

TITLE	Effectiveness of Internal Audit and Counter Fraud Arrangements 2012/13
FOR CONSIDERATION BY	Audit Committee on 28 November 2012
WARD	None Specific
STRATEGIC DIRECTOR	Muir Laurie, Director of Business Assurance & Democratic Services

OUTCOME / BENEFITS TO THE COMMUNITY

Business Assurance conducts an in-house annual review which assesses the effectiveness of the Internal Audit (IA) function and provides assurance over its compliance with the Chartered Institute of Internal Auditors (IIA) Standards and the CIPFA Code of Practice for Internal Audit in Local Government 2006. This annual assessment is mandatory for all Public Bodies governed by the Accounts and Audit Regulations.

This year Business Assurance incorporated an assessment of the council's counter fraud service which is delivered by the Business Assurance Investigations team. The Investigations team's primary objective is to promote an anti-fraud and anti-corruption culture and to investigate allegations of fraud, corruption and malpractice as defined in its business objectives. In the course of its duties the Investigations team is required to comply with the relevant legislation, codes of practice and council policies.

RECOMMENDATION

The Audit Committee is asked to:

- o Note the report Effectiveness of Internal Audit and Counter Fraud Arrangements 2012/13 (attached).

SUMMARY OF REPORT

This review is an assessment of IA's compliance against the IIA Standards and the CIPFA Code of Practice and of the controls in place for the prevention, detection and investigation of fraud and corruption.

The review highlighted one high priority recommendation where there is a lack of a current IA and Investigations strategy. The management response states that a Business Assurance Strategy is in draft and consultation is underway. An implementation date of February 2013 has been agreed.

Further recommendations for improvement include management checks on TeamMate (the IA software), the presence of Business Assurance at Corporate Leadership Team meetings, agreeing new KPI's, communicating the updated follow-up process, developing a formal Team Plan for Investigations, further promotion of an anti-fraud and anti-corruption across the council and prompter updates to AFD (the Investigations software). All of these recommendations have been agreed and several of these were under development during the course of this IA review.

Background

IA aims to provide an 'independent and objective opinion to the organisation on the control environment, comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisations objectives.'

The Business Assurance Investigations team 'is responsible for providing a comprehensive investigation service to all stakeholders, in order to prevent, detect and take appropriate action to all internal and external fraud, theft and error and to drive improvements in performance across the council.'

This IA review was thought to add more value to the organisation if the effectiveness of IA and the counter fraud arrangements were reviewed together.

Analysis of Issues

This IA report provides the Audit Committee with assurance over the IA function's compliance with the IIA Standards and the CIPFA Code of Practice. Furthermore, the report provides assurance that the controls in place for the prevention, detection and investigation of fraud and corruption are working effectively.

The Audit Committee can be assured that this IA was conducted in compliance with the IIA Standards to ensure a professional approach was taken and independence and objectivity were being maintained. These standards included:

- 1100 Independence and Objectivity – The IA activity must be independent, and internal auditors must be objective in performing their work;
- 1120 Individual Objectivity – Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest; and
- 1200 Proficiency and Due Professional Care – Engagements must be performed with proficiency and due professional care.

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

Not applicable.

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

Not applicable.

Reasons for considering the report in Part 2
Not applicable.

List of Background Papers
None.

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Date 17 November 2012	Version No. 2

**Wokingham Borough Council
Internal Audit Final Report 2012/13
Effectiveness of Internal Audit and Counter Fraud
Arrangements**

18 October 2012

Report Distribution:

Name	Job Title
Andy Couldrick	Chief Executive
Graham Ebers	Strategic Director of Resources
Muir Laurie	Director of Business Assurance & Democratic Services (& Head of Internal Audit)
Adam Swain	Audit Commission
Paul Ohsan Ellis	Internal Audit Manager (Deputy Head of Internal Audit)
Julie Holland	Investigations Manager

Ownership of all final Internal Audit reports rests with the relevant Audit Sponsor. However Business Assurance will disclose final Internal Audit reports to the Audit Committee upon their specific request.

