.1.6 Details of the prosecutions made during Quarter 1 to Quarter 3 have previously been reported. In Quarter 4 there were a **further 3 successful prosecutions for benefit/housing fraud** as detailed in paras 4.1.7 to 4.1.7 below.
- 4.1.7 Mr Clark appeared before Reading Magistrates Court on 27 January 2012 and pleaded guilty for failing to declare increases in his salary. He was given a Community order of unpaid work of 140 hours and ordered to pay a contribution towards prosecution costs of £50.
- 4.1.8 Mr Young pleaded guilty on 24 February 2012 for failing to declare he was living with his partner whilst claiming benefits. He received a Community Order of 120 hours unpaid work.
- 4.1.9 It has previously been reported to Audit Committee that a Housing Fraud case, which was investigated jointly with Tenant Services, has **resulted in a council property being recovered and brought back into social use**. Ms Bull appeared at Reading Magistrates Court during Quarter 4 (on 13 January 2012) and pleaded guilty to all 5 charges against her. She received a Community order of 120 hours unpaid work, £500 compensation to the Council in respect of the sub-letting and ordered to pay a contribution of costs of £100.

### 4.2 Corporate Investigations

- 4.2.1 During the year, **17** corporate investigations have been fully completed (**4** 2011/12 investigations are ongoing). The majority of these cases are of a staff grievance or disciplinary nature; where resources allow Business Assurance conducts these investigations on behalf of management. This reduces the need for managers elsewhere in the organisation to conduct these resource intensive investigations. It also ensures that these sensitive types of investigation are conducted independently by professionally qualified investigators.
- 4.2.2 The completed corporate investigation cases have included:
- Breach of Contract Regulations;
  - Breach of Financial Regulations; and
  - Breaches of the Staff Code of Conduct.
- 4.2.3 A substantial amount of Business Assurance resource was invested in one specific investigation looking into financial irregularities which came to light following an Internal



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Audit review earlier in the year. This highlights the added value to the council of Internal Audit and Investigations working collaboratively as a single Business Assurance service.

4.2.4 In total, the 2011/12 corporate investigations completed to date have resulted in disciplinary action being taken against **5** members of staff.

### 4.3 Investigations Performance 2011/12

4.3.1 The team has performed strongly against the main benefit fraud KPIs (Inv1 and Inv2) and overall has over achieved five of its eight KPIs for the quarter (ref para 4.3.3 below). The KPI targets which have not been achieved generally relate to the time spent on completing specific individual benefit fraud investigations.

4.3.2 As previously reported there are many reasons for delays in investigations, some of which can be due to issues outside of the team's control, such as delays in obtaining information from third parties, or a benefit claimant failing to show for an interview. In addition, there will always be a number of complex benefit fraud cases that require more resources to complete and often these cases will result in a high overpayment of benefits and/or a sanction.

4.3.3 A summary of the cumulative Investigations KPIs as at 31 March 2012 is shown below:

KPI	DESCRIPTION OF KPI	End of Q4 TARGET	End of Q4 ACTUAL	End of Q4 STATUS
Inv1	Value of Overpayments detected	£250k	£413k	GREEN
Inv2	Benefit Sanctions applied	30	35	GREEN
Inv3	Agree scope of Corporate investigation with the relevant manager (before commencement of investigation)	95%	100%	GREEN
Inv4	Formal risk assessment completed (within 5 days of referral for Corporate cases and 10 days for Benefit cases)	95%	96%	GREEN
Inv5	Benefit cases completed within 8 weeks following acceptance (except Living Together cases – see Inv4)	80%	47%	RED
Inv6	Living Together Benefit cases completed within 12 weeks following acceptance	80%	64%	AMBER
Inv7	Sanction Panel Referral submitted and/or Investigation Report completed (within 10 days of completion of investigation, including manager review)	95%	80%	AMBER
Inv8	The investigation added value to your area (rated as agree or strongly agree as per post investigation questionnaire)	95%	100% (of returned forms)	GREEN