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1. Introduction

- 1.1 The effectiveness of Internal Audit (IA) is a key cornerstone of corporate governance. The Accounts and Audit (England) Regulations 2011 require relevant bodies 'to conduct an annual review of the effectiveness of its IA' and that IA should conform to 'proper practices'.
- 1.2 Business Assurance (BA) conducts an annual review which assesses the effectiveness of the IA function and provides assurance over IA's compliance with the Chartered Institute of Internal Auditors (IIA) Standards and the CIPFA Code of Practice for IA in Local Government 2006. This annual assessment is mandatory for all Public Bodies governed by the Accounts and Audit Regulations.
- 1.3 BA aims to provide 'a counter-fraud service to the council by promoting an anti-fraud and anti-corruption culture and investigating allegations of fraud, corruption and malpractice' as defined in its business objectives. In the course of their duties, the BA Investigations team must comply with the relevant legislation, codes of practice and council policies. This includes the Criminal Procedure and Investigations Act 1996, the Police and Criminal Evidence Act 1984, the Public Interest Disclosure Act 1998 and the Council's Anti-Fraud and Anti-Corruption policy.

2. Executive Summary

- 2.1 This audit aimed to review two functions within BA: IA and Counter Fraud (which is managed by Investigations). Both parties are responsible for providing the following assurance to stakeholders:
 - IA provides independent, objective assurance over the achievement of the Council's Vision, Values and Priorities; and
 - Counter Fraud provides assurance that the Council's controls over the prevention, detection and investigation of fraud and corruption are robust and operating effectively.
- 2.2 The review of IA effectiveness concludes that IA is effective and complies with the Chartered Institute of Internal Auditors' International Standards (IIA). The review found that controls are in place to ensure IA deliver high quality risk based audits and use their resources effectively to meet the assurance needs of the Council.
- 2.3 There is no national or Chartered Institute which governs the work performed by Investigations, however upon review we are satisfied that the controls in place are working effectively. Further enhancements have been recognised and we have raised these as our recommendations for consideration.
- 2.4 This review has made a number of recommendations on areas which can be strengthened, but none of these raise significant concerns over the effectiveness of IA and Counter Fraud. We understand that IA and Investigations have been developing some areas for which recommendations have been made. These include the IA charter, the IA strategy, the IA manual and promoting fraud

awareness across the council. These recommendations aim to assist BA management in the development of these areas and to ensure that they are implemented in a timely manner. During the production of this report we confirmed that recommendation 1.2 had been implemented.

- 2.5 The recommendations for BA include updating and publicising the IA Charter, reconciling the quarterly planning process to the annual capacity plan (for both IA and Investigations) and quality assurance can be improved through additional management reviews of TeamMate (the audit software used by the team). The Investigations team should be proactive in developing their brand across the organisation through corporate work and awareness training, developing a Team Plan based exclusively on Counter Fraud and expanding their client base by providing services to third parties (such as other local authorities, schools, etc).
- 2.6 We followed up the eight recommendations raised in the 2010/11 effectiveness of IA review. We found that seven recommendations had been implemented; one recommendation was not implemented which has been re-raised in this review and is now on track to be implemented.

3. Assurance Level

- 3.1 Overall the IA opinion of the assurance over the key risks to the achievement of objectives is **GOOD**.
- 3.2 Definitions of the IA assurance level can be found at [Wokingham Borough Council Internal Audit Reporting](#).
- 3.3 The detailed findings and conclusions of our testing which underpins the above IA opinion has been discussed at the audit exit meeting. They are available upon specific request.

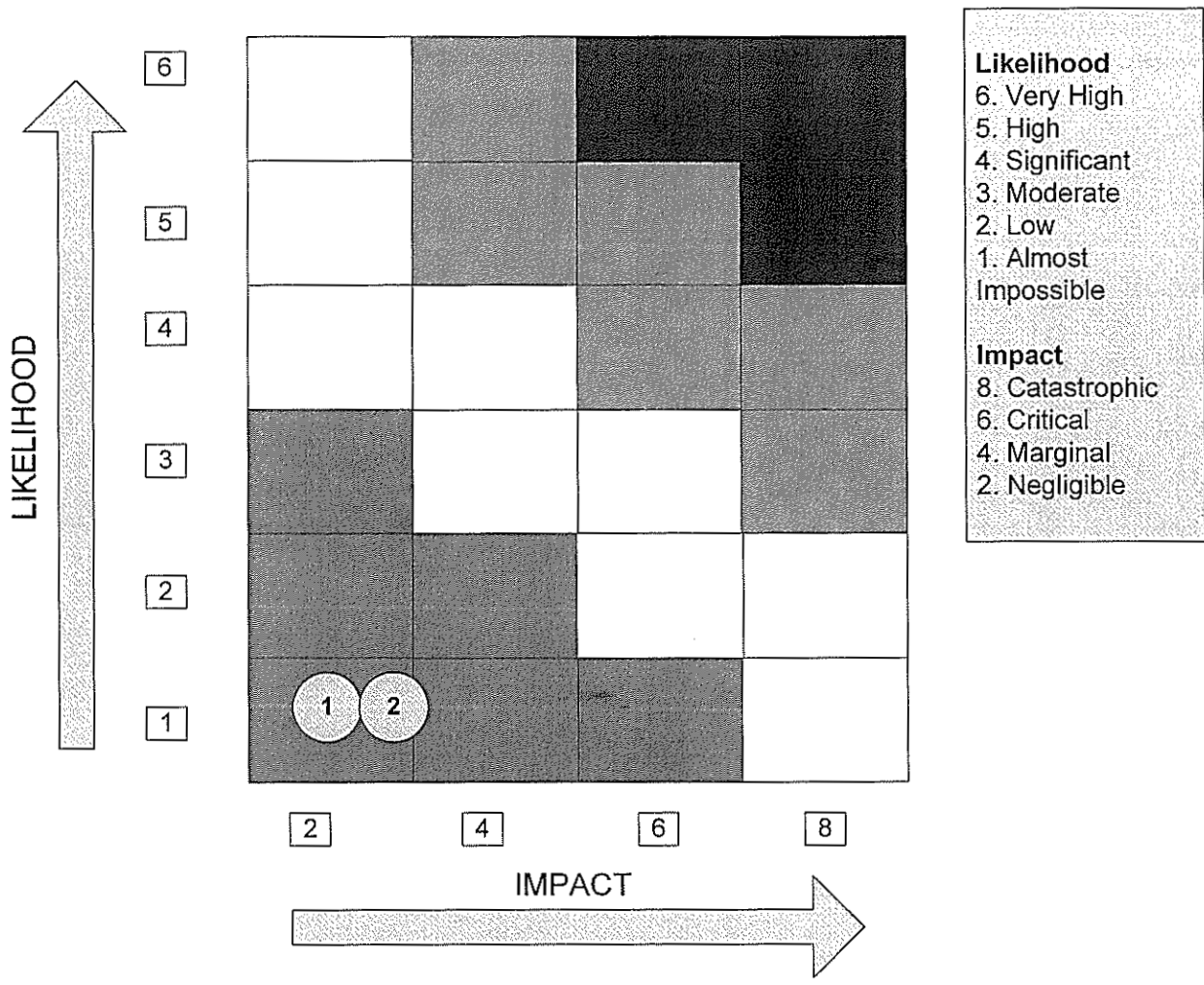
4. Risk Assessment

- 4.1 The Terms of Reference for this audit set out the key risks in relation to the Effectiveness of IA and Counter Fraud Arrangements. These key risks were agreed by the Audit Sponsor at the start of the audit process and formed the focus of IA work.
- 4.2 The IA Terms of Reference can be found at Z:/Internal Audit/Terms of Reference/2012-13.