## 5. FORWARD LOOK

### 5.1 Key Performance Indicators

## **Business Assurance Annual Report 2011/12**

5.1.1 Looking ahead to 2012/13, both the Internal Audit (IA) and Investigations and teams have updated their KPIs to reflect Business Assurance's revised strategic approach and service delivery objectives for the new financial year. Following successful recruitment to replace two staff that have left, performance is expected to exceed levels seen in previous years. Progress against the updated KPIs for 2012/13 will be reported to the Audit Committee at its next meeting in September 2012.

### **5.2 Shared Services**

5.2.1 As with many other council services, Business Assurance has looked to other local authorities for collaborative opportunities to provide shared services. As a result of this, Business Assurance has entered into an innovative agreement to provide an investigation service with Oxfordshire County Council which is proving very beneficial for both authorities. Business Assurance also continues to provide a range of IA services to Bracknell Council as part of a joint working arrangement with Reading Borough Council.

### **5.3 Internal Audit**

5.3.1 The Business Assurance IA team will look to increase the resource it dedicates to providing consultancy work in 2012/13, having provided over 200 days of advisory services in 2011/12. This is becoming increasingly important in relation to major projects where the advice we give during a project is recognised by management as adding more value than us conducting an assurance review after a project has been completed.

5.3.2 As a result of the strategic decision to implement smart working across the council and the increased reliance on ICT that brings, we will have greater emphasis on ICT audit coverage in 2012/13. We will also ensure we work closely with the Councils' new external auditors (Ernst & Young) who take over at the council this autumn, to ensure a dovetailed audit approach, particularly in relation to coverage of the key material financial systems.

### **5.4 Investigations**

5.4.1 Recent staff changes in the Business Assurance Investigation team has enabled the team to refocus and the plan for 2012/13 is to undertake more pro-active anti-fraud work in other areas of the council. This is in line with the recent guidance published by the Audit Commission and the National Fraud Authority which highlights that it is important for councils to consider other potential areas of fraud as well as Benefits.

5.4.2 Whilst the detection and prevention of housing and council tax benefits fraud remains a key priority for the council, how these investigations are undertaken will be impacted by the Government's planned development of a Single Fraud Investigation Service. This is being developed as a result of the Welfare Reform Act. The Department for Work and Pensions (DWP) is currently designing the model on which the new service will be based, bringing together investigation teams from local authorities, HMRC and the DWP. A future report on how these changes will impact Wokingham Borough Council will be brought to Audit Committee when there is more clarity from the DWP.

**Muir Laurie ACCA, CMIIA, MAAT**

**Director of Business Assurance & Democratic Services  
(& Head of Internal Audit)**

**19 June 2012**

## Business Assurance Annual Report 2011/12

### APPENDIX A

#### DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2011/12

##### Residual 2010/11 IA Reviews

IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
'10/11	WSP Contract	Q4	Final report issued 2 April 2011	Reasonable	-	11	4	3	1	Yes
'10/11	Safer Recruitment (WBC)	Q4	Final report issued 8 April 2011	Good	-	-	4	-	-	Yes
'10/11	Optimisation of Property Assets	Q4	Final report issued 9 May 2011	Outstanding	-	-	-	-	-	Yes
'10/11	Capital Accounting	Q4	Final report issued 12 May 2011	Good	-	-	2	-	1	Yes
'10/11	Procurement	Q4	Final report issued 14 July 2011	Reasonable	-	1	5	3	-	Yes
'10/11	Safer Recruitment (Schools)	Q4	Final report issued 7 August 2011	Reasonable	-	2	3	-	-	Yes
'10/11	Staff Expenses	Q4	Final report issued 17 August 2011	Reasonable	-	-	1	5	-	Yes
'10/11	Payroll (Corporate)	Q4	Final report issued 26 August 2011	Good	-	-	-	-	-	Yes
'10/11	Operation of Trading Standards Shared Service Arrangement	Q4	Final report issued 30 August 2011	Reasonable	-	1	7	-	1	Yes

##### 2011/12 IA Planned Reviews

IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
001	Data Quality	Q1	Final report issued 25 Jul 2011	Good	-	-	1	2	-	Yes
002	Housing Rents	Q1	Final report issued 28 Jul 2011	Good	-	-	-	1	-	Yes
003	Main Accounting	Q1	Final report issued 16 Oct 2011	Good	-	-	4	2	-	Yes
004	Health & Safety	Q1	Final report issued 26 March 2012 (deferred to Q3 by Strategic Director of Resources)	Reasonable	-	-	9	-	1	Yes
005	Mobile Devices	Q1	Final report issued 31 Aug 2011	Reasonable	-	-	2	3	1	Yes

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IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
006	Internet and Email Usage	Q1	Final report issued 4 Aug 2011	Limited	-	2	3	2	-	Yes
007	Effectiveness of Internal Audit	Q1	Final report issued 17 Jul 2011	Good	-	-	8	-	-	N/A
008	Effectiveness of the Audit Committee	Q1	Final report issued 30 Nov 2011	Good	-	3	9	2	-	N/A
009	Business Continuity Planning	Q1	Final report issued 6 Sep 2011	Good	-	1	5	-	-	Yes
010	Transformation Community Care Connect - Project Implementation	Q1	Now being covered as part of the Optalis audit (ref 011)	N/A	-	-	-	-	-	N/A
011	Transformation Community Care Connect (Optalis) - Operations including Key Financial Systems	Q1	Final report issued 2 Dec 2011 (deferred to Q2 by Managing Director of Optalis)	Reasonable	1	4	8	1	-	Yes
012	Contact Letting Property Services	Q1	Final report issued 23 Jul 2011	Limited	-	4	4	-	-	Yes
013	Transformation Legal Shared Services Project	Q1	Final report issued 8 Nov 2011 (deferred to Q2 by Director of Legal & Electoral Services)	Reasonable	-	1	2	-	7	Yes
014	Governance Arrangements for Local Authority Trading Companies: WEL	Q1	Final report issued 4 May 2012	Reasonable	-	2	4	6	-	Yes
014a	Governance Arrangements for Local Authority Trading Companies: Optalis	Q1	Final report issued 4 May 2012	Reasonable	-	1	7	6	1	Yes
015	Home to School Transport (SEN)	Q1	Final report issued 13 Dec 2011	Reasonable	-	4	7	3	4	Yes
016	Safer Recruitment (External Bodies)	Q1	Wider corporate issued raised by this work being addressed through ongoing work with Procurement	N/A	-	-	-	-	-	N/A

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### APPENDIX A (cont'd)

IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
017	Consultancy - Transformation Programme	Q1	Final report issued 8 Nov 2011	Reasonable	-	9	4	1	-	Yes
018	Consultancy - Risk Management Facilitation	Q1	Q1 consultancy work completed	N/A	-	-	-	-	-	N/A
019	Consultancy - Corporate Risk Register	Q1	Q1 consultancy work completed	N/A	-	-	-	-	-	N/A
020	Consultancy - Good Governance Survey	Q1	Q1 consultancy work completed	N/A	-	-	-	-	-	N/A
021	Consultancy - Facilitation of Annual Governance Statement 2010-11	Q1	Q1 consultancy work completed	N/A	-	-	-	-	-	N/A
022	Income and Banking Collection (Council wide)	Q2	Fieldwork commenced but IA review stopped due to higher priority work. However, coverage of the key financial risks included in Cashiers and Bank Reconciliations audits	-	-	-	-	-	-	N/A
023	Complaints and Compliments	Q2	Final report issued 9 Dec 2011	Reasonable	-	-	9	3	1	Yes
024	Procurement Cards	Q2	Final report issued 10 January 2012	Reasonable	-	1	10	1	-	Yes
025	VAT	Q2	Final report issued 12 January 2012	Good	-	-	4	-	-	No
026	Multi Activity Centre	Q2	Deferred to Q1 2012/13	N/A	-	-	-	-	-	N/A
027	Payments Kiosk	Q2	Draft report issued 15 March 2012 but Management Response delayed as awaiting outcome of decision on cash office	Reasonable	-	2	-	-	1	N/A
028	Housing Benefits	Q2	Final report issued 26 Oct 2011	Good	-	-	1	2	-	Yes