Risk	Risk Description	Recommendations
1.	If IA fails to deliver an effective service this will prevent independent, objective assurance to be provided to the Audit Committee, Chief Executive, Strategic Directors and Heads of Service that the key risks associated with the achievement of the council's Vision, Values and Priorities are being managed effectively.	1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 1.10
2.	If the council is not effective in preventing and detecting fraud and corruption then this could leave it vulnerable to misuse, abuse and/ or fraud.	2.1, 2.2, 2.3, 2.4, 2.5, 2.6

- 4.3 Having identified the potential risks, our audit fieldwork then tested the controls that were in place to manage these risks. The implementation of the recommendations detailed in this report will mitigate the council's exposure to these risks and help to reduce the risk level.
- 4.4 The following Risk Matrix provides IA's assessment of the potential risks (following our audit fieldwork) in terms of likelihood and impact. Details of criteria used for the risk assessment can be found [here](#).
- 4.5 The diagram visually represents the risks reviewed during the course of the audit and IA's assessment in terms of likelihood and impact. Risks in the top right hand corner are the higher risks (greater impact and likelihood).

Risk Matrix



5. Management Action Plan

No	Recommendation	Priority	Management Response	Action Owner & Implementation date
1.6	An up-to-date IA and Investigations Strategy should be produced, which focuses on both the present state and future direction of Business Assurance (BA).	HIGH	The BA Strategy is in draft and consultation is underway. CLT and the Audit Committee will be consulted in November. The finalised strategy is scheduled to be approved at the February 2013 Audit Committee meeting.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 6 February 2013
1.5	The BA TeamMate Champion should perform management checks on the ongoing internal audit activity within TeamMate. The results of these checks should be reported to the Internal Audit (IA) Manager on a regular basis.	MEDIUM	The TeamMate Champion will perform checks on completed TeamMate files on a quarterly basis to ensure consistency and identify areas for improvement and report the results to IA Manager. Results will be shared via IA team meetings and with individuals as necessary.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 15 January 2013
1.4	The presence of BA at Corporate Leadership Team (CLT) meetings should be considered. CLT is a forum where strategic matters are discussed and Strategic Directors may value BA attendance by seeking its professional advice and services in risk management, control and governance. Furthermore, BA can provide a consulting service, should a service area require our assistance.	MEDIUM	The current reporting lines result in some concerns for BA around knowledge of what is happening corporately. In the short term there have been mitigating actions to reduce the impact of this risk. In the longer term it is hoped that the review of governance structure will address this.	Muir Laurie Director of Business Assurance & Democratic Services (& Head of IA) Date: 31 March 2013

1.8	The new BA KPI's should be formally agreed and communicated to BA staff and all key stakeholders. Performance should be measured and reported against the BA KPI's on a regular basis. The implementation of the new BA KPI's should ensure that less reliance is placed on the capacity plan for performance monitoring purposes.	MEDIUM	New BA KPI's have been discussed with key stakeholders. Quarterly reporting will be included in the BA team meetings and in the formal progress reports that are presented to CLT and the Audit Committee on a quarterly basis.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 18 November 2012
1.10	The updated IA follow-up process should be communicated to CLT and the Audit Committee.	MEDIUM	The IA follow-up process has been previously communicated to CLT and the Audit Committee. However, the revised process will be formally communicated to CLT and the Audit Committee. This will be followed up on a one-to-one basis with senior managers through IA planning meetings to confirm understanding. We also hope to introduce quarterly assurance reports to Directors, subject to having sufficient available BA resource.	Muir Laurie Director of Business Assurance & Democratic Services (& Head of IA) Date: 31 March 2013
2.1	<ul style="list-style-type: none"> • We would recommend that a Team Plan be developed, which covers the corporate work to be performed by Investigations. The Plan will help identify the aims and objectives of this specific area of work, it will ensure that a consistent message is being communicated, a shared understanding and transparency is being achieved. • The Team Plan can be used to outline its expansion strategy by providing services to third parties (i.e. other Local 	MEDIUM	Once the BA Strategy has been approved, the Investigations Manager will develop a Team Plan in relation to the corporate investigations work.	Julie Holland Investigations Manager Date: 6 February 2013