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**APPENDIX A (cont'd)**

IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
029	Out of Hours Service	Q2	Final report issued 27 January 2012	Reasonable	-	1	4	-	1	Yes
030	Smart Working - Implementation Review	Q2	Removed from IA Plan as no longer considered a significant risk	N/A	-	-	-	-	-	N/A
031	Administration Review - Implementation and Impact	Q2	Final report issued 30 May 2012	Reasonable	-	2	6	-	2	Yes
032	Tenant Services Review	Q2	Final report issued 10 February 2012	Good	-	-	2	1	-	No
033	Information Governance	Q2	Final report issued 18 June 2012	Reasonable	-	-	6	1	2	N/A
034	Financial Reporting and Medium Term Financial Plan	Q2	Final report issued 20 March 2012	Reasonable	-	2	6	-	2	No
035	Follow-ups	Q2	Q2 follow-up work is completed	N/A	-	-	-	-	-	N/A
036	Transformation - Programme and Project Risk and Issues Management	Q2	Final memo issued 30 January 2012	Limited	-	5	8	1	3	Yes
037	Transformation – Savings	Q2	Final memo issued 27 April 2012	Reasonable	-	-	3	-	-	N/A
038	Governance Arrangements for Local Authority Trading Companies: WHL	Q2	Final report issued 4 May 2012	Reasonable	-	2	7	6	-	Yes
039	Transformation Programme - 'Live' Consultancy	Q2	Q2 consultancy work completed	N/A	-	-	-	-	-	N/A
040	Consultancy - Corporate Working Groups	Q2	Q2 consultancy work completed	N/A	-	-	-	-	-	N/A
041	Consultancy - Risk Management Facilitation	Q2	Q2 consultancy work completed	N/A	-	-	-	-	-	N/A
042	Consultancy - Corporate Risk Register	Q2	Q2 consultancy work completed	N/A	-	-	-	-	-	N/A

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IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
043	Consultancy - Good Governance Survey	Q2	Q2 consultancy work completed	N/A	-	-	-	-	-	N/A
044	Risk Management	Q3	Final report issued 29 February 2012 by Gallagher Basset (Contractor)	N/A	-	-	-	-	-	N/A
045	Social care records and Staff management	Q3	Deferred to 2012/13 by Head of Internal Audit	N/A	-	-	-	-	-	N/A
046	Creditors	Q3	Final report issued 30 January 2012	Good	-	-	3	2	-	No
047	Debtors	Q3	Final report issued 5 April 2012	Reasonable	-	1	4	-	1	Yes
048	Payroll (Corporate)	Q3	Draft report in progress	tbc	tbc	tbc	tbc	tbc	tbc	tbc
049	Transformation - Library Project	Q3	Removed from IA Plan by Head of Internal Audit	N/A	-	-	-	-	-	N/A
050	Transformation – Steering Groups	Q3	Q3 consultancy work completed	N/A	-	-	-	-	-	N/A
051	Finance Review - Post Implementation Review	Q3	Removed from IA Plan by Head of Internal Audit	N/A	-	-	-	-	-	N/A
052	Consultancy - Autonomy versus Harmonisation Corporate Review	Q3	This work is ongoing as part of the council's Organisational Change Projects	N/A	-	-	-	-	-	N/A
053	Consultancy - Corporate Working Groups	Q3	Q3 consultancy work completed	N/A	-	-	-	-	-	N/A
054	Consultancy - Risk Management Facilitation	Q3	Q3 consultancy work completed	N/A	-	-	-	-	-	N/A
055	Consultancy - Corporate Risk Register	Q3	Q3 consultancy work completed	N/A	-	-	-	-	-	N/A
056	Follow-ups	Q3	Q3 follow-up work is completed	N/A	-	-	-	-	-	N/A