	<p>Authorities, Schools, Parishes and other organisations). Furthermore the Plan can be used for presentations to third parties and prospective clients.</p> <ul style="list-style-type: none"> The Plan should be approved by the Director of BA and Democratic Services and communicated to BA staff, when it has been agreed. 			
2.3	<p>The BA Investigations team should continue developing and promoting a Fraud Awareness, Anti-Bribery and Whistleblowing culture across the council.</p>	MEDIUM	<ul style="list-style-type: none"> Fraud Awareness Week is being planned for November 2012. An e-learning package is also being developed from the National Fraud Authority. A decision will be taken by BA in consultation with key stakeholders including CLT, on whether this e-learning package should be compulsory for all staff. A poster campaign is being developed and once approved by CLT, posters will be distributed around WBC offices with particular focus on the non Shute End offices. 	<p>Julie Holland Investigations Manager Date: 31 March 2013</p>
2.4	<p>The BA Investigations team should routinely remove users from AFD when staff members have left the team.</p>	MEDIUM	<p>The AFD champion will ensure that leavers are removed from AFD and will conduct a quarterly review to check that all active AFD users continue to have a business need.</p>	<p>Julie Holland Investigations Manager Date: 30 November 2012</p>
1.1	<p>The BA IA Charter should be agreed and approved by the Audit Committee. The revised Charter should be communicated to staff and made available on Grapevine.</p>	LOW	<p>This was in progress and the charter was approved by Audit Committee on 26 September. The charter will be made available on grapevine.</p>	<p>Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 26 October 2012</p>

1.2	The location of the Business Assurance IA Charter, on Grapevine, should be promptly communicated to IA staff. This will ensure transparency and consistency across the IA team.	LOW	The location of the BA IA charter will be highlighted to the team at the next IA team meeting.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 16 October 2012
1.3	BA should consider its presence on the main Wokingham Borough Council website for marketing purposes.	LOW	BA has recently improved its presence on the website. However, greater use will be made of the Council's website in the future with a specific focus on selling its services.	Muir Laurie Director of Business Assurance & Democratic Services (& Head of IA) Date: 31 March 2013
1.7	The IA service should finalise its IA Manual and distribute this to staff within the team. The Manual will ensure a consistent approach is followed across the team. It can be used as a reference guide for external reviewers and it will prove useful for training purposes as well as being a guide for new members to the IA team.	LOW	The IA Manual is a living document and it is intended that it is continually updated and reviewed. The key processes have been documented and other processes are being worked on as time allows.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 31 March 2013
1.9	A quarterly management review of TeamMate should be undertaken to ensure that current IA activity complies with the IA process.	LOW	The IA Manager will conduct a quarterly quality review on a rotating basis. So that each member of the team will be subject to review at least once a year. New members of the team will be subject to more regular checks.	Paul Ohsan Ellis Internal Audit Manager (Deputy Head of IA) Date: 12 January 2013
2.2	The BA Investigations team should consider joint working with IA during the quarterly planning process. Both teams can attend the meetings to discuss the IA plan and risks facing the service area. This is an opportunity for Investigations to promote their corporate work by offering their expertise in Counter Fraud.	LOW	It has been agreed that as part of the IA planning process for 2013/14, fraud risks will be discussed with the services and will be used to plan any proactive work.	Julie Holland Investigations Manager Date: 28 February 2013

2.5	The BA Investigations team should regularly review and clear incidental cases on AFD.	LOW	This will be covered during performance review meetings with staff and their line manager.	Julie Holland Investigations Manager Date: 31 December 2012
2.6	The BA Investigations team should develop a capacity plan, as part of the quarterly planning process, to mitigate the risk of capacity driving coverage and to ensure there is sufficient assurance on which to base the Director of BA and Democratic Services' annual report.	LOW	A capacity plan is being developed for Investigations. Time recording by the team began in April 2012 and this data is now being analysed to produce a team capacity plan for Q3 and Q4. This will then lead to individual capacity plans being produced and regularly monitored.	Julie Holland Investigations Manager Date: 31 December 2012

- It is the responsibility of the audit sponsor to take the agreed actions forward.
- Internal Audit has ensured that all action owners have been informed.
- Definitions of priorities can be found [here](#).

6. Internal Audit Contact Details

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Thank you for your co-operation throughout the course of this audit.

Regards,



Muir Laurie, ACCA, CMIIA, MAAT
Director of Business Assurance & Democratic Services (& Head of Internal Audit)