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IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
057	Equality Impact Assessments	Q3	Main risks covered by Transformation Savings Memo (ref 037)	N/A	-	-	-	-	-	N/A
058	Performance Management	Q4	Final memo issued 4 May 2012	N/A	-	-	-	-	-	N/A
059	ICT Contractor Performance (including contract management)	Q4	Postponed to 2012/13 following appointment of new Head of ICT and action plan to address performance	N/A	-	-	-	-	-	N/A
060	Project Management: Implementation of Framework-i	Q4	Appropriately skilled IA staff not available in Q4 therefore this review is rescheduled for Q2 in 2012/13	N/A	-	-	-	-	-	N/A
061	Corporate Governance	Q4	Draft report issued 19 June 2012	Reasonable	-	4	7	2	-	No
062	BACS	Q4	Final report issued 28 May 2012	Good	-	-	1	-	-	Yes
063	Bank Reconciliations	Q4	Final report issued 16 April 2012	Good	-	-	-	1	-	Yes
064	Cashiers	Q4	Final report issued 3 April 2012	Good	-	1	-	-	-	Yes
065	Budgetary Control	Q4	Final report issued 29 May 2012	Good	-	-	-	4	-	Yes
066	Capital Accounting and Fixed Asset Register (including Capital Planning and Allocations)	Q4	Final report issued 19 June 2012	Reasonable	-	-	5	3	-	No
067	Schools (Material)	Q4	Included in the Schools Financial Management Audit (ref 075)	N/A	-	-	-	-	-	N/A
068	Treasury Management	Q4	Final report issued 16 May 2011	Good	-	-	3	1	-	Yes
069	Transformation Steering Groups	Q4	Q4 consultancy work completed	N/A	-	-	-	-	-	N/A
070	Transformation - Implementation of Workstream Savings	Q4	Review cancelled following significant changes to organisational structure of Transformation workstreams.	N/A	-	-	-	-	-	N/A



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IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
071	Community Wardens – Management	Q4	Deferred to 2012/13 by Head of Internal Audit	N/A	-	-	-	-	-	N/A
072	Children Centres - Data Quality	Q4	Interim report issued on 9 March 2012. Further work will be completed in 2012/13 once management action has been completed on interim report	N/A	-	-	-	-	-	N/A
073	Children's Services - Commissioning Panel	Q4	Initial work completed. Further work will take place at timing to be agreed	N/A	-	-	-	-	-	N/A
074	Independent Assurance - Implementation of Ofsted Inspection Reports	Q4	Work delayed to 2012/13 at request of Assistant Director of Head of Social Care and Safeguarding	N/A	-	-	-	-	-	N/A
075	Schools - Financial Management (including Internal Control)	Q4	Final report issued 20 April 2012	Reasonable	-	5	9	1	-	Yes
076	Vulnerable Adults Safeguarding - Remote Placements	Q4	Deferred to 2012/13 by Head of Internal Audit	N/A	-	-	-	-	-	N/A
077	Consultancy - Corporate Working Groups	Q4	Q4 consultancy work completed	N/A	-	-	-	-	-	N/A
078	Consultancy - Risk Management Facilitation	Q4	Q4 consultancy work completed	N/A	-	-	-	-	-	N/A
079	Consultancy - Corporate Risk Register	Q4	Q4 consultancy work completed	N/A	-	-	-	-	-	N/A
080	Follow-ups	Q4	Q4 follow-up work completed	N/A	-	-	-	-	-	N/A
081	Youth Service Recruitment	Q4	Q4 Consultancy work completed (memo)	N/A	-	-	-	-	-	N/A
082	Council Tax and NNDR	Q4	Final report issued 16 May 2012	Good	-	-	1	-	1	Yes

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IA Ref.	IA Review Area	Timing	Status as at 19 June 2012	Assurance Level	Priority					PAQ Received ?
					VH	H	M	L	NP	
083	Intranet Project Board – Including governance arrangements	Q4	Q4 consultancy work completed	N/A	-	-	-	-	-	N/A
084	HRA Payment	Q4	Q4 Live Assurance over payment of £95m completed	Good	-	-	-	-	-	N/A
085	Finance Review - Deputyship	Q3	Consultancy report issued 24 August 2011	-	-	-	-	-	-	N/A
	<b>Total 2011/12 Internal Audit recommendations raised:</b>				<b>1</b>	<b>57</b>	<b>176</b>	<b>58</b>	<b>28</b>	

**INTERNAL AUDIT ASSURANCE LEVEL DEFINITIONS**

The classifications of assurance levels for 2011/12 are set out below:

<b>Assurance Level</b>	<b>Definition</b>
<b>Outstanding</b>	There is outstanding management of the key risks to the council objectives. There is significant innovation or high levels of user satisfaction. There are examples of best practice. There is an appropriate control environment <sup>1</sup> with due regard to the Council's risk appetite <sup>2</sup> . There is positive assurance that objectives will be achieved.
<b>Good</b>	There is a good level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> is robust with no major weaknesses in design or operation. There is good assurance that objectives will be achieved.
<b>Reasonable</b>	There is a reasonable level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> is in need of improvement in either design or operation. There is a misalignment of the level of residual risk <sup>3</sup> to the objectives and the designated risk appetite. There remains a risk that objectives will not be achieved.
<b>Limited</b>	There is a limited level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
<b>Nil</b>	There is no assurance to be derived from the management of key risks to the council objectives. There is an absence of several key elements of the control environment <sup>1</sup> in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite <sup>2</sup> and the residual risk <sup>3</sup> to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment** – The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the authority's objectives;
- the facilitation of policy and decision-making;
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty
- the financial management of the authority and the reporting of financial management, and
- the performance management of the authority and the reporting of performance management.

2. **Risk Appetite** - The amount of risk that the council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk** - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**INTERNAL AUDIT RECOMMENDATIONS PRIORITY LEVELS**

To assist management in using IA reports, Business Assurance categorise their IA recommendations according to the level of priority, which in 2011/12 was as follows:

<b>Priority</b>	<b>Definition</b>
<b>Very High</b> ●	The recommendation relates to a highly significant threat or opportunity that impacts directly on the council's corporate objectives. The action required is to mitigate a serious risk to the council. In particular it has a critical impact on the council's reputation, statutory compliance, finances or strategic priorities. The risk requires immediate senior management attention.
<b>High</b> ●	The recommendation relates to a significant threat or opportunity that impacts the council's corporate objectives. The action required is to mitigate a substantial risk to the council. In particular it has an impact on the council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
<b>Medium</b> ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the council. In particular an adverse impact on the department's reputation, adherence to council policy, the departmental budget or service plan objectives. The risk requires management attention.
<b>Low</b> ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the council as a whole. This may be compliance with best practice or minimal impacts on the service's reputation, adherence to local procedures, local budget or Section objectives. The risk maybe tolerable in the medium to short term.
<b>Notable Practice</b> ●	The activity reflects current best management practice or is an innovative response to the management of risk within the council. The practice should be shared with others.

**INTERNAL AUDIT RECOMMENDATIONS ANALYSIS**

Further analysis of Internal Audit recommendations is included in the two graphs below:

