

<b>TITLE</b>	<b>Business Assurance Annual Report 2012/13</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 16 July 2013
<b>WARD</b>	None Specific
<b>STRATEGIC DIRECTOR</b>	Julie Holland, Interim Head of Business Assurance and Democratic Services

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

The report contains the Head of Internal Audit's (HoIA) opinion on the overall adequacy and effectiveness of the Council's internal control environment. This supports the 2012/13 Annual Governance Statement.

#### **RECOMMENDATION**

To note the Business Assurance Annual Report 2012/13.

#### **SUMMARY OF REPORT**

The report provides the Head of Internal Audit opinion on the Council's governance, risk management and internal control. It draws on the work of internal audit, investigations and other assurance providers. The HoIA opinion is unqualified and provides reasonable assurance over the internal control environment in operation.

The report also details the work of internal audit and investigations during 2012/13 and reports on the Key Performance Indicators of the Business Assurance team.

#### **Background**

The purpose of this report is to meet the annual reporting requirements set out in the Accounts and Audit Regulations (Amended) (England) 2011 to include an opinion on the overall adequacy and effectiveness of the organisation's system of internal control.

The Regulations state that a written report should be provided to those charged with governance timed to support the Annual Governance Statement.

#### **Analysis of Issues**

The Business Assurance Annual Report provides assurance to those charged with governance (CLT, Executive and the Audit Committee) and enables them to review, and where appropriate, approve the Annual Governance Statement.

## 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	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

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

N/A

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

The Business Assurance Annual Report impacts on all Council services as it provides assurance on the processes and systems that support governance, risk management and internal control within the Council.

### List of Background Papers

Annual Governance Statement  
Previous Business Assurance Annual Reports

<b>Contact</b> Julie Holland	<b>Service</b> Business Assurance and Democratic Services
<b>Telephone No</b> 07917 814563	<b>Email</b> <a href="mailto:Julie.Holland@wokingham.gov.uk">Julie.Holland@wokingham.gov.uk</a>
<b>Date</b> 4 July 2013	<b>Version No.</b> V1

**BUSINESS ASSURANCE**

**ANNUAL REPORT**

**2012/13**

**Wokingham Borough Council**

**04 July 2013**



**WOKINGHAM  
BOROUGH COUNCIL**

## Contents

The Business Assurance key contacts in connection with this report are:

**Julie Holland**

Interim Head of Business Assurance and Democratic Services (and Head of Internal Audit)

T: 07917 814563

E: [julie.holland@wokingham.gov.uk](mailto:julie.holland@wokingham.gov.uk)

**Paul Ohsan Ellis**

Internal Audit Manager (Deputy Head of Internal Audit)

T: 07825 532200

E: [paul.ohsan.ellis@wokingham.gov.uk](mailto:paul.ohsan.ellis@wokingham.gov.uk)

	<b>Page</b>
<b>1. Introduction</b>	<b>2</b>
<b>2. Executive Summary (including Head of Internal Audit Opinion Statement)</b>	<b>2</b>
<b>3. Analysis of Internal Audit Activity 2012/13</b>	<b>8</b>
<b>4. Analysis of Investigations Activity 2012/13</b>	<b>13</b>
<b>5. Forward Look</b>	<b>15</b>
<b>Appendix A – Detailed Work Undertaken</b>	<b>17</b>
<b>Appendix B – Assurance Level Definitions</b>	<b>25</b>
<b>Appendix C – Recommendation Priority Levels</b>	<b>26</b>
<b>Appendix D – Recommendation Analysis</b>	<b>27</b>

## 1. INTRODUCTION

- 1.1 This report summarises the main findings arising from the work of Business Assurance work completed in the 2012/13 financial year. There are two main strands to this work: Internal Audit and Investigations.
- 1.2 The Public Sector Internal Audit Standards (2013) requires me as the Council's Interim Head of Business Assurance and Democratic Services to deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. 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 statement is provided to inform the Chief Executive and Leader of the Council to assist them in completing their AGS, which forms part of the Statement of Accounts for the 2012/13 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, principles, 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.

### 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 2012/13 by the Council's Business Assurance Internal Audit (IA) team as well as a small number of other assurance providers. 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 2012/13 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 Institute of Internal Audit (IIA) International Standards for Professional Practice in Internal Audit. The Public Sector Internal Audit Standards are based on the IIA standards and were only published in March 2013. A review conducted in October 2012 of Internal Audit against the IIA Standards found that Internal Audit was effective. An analysis of the IA work undertaken during 2012/13 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 are no qualifications 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;
  - The Royal Borough of Windsor and Maidenhead Internal Audit service (Berkshire Pension Fund); and
  - Ernst & Young's (external audit) 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 2012/13.** These included:
- There was not a golden thread of specific, measurable, achievable, relevant time-bound (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. The Council's service planning process has improved but accountability against service plans remains underdeveloped.
  - There was a significant information security breach related to the unauthorised disposal of sensitive data during the office moves in children's services. This was in the context of strengthened general controls over the confidentiality and security of data. It is IA's opinion that this incident was not evidence of an ongoing systematic weakness. On the

basis of information provided to it, as part of the enforcement case, the Information Commissioner has decided to take no further action.

- The Council faces significant financial pressures which represent an unprecedented challenge to the Council's operations. This is compounded by the need to deliver the four Strategic Development Locations and Town Centre Redevelopment. These pressures have to date not manifested into weaknesses in the control environment. However there is considerable uncertainty surrounding staff and there are a number of interim appointments/ temporary staff in key areas across the council.
- Working relations between officers and members continues to improve and a number of collaborative member/ officer groups have been created to foster effective joint working. However clarity of roles and responsibilities need to be clearly understood and maintained.
- Work is underway to develop a performance coaching culture across the council. A robust performance management framework has been developed, although the implementation of this only commenced in the March appraisal round so there has not been sufficient opportunity for this to fully embed in routine management activity.
- There was a major ICT failure during the year. The planned upgrade process has been accelerated and there have been issues in the transition to a new upgraded ICT infrastructure which has impacted on the overall provision of ICT.
- The Council's management have identified that the current HR policies and procedures are compliance based and are of a detailed and prescriptive nature. Instances of non-compliance have been identified. A review of the policy framework is planned to identify "must do's" and the scope for individual manager accountability.

### 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 other improvements have strengthened the control environment. These include:

- There has continued to be further utilisation of 'Smart' working and this has created the potential for significant savings for the Council. The risks around this shift appear to have been mitigated effectively.
- The Council's response to fraud has been robust and pro-active fraud awareness is creating an effective anti-fraud culture in areas of council outside the usual high profile areas for fraud. Whistleblowing is being utilised appropriately.
- Key performance indicators are being developed to form a balanced scorecard of indicators for the Council. Although these have not been assessed by IA this initiative is a positive development.
- The controls surrounding the Council's key financial systems remain strong. There is significant change planned in 2013/14 with the introduction of new financial management and accounting software. This will require substantial work to safeguard the transition and new system.

### 2.10 Internal Audit Assurance Opinions

2.10.1 During the 2012/13 financial year, there were **three** LIMITED assurance and **no** NIL assurance IA opinions out of a total of 33 IA assurance reports. In addition to these assurance reports IA facilitation, consultancy and advisory work has been used to form the overall opinion. This includes recommendations made outside of the assurance reporting process. All IA recommendations raised were accepted by management and positive progress is being made on implementing these recommendations. The key IA reviews conducted in the year included:

- Management in Children's Services requested a review of quality of data in the Council's children's centres. IA identified that the performance indicators being used were ineffective measures of performance, and that inaccurate and incomplete data was being reported. Overall the information was insufficiently robust for effective decision making.
- Following the outcome of the IA follow-up into its 2011/12 work relating to Optalis, the Strategic Director of Resources commissioned a 2012/13 IA review into the financial management of Optalis. This audit prompted some expedited strengthening of controls and a follow up review. IA can confirm that robust processes have now been introduced within the organisation, although some need to become fully embedded. A full follow up of all recommendations will be undertaken through the formal IA follow-up process at a later date.
- The Council's finance department identified a number of concerns around anomalies in information provided by Children's Centres relating to their Imprest Reconciliations. The IA review identified that there were weaknesses in a number of key areas and a particular instance where there was a suspicion of fraud. A seamless transition to a formal investigation conducted by the investigations team led to the resignation of the individual concerned.
- Of the Council's key financial systems reviewed, Main Accounting, Budgetary Control, Cashiers, Creditors, Reconciliations and BACS all had **Good** assurance. 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.

### 2.11 Summary

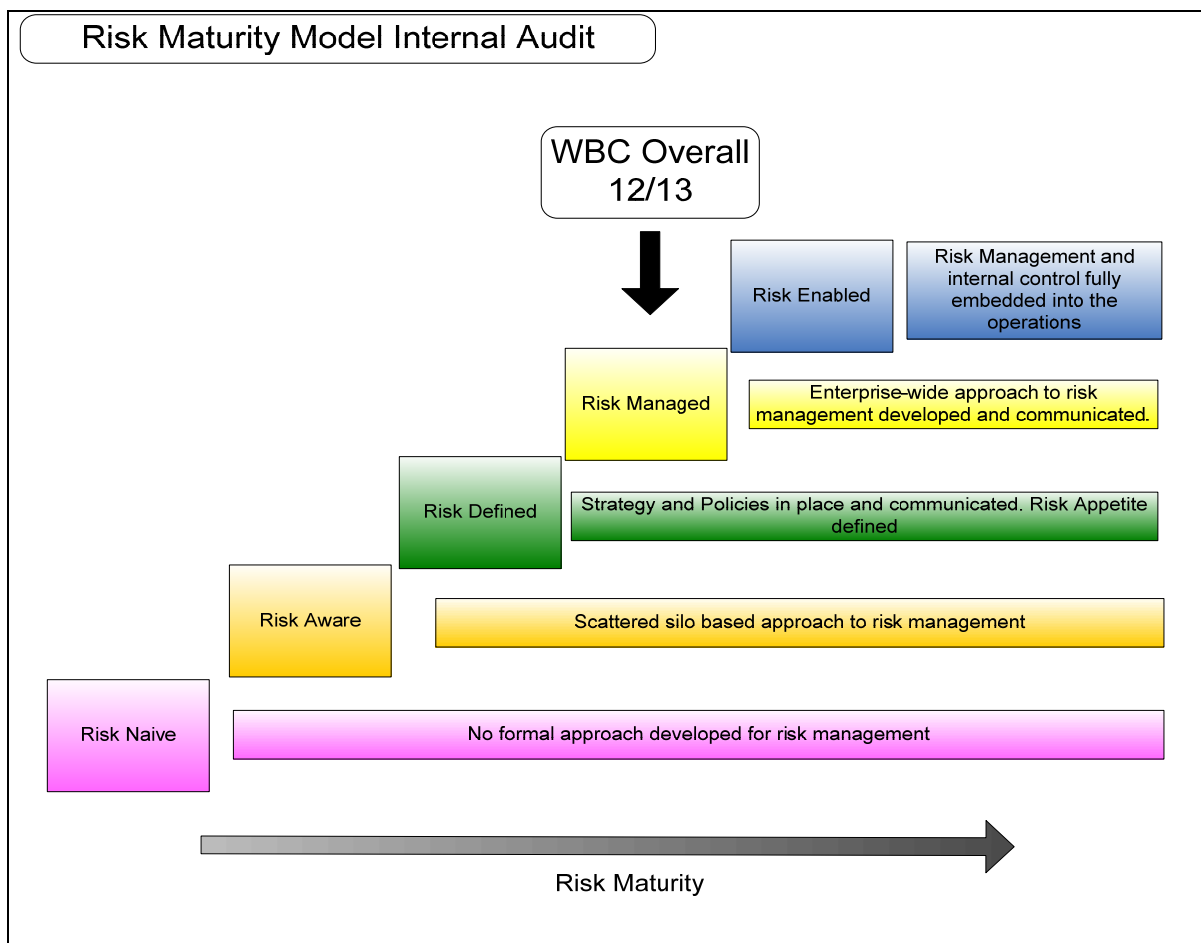
- 2.11.1 The significant control weaknesses listed at para 2.8 were identified during 2012/13, all recommendations were agreed by management and are being addressed and therefore do not require specific disclosure in the Annual Governance Statement. A more detailed analysis of the IA work carried out during 2012/13 is shown at Section 3 of this report.

### 2.12 2012/13 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 Internal Audit'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 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 2013 (see diagram on page 6).

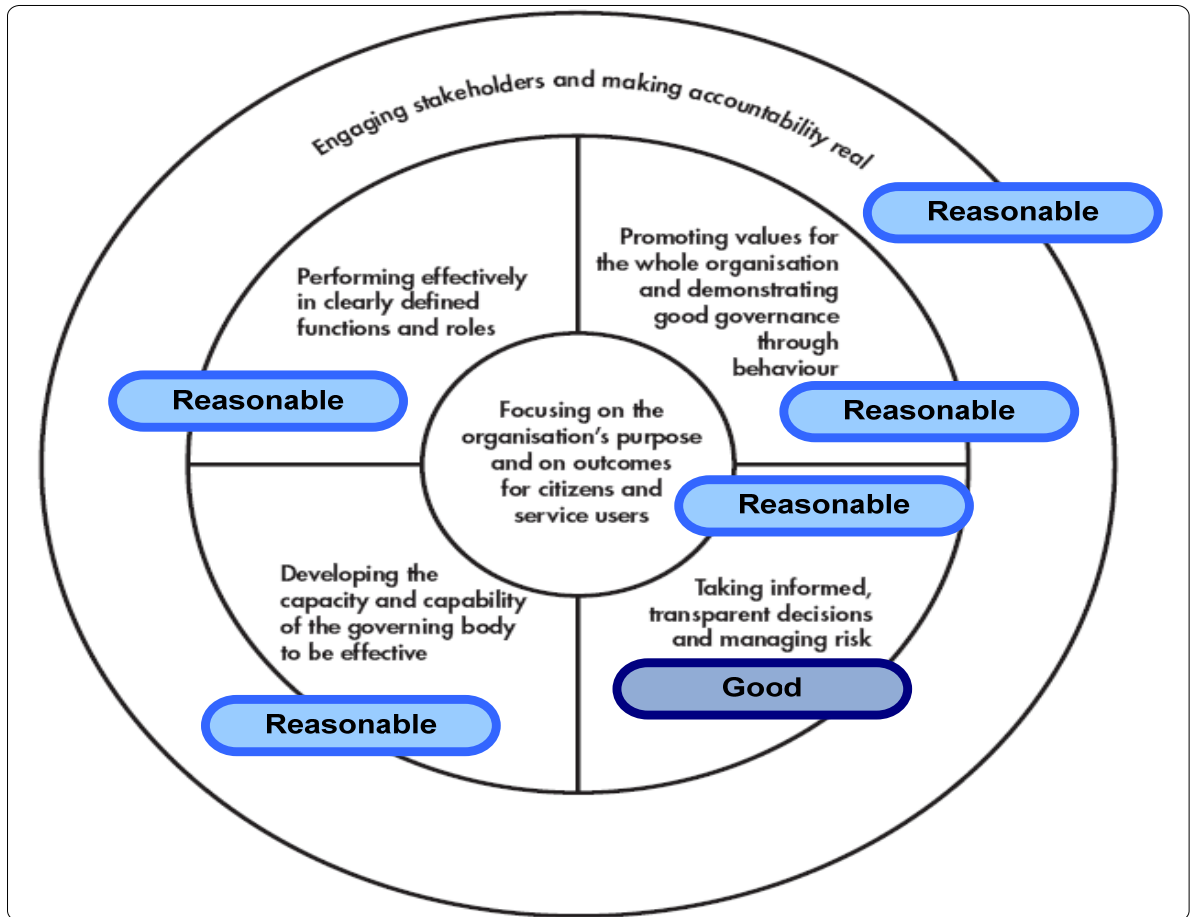




## 2.12.2 Governance

- 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 corporate and service planning.
- The Council is performing adequately but an increased focus on performance outcomes would improve effectiveness. Work on a revised balanced scorecard was underway but was not complete and no assurance is provided. The initial promotion of the Council's values has subsided and work is ongoing to embed them to make them real. There was good evidence to support the Council taking informed transparent 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 and development, there remain improvements to be made in attendance. There has been independent evaluation of the effectiveness of the Scrutiny process which is assessed as reasonable. There is reasonable evidence to support the Council's effective engagement with stakeholders and efforts to make accountability real. There are significant improvements in the staff appraisal process under way but these have not

yet become routine. 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**. The diagram below details the elements of the internal control framework. Key areas where weaknesses have been identified described above are in relation to the control environment, control activities and information and communication. The IA opinion is that these areas offer a reasonable level of assurance. The risk assessment and monitoring elements of the framework are effective.



- From the IA work undertaken in 2012/13, 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 2013** accords with proper practice, except for any details of significant internal control issues referred to in para 2.8.

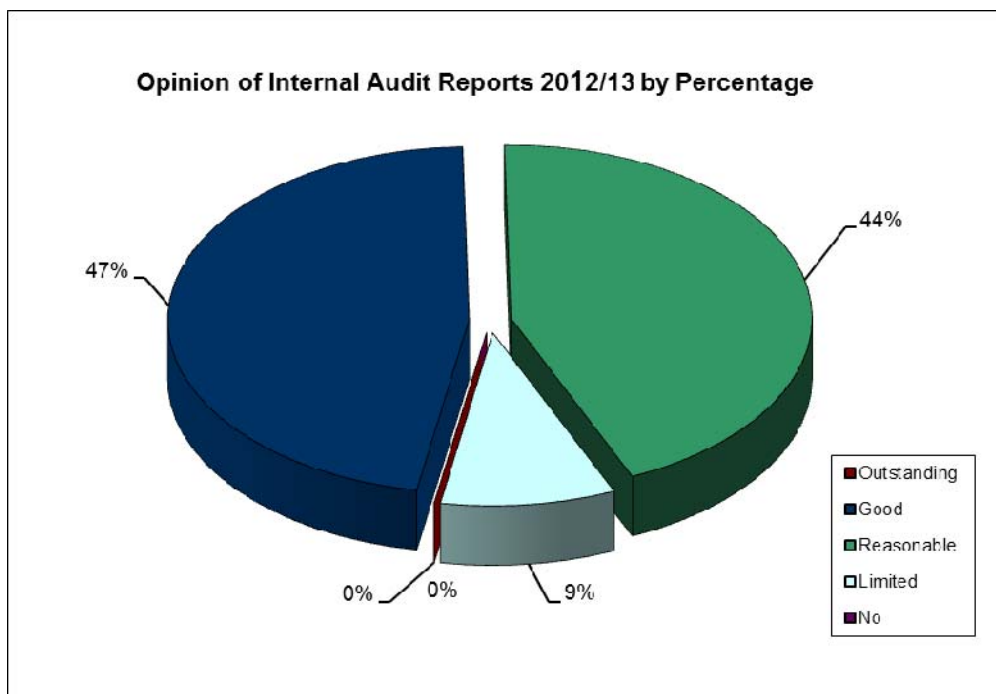
### 3. ANALYSIS OF INTERNAL AUDIT ACTIVITY 2012/13

- 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 2012/13 may be summarised by the assurance level achieved (ref [Appendix B](#)) as per the table below:

Assurance Level (including Schools)	Number of IA reports 2012/13
Outstanding	0
Good	15
Reasonable	14
Limited	3
Nil	0
<b>Totals</b>	<b>32</b>

## Business Assurance Annual Report 2012/13

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 **90%** of the areas audited in 2012/13 were assessed by IA as **Reasonable** or **Good assurance** levels.

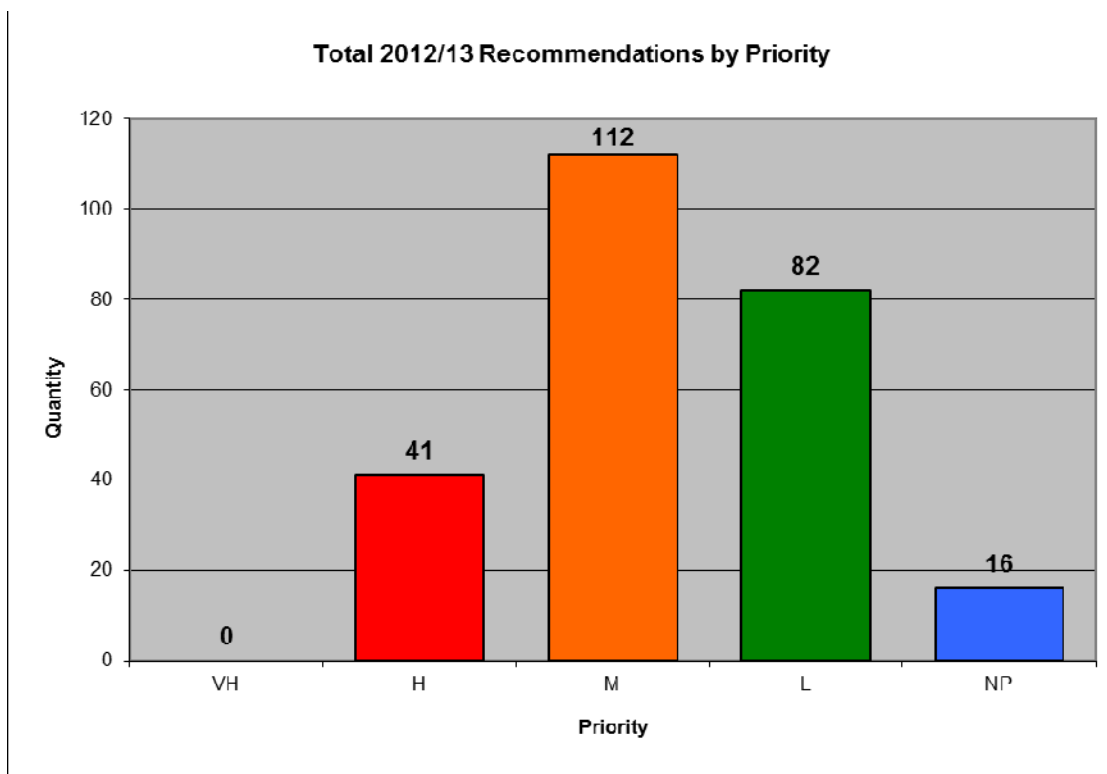
3.5 The individual audits carried out during 2012/13 are listed at [Appendix A](#). This indicates assurance levels achieved and provides an analysis of recommendations made (in accordance with the priority levels outlined at [Appendix C](#)). There continues to be a high level of acceptance of IA recommendations by management.

3.6 The following table provides details of the recommendations raised during 2012/13:

<b>Analysis of Recommendations</b>	<b>2012/13</b>
Number of recommendations raised	<b>235</b>
Number of recommendations agreed	<b>235</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>

## Business Assurance Annual Report 2012/13

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



3.8 This graph highlights that there were **no Very High priority recommendations** raised by IA in 2012/13. In addition, **less than 18%** of the recommendations raised by IA in 2012/13 were **categorised as High priority**. This in part reflects an overall improvement in the Council's control environment during 2012/13. Refer to [Appendix D](#) for further comparative graphical analysis of IA recommendations.

### 3.9 Follow-up Activity

3.9.1 Follow-up of all very high, high and medium priority IA recommendations has been completed on recommendations made in 2011/12. 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 **185 2011/12 recommendations followed-up** this year initially 32 (17%) recommendations were not verified as implemented. Following escalation to the Audit Committee 10 of these medium priority recommendations have been verified as implemented. A further 5 recommendations have dealt with by alternative management action and have been withdrawn (relating to project management). A further 12 recommendations have been superseded by a subsequent audit (relating to Optalis financial management). This leaves 5 recommendations that have not been verified as implemented (relating to Home to School Transport SEN and EDT Out of Hours). This results in **97%** of applicable recommendations being implemented or **153 (83%) of all recommendations made being fully implemented**.

### 3.10 Key Performance Indicators (KPIs)

#### 3.10.1 KPI 1 - Client Satisfaction Score

*The client satisfaction score out of 100% based on client feedback from post audit engagement questionnaires.*

The overall cumulative client satisfaction is **72.4%** for IA reviews completed in 2012/13. The benchmark is 67% which equates to 'agree' against the four key criteria that comprised the previous performance indicators. Above this figure requires 'strongly agree' to one or more of the statements.

The PAQ was redesigned in year with the addition of an additional option. Questionnaires completed in the old style resulted in an average 77.5% satisfaction rating whereas new style questionnaire have an average of 65%. This would suggest that future performance against the benchmark will be more challenging.

There are a number of reviews where due to shifting priorities clients have not been happy with the administration arrangements. This is something that IA is working with management on to ensure that communication around timing of reviews is improved and updates where delays occur are better managed.

#### 3.10.2 KPI 2 - Improvements to the Control Environment

*Internal control and risk management improvements recommended to management not accepted or implemented.*

There were 221 recommendations made in 2012/13 reports. **100%** of these were accepted by management.

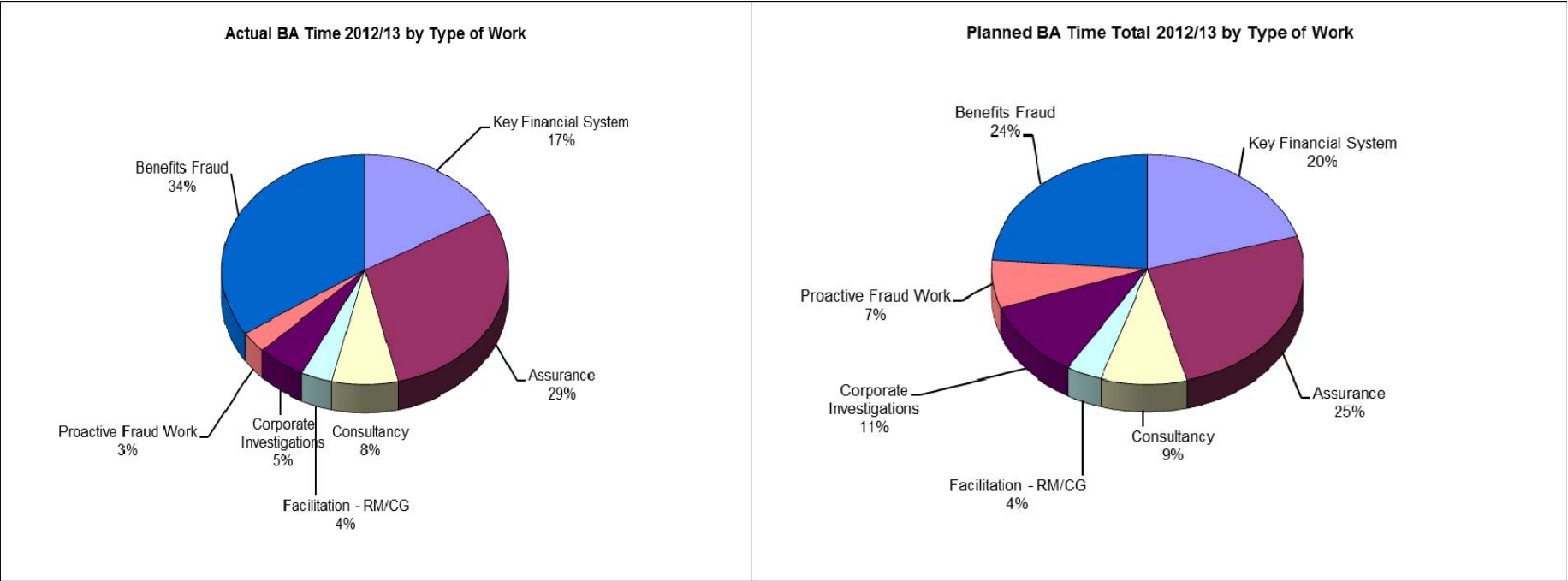
There was extensive follow-up activity completed against 2011/12 recommendations and the outcome was **88%** implementation rate. While IA can influence this implementation rate it is not under their direct control.

# Business Assurance Annual Report 2012/13

**3.10.3 KPI 3 – Where the work of Business Assurance is focused**

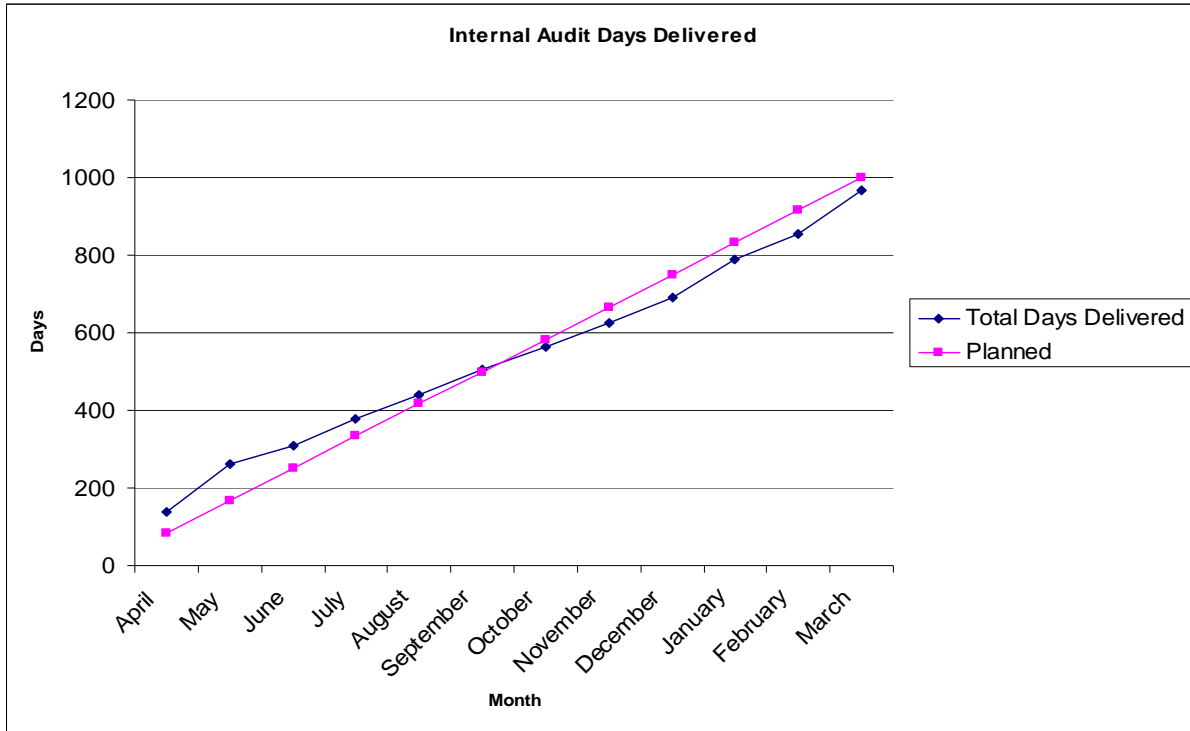
Comparison of actual and planned focus of BA by type of work undertaken

The two charts below compare the distribution of days by type of BA work between planned time and actual time. This enables CLT and the Audit Committee to maintain an overview of where resources are being used. Both charts detail BA work at Wokingham Borough Council and exclude any work provided to other local authorities/ external Clients.



This illustrates that days sold was mainly taken from time allocated to proactive fraud work and corporate investigations and those increased the percentage of time spent on Benefits Fraud. Additional time was spent on assurance work taken from Key Financial System work. This represents efficiencies in core work being deployed on value added assurance work.

## 3.10.4 KPI 4 – Delivery of Internal Audit Days



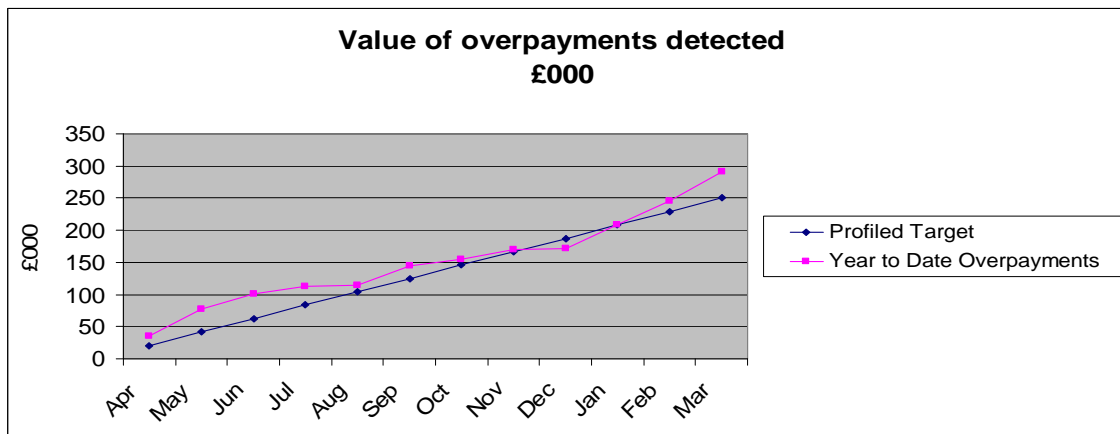
BA had an original target to deliver 1,000 IA days in 2012/13. Work provided to other local authorities/ external clients is allocated out of the 200 days contingency contained within the 1,000 days total. The actual total days delivered is slightly lower than remaining target of 800 IA days. This is due to staff turnover reducing capacity and also the impact of the November PCC elections where additional support was provided by a numbers of members of the BA team.

## 3.10.5 KPI 5 – Benefit Overpayments



*The year's target for identifying overpaid benefits (this can be due to either fraud or error) is £250,000 for 2012/13.*

A total of £291,190.51 of overpaid benefits has been identified by BA. This represents performance of **£41,190.51** greater than target, the graph below highlights this.





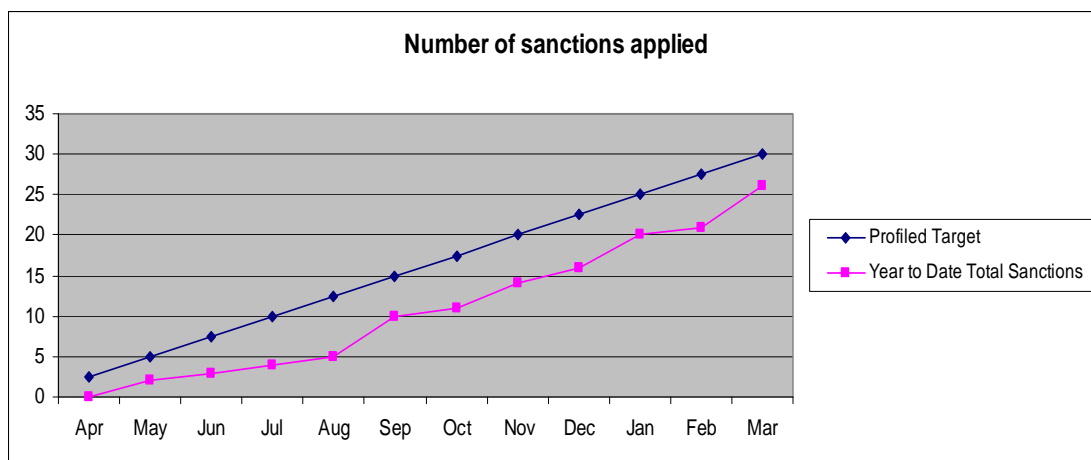
### 3.10.6 KPI 6 – Sanctions Applied



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).

These are referred to as 'sanctions' and BA has a target of achieving **30 sanctions** per year. From 1 April 2012 to 31 March 2013 a total of **26** sanctions have been applied, against a target of 30. In total, **231 fraud investigations were completed in 2012/13**.



The target for sanctions was not achieved because of the impact of reduced staff resources during the early part of the year. Three investigations have resulted in prosecution decisions, but they have not been heard in court due to factors outside of our control. Specifically, in two cases the claimants have failed to appear in court and warrants for their arrest have been issued. In the other case the claimant has disappeared (work is ongoing to try and locate them).

## 4. ANALYSIS OF INVESTIGATIONS ACTIVITY 2012/13

4.1 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.

4.2 The main areas of work are:

- Preventing and detecting Benefit Fraud;
- Managing Corporate Investigations, including Whistleblowing allegations;
- Delivery of the Counter Fraud Plan; and
- Delivery of the Audit Commission's National Fraud Initiative (NFI).

### 4.3 Benefit Work

Outcomes for the Benefit Fraud work are shown in 3.10.5 (KPI 5 – Benefit Overpayments and KPI 6 Sanctions Applied). Of the 26 sanctions applied, 11 were successful prosecutions. Press releases are issued for all successful prosecutions as this is an

important deterrent and part of our prevention work. As a result of this publicity, in February 2013 the Wokingham Times ran a feature on the work of the team which positively showcased the work of the team.

#### 4.4 Corporate Investigations

In 2012/13 a total of 29 referrals were risk assessed; 4 passed the risk assessment and were investigated. The remainder were referred to the relevant service for their action (where necessary). The majority of corporate investigations 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, and often high risk, investigations are conducted independently by professionally qualified investigators.

#### 4.5 Counter Fraud Work

**Fraud Awareness** – A Fraud Awareness week was run in November to publicise the team and the Council's Whistleblowing policy. There was a display in the main reception area, updated posters which have been distributed to all council offices and training sessions were available for all staff. Specific fraud awareness sessions have also been facilitated for teams in Highways and Transport, Housing, Benefits and Children's Services.

**Blue Badges Disabled Parking** – Blue Badge permits provide parking concessions for people with severe mobility problems. This is an area highlighted by both the Audit Commission and the National Fraud Authority as a fraud risk with an estimated average of 20% of blue badges being misused in some way. In April the Investigations Team (along with Thames Valley Police and the Car Parking Enforcement Team) ran a proactive fraud drive in Woodley Precinct. Two blue badges were seized as a result of this and further proactive work has resulted in a further four blue badges being returned to WBC. The team were also involved in a referral to Thames Valley Police in respect of a stolen blue badge – this case was successfully prosecuted.

**Housing Fraud** – Work has been done with Tenant Services and Housing Needs to build a new working relationship for the promotion of effective fraud prevention and detection of housing fraud, and the investigation of suspected offences related to these areas. Work has been done to identify the current fraud prevention controls in place and to plan future proactive drives to further prevent and detect fraud in this area. The Investigations Team have provided basic fraud awareness training to both Tenant Services and Housing Needs staff, with further training planned for the near future. This will coincide with the roll-out of the new Housing Fraud Policy, which the Investigations Team has been advising on. These new working arrangements have resulted in the recovery of one property and legal proceedings are ongoing in this case. There are different ways to estimate the cost to the authority of Housing Fraud; one way is to calculate the cost of housing a family in temporary accommodation - the Audit Commission estimates this to be £18,000. An alternative way of calculating the value of an unlawfully occupied property is to calculate its rebuilding cost – the Audit Commission estimates this at £150,000 (figures from Protecting the Public Purse 2012).

#### 4.6 National Fraud Initiative

Every two years the Council takes part in the Audit Commission's National Fraud Initiative. This exercise matched electronic data between public and private sector bodies to prevent and detect fraud. Electronic data was submitted in October and initial matches are being reviewed.

### 4.7 Shared Services

2012 brought about the beginning of an innovative partnership arrangement between WBC and Oxfordshire County Council with WBC providing Investigation services to the County Council. This arrangement generated nearly £27,500 income for WBC in 2012/13.

## 5. FORWARD LOOK

### 5.1 Consultancy associated with Renaissance Working Groups (RWP)

5.1.1 Significant IA resources have already been deployed during April to June in support of the RWP and the associated thematic reviews. At this initial stage the work has focused on supporting heads of service gather the necessary information including comparative benchmarking data. It is anticipated that significant IA resources will continue to be deployed on this work throughout July and August.

### 5.2 Delivery of the Counter Fraud Plan

5.2.1 The Business Assurance Investigations team has performed an extensive analysis of fraud risks based on discussions with Strategic Directors, experience of fraud risk at WBC and other clients and a review of the relevant fraud literature. Using this analysis the team have created a holistic three year Counter Fraud Plan. The implementation of this plan will form the basis of proactive fraud activity during 2013-14 and beyond, ensuring that this work is systematically targeting key risk areas.

### 5.3 Key Risk Reviews

5.3.1 The Chief Executive has requested that high level assurance is aligned to the Council's Corporate Risk Register. These key risk reviews will provide deep dives into the Council's key risks and provide significant assurance on the effectiveness of the management of Council's key risks.

### 5.4 Key Financial Systems

5.4.1 The Council's financial management software WISE (Oracle based) is being replaced by WISER (Agresso based) in the 2013/14 financial year. This has meant the delay of IA reviews of the key financial systems until the new system is in place. Assurance will be required over the transition which will entail verification of reconciliations between the two systems. IA will also need to document the new systems key controls and processes. IA will use this opportunity to remodel the way that assurance is provided to ensure that its own process is as efficient as possible.

### 5.5 Public Sector Internal Audit Standards (PSIAS)

5.5.1 On the 1 April the new PSIAS came into force. These are an interpretation of the Chartered Institute of Internal Audit's global 'Standards for the Professional Practice of Internal Audit' for the entire public sector. As the IA team have in the past relied on the IIA standards (rather than the 2006 CIPFA standards), these changes required to ensure compliance will have minimal impact on Business Assurance. However an update of the IA Charter and Strategy are required during 2013/14 to formally meet all the requirements of the standards and to unambiguously demonstrate fully compliance with the standards.

### 5.6 Income Generation

5.6.1 A new income generation target of £100k has been set for the team and a new Trainee Investigations Post has been created in order to meet this. This is predominantly as a result of the changes resulting in the new Council Tax Support Scheme, but this additional capacity will be used flexibly in order to achieve the biggest impact for the council.

### **5.7 Single Fraud Investigation Service**

5.7.1 The Single Fraud Investigation Service (SFIS) is a new partnership between DWP, local authorities and Her Majesty's Revenue and Customs (HMRC). Since November 2012, 4 SFIS pilots have been operating in Glasgow, Corby, Wrexham and Hillingdon local authority areas. SFIS will conduct single investigations covering all welfare benefit fraud and aims to rationalise existing procedures and prosecution policies to create a more coherent investigation service that operates in a more efficient and consistent way. SFIS is scheduled to roll out to all Local Authorities from April 2014 and will impact on the way welfare benefits are investigated. However, the impact has not been assessed as there is insufficient clarity at this time from DWP. We will keep CLT and Audit Committee updated with the progress of SFIS and its implications for WBC.

### **5.7 Review of Risk Management Process**

5.7.1 Business Assurance plan to review the risk management process to ensure its effectiveness by identifying and spreading best practice in the Council's current operations and further embed risk management across all areas of the Council.

**Julie Holland**  
**Interim Head of Business Assurance & Democratic Services**  
**(& Head of Internal Audit)**

**04 July 2013**

## Business Assurance Annual Report 2012/13

### APPENDIX A

#### DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2012/13

**Key:**

- **VH** = Very High
- **H** = High
- **M** = Medium
- **L** = Low
- **NP** = Notable Practice
- **BAC** = Business Assurance Contingency (ad-hoc requests for work, etc)

**Residual 2011/12 IA Reviews (completed after 31 March 2012)**

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
064	Cashiers	Q4	Final report issued 3 April 2012	Good	-	1	-	-	-	Yes
047	Debtors	Q3	Final report issued 5 April 2012	Reasonable	-	1	4	-	1	Yes
063	Bank Reconciliations	Q4	Final report issued 16 April 2012	Good	-	-	-	1	-	Yes
075	Schools - Financial Management (including Internal Controls)	Q4	Final report issued 20 April 2012	Reasonable	-	5	9	1	-	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
038	Governance Arrangements for Local Authority Trading Companies: WHL	Q2	Final report issued 4 May 2012	Reasonable	-	2	7	6	-	Yes
058	Performance Management	Q4	Final memo issued 4 May 2012	N/A	-	-	-	-	-	N/A
068	Treasury Management	Q4	Final report issued 16 May 2012	Good	-	-	3	1	-	Yes
082	Council Tax and NNDR	Q4	Final report issued 16 May 2012	Good	-	-	1	-	1	Yes

## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
062	BACS	Q4	Final report issued 28 May 2012	Good	-	-	1	-	-	Yes
065	Budgetary Control	Q4	Final report issued 29 May 2012	Good	-	-	-	4	-	Yes
033	Information Governance	Q2	Final report issued 18 June 2012	Reasonable	-	-	6	1	2	Yes
066	Capital Accounting and Fixed Asset Register (including Capital Planning and Allocations)	Q4	Final report issued 19 June 2012	Reasonable	-	-	5	3	-	Yes
061	Corporate Governance	Q4	Final report issued 31 July 2012	Reasonable	-	4	7	2	-	No
027	Payments Kiosk	Q2	Draft report issued 15 March 2012 but Management response delayed; final report issued 17 August 2012	Reasonable	-	2	-	-	1	Yes

### 2012/13 Planned IA Reviews

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
001	Property	Q1	Deferred to 13/14	-	-	-	-	-	-	-
002	Town Centre Regeneration – Project Management	Q1	Final report issued 4 September 2012	Reasonable	-	3	3	-	-	-
003	Corporate Governance	Q1	Deferred to link into new performance management framework. Consultancy work on Effectiveness of Joint Board was completed in Q1 instead. Final report issued 3 June 2013 see 059.	-	-	-	-	-	-	-
004	Organisational Change	Q1	Project Board role discharged	-	-	-	-	-	-	-
005	Housing Rents	Q1	Final report issued 12 October 2012	Reasonable	-	4	6	8	1	Yes

## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
006	Main Accounting	Q1	Final report issued 3 September 2012	Good	-	-	1	3	-	Yes
007	Legal Shared Services	Q1	Deferred to 2013/14	N/A	-	-	-	-	-	-
008	S106 Infrastructure Delivery	Q1	Final report issued 5 March 2013	Reasonable	-	1	6	1	2	Yes
009	Third Sector Commissioning	Q1	Final report issued 22 August 2012	-	-	-	-	-	-	Yes
010	Appraisals	Q1	Final report issued 5 November 2012	Reasonable	-	8	13	2	-	Yes
011	Facilitation – Risk Management Group	Q1	RM Group meeting held on 22 May 2012	N/A	-	-	-	-	-	-
012	Facilitation – Corporate Risk Register	Q1	Corporate Risk Register presented to June Audit Committee	N/A	-	-	-	-	-	-
013	Facilitation – Annual Governance Statement	Q1	AGS presented to Audit Committee at its meeting of 28 June 2012	N/A	-	-	-	-	-	-
INV01	Corporate Investigations	Q1	Completed – details at para 3.3	N/A	-	-	-	-	-	-
INV02	Benefits Fraud	Q1	Completed – details at para 3.2	N/A	-	-	-	-	-	-
INV03	Proactive Fraud Prevention	Q1	Completed – details at para 3.3	N/A	-	-	-	-	-	-
017	Consultancy on Fosters Project Governance	Q2	Final report issued 26 November 2012	Reasonable	-	-	-	-	-	Yes
018	Recharges	Q2	Final report issued 23 November 2012	Good	-	-	1	3	1	Yes
019	Scrutiny Arrangements	Q2	Testing extended.	Incomplete						-
020	ICT Management of Joiners and Leavers	Q2	Final report issued 7 March 2013	Reasonable	-	-	2	2	-	-
021	Grounds Maintenance	Q2	Deferred to 2013/14	N/A	-	-	-	-	-	-
022	Environmental Health and Licensing Shared Service	Q2	Deferred to August 2013 at Management's request	N/A	-	-	-	-	-	-
023	Leisure Connection/Services	Q2	Final report issued 20 December 2012	Reasonable	-	1	8	-	-	Yes

## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
024a	Adult Social Care - Personal Budgets	Q2	Draft report due to be issued July 2013	Reasonable	-	2	3	2	-	-
024b	Adult Social Care - Direct Payments	Q2	Draft report issued 13 June 2013	Reasonable	-	2	1	1	-	-
025	Public Health Transition	Q2	Review cancelled due to changed risk profile.	N/A	-	-	-	-	-	-
026	Service Planning	Q2	Final memo issued 27 September 2012	N/A	-	-	-	-	-	-
027	Procurement Benchmarking	Q2	Final report issued 9 January 2013	N/A	-	-	-	-	-	Yes
028	Frameworki - Project Management	Q2	Final report issued 11 January 2013	Reasonable	-	-	-	-	-	Yes
029	Organisational Change Programme Board	Q2	IA work concluded	N/A	-	-	-	-	-	-
030	Performance Management Project Board	Q2	IA work completed for Q2	N/A	-	-	-	-	-	-
031	Housing Benefits	Q2	Final report issued 17 January 2013	Good	-	-	2	12	-	Yes
032	Children's Centres - Data Quality	Q2	Final report issued 11 January 2013	Limited	-	8	2	6	-	Yes
033	Key Control Review of Top Three Council Risks	Q2	Final report issued 8 February 2013	Good	-	-	-	2	1	-
034	WISE Replacement Project	Q2	IA work completed	N/A	-	-	-	-	-	-
035	Effectiveness of Internal Audit	Q2	Final report issued on 18 October 2012 (scope expanded to include investigations).	Good	-	1	7	8	-	Yes
036	Risk Management Facilitation	Q2	Risk Management Group work completed via email and review.	N/A	-	-	-	-	-	-



## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
037	Corporate Risk Register	Q2	Corporate Risk Register presented to September 2012 Audit Committee	N/A	-	-	-	-	-	-
INV04	Investigations	Q2	Completed – details at para 3.3	N/A	-	-	-	-	-	-
INV05	Benefits Fraud	Q2	Completed – details at para 3.2	N/A	-	-	-	-	-	-
INV06	Proactive Fraud Prevention	Q2	Completed – details at para 3.3	N/A	-	-	-	-	-	-
040	Debtors	Q3	Final report 1 July 2013	Reasonable	-	1	6	2	-	-
041	Creditors	Q3	Draft report 13 June 2013	Good	-	-	2	5	-	-
042	Payroll	Q3	Final report issued 19 June 2013	Good	-	-	4	-	-	-
043	Cashiers	Q3	Final report issued 23 February 2013	Good	-	-	2	4	1	-
044	Council Tax & NNDR	Q3	Final report issued 18 April 2013	Good	-	-	2	6	1	Yes
045	Treasury Management	Q3	Final report issued 11 June 2013	Good	-	-	5	-	1	-
046	Service Planning Assessment	Q3	Deferred to 2013/14	N/A	-	-	-	-	-	-
047	Information Security Awareness	Q3	Consultancy provided on management self assessment	N/A	-	-	-	-	-	-
048	Youth Service - Management Data	Q3	Deferred to 2013/14	N/A	-	-	-	-	-	-
049	Children's Services Income Generation	Q3	Deferred to 2013/14	N/A	-	-	-	-	-	-
050	Section 106 - Infrastructure Delivery (Deferred from Q1)	Q3	Final report issued 5 March 2013	Reasonable	-	1	6	1	2	Yes
051	Transition Planning (Children to Adults)	Q3	Review delayed awaiting a decision on service delivery.	N/A	-	-	-	-	-	-
052	Review of Lean Programme	Q4	Deferred to 2013/14	N/A	-	-	-	-	-	-
053	Review of Major Projects Governance	Q4	Deferred to 2013/14	N/A	-	-	-	-	-	-

## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
054	Capital Accounting	Q4	Final report issued 4 July 2013	Good	-	1	2	6	-	-
055	Budgetary Control & Financial Reporting	Q4	Final report issued 3 May 2013	Good	-	-	1	2	1	-
056	VAT	Q4	Assurance gained from HMRC inspection	N/A	-	-	-	-	-	-
057	BACS	Q4	Final report issued 27 February 2013	Good	-	-	2	1	-	-
058	Material Schools	Q4	Final report issued 8 April 2013	N/A	-	-	2	-	-	-
059	Corporate Governance	Q4	Final report issued 3 June 2013	Reasonable	-	2	8	1	-	-
060	Information Governance	Q4	Final report issued 7 March 2013	Good	-	1	3	-	4	-
061	Review of Risk Management	Q4	Assurance provided review of Corporate Risk Register.	N/A	--	-	-	-	-	-
062	Annual Governance Statement 2012/13 Facilitation	Q4	Draft AGS to be presented to Audit Committee on 16 July 2013	N/A	-	-	-	-	-	-
063	Bank Reconciliations	Q4	Final report issued 21 May 2013	Good	-	-	-	4	1	Yes
064	Procurement Model	Q4	Work included in Mastering Procurement Project.	N/A	-	-	-	-	-	-
065	Recruitment - Reference Checks	Q4	Deferred to 2013/14	N/A	-	-	-	-	-	-
066	Children's Services Resource Panel	Q4	Deferred to 2013/14	N/A	-	-	-	-	-	-
067	Schools Financial Value Standard	Q4	Final report issued 12 June 2013	Reasonable	-	2	5	-	-	-
068	WISE Replacement Project	Q4	Project assurance work completed (ongoing to project implementation)	N/A	-	-	-	-	-	-
069	Technology Futures Programme - Project Assurance/ Project Advice	Q4	Project Assurance completed.	N/A	-	-	-	-	-	-
070	Internal Audit Follow-ups	Q4	Work completed in Q4	N/A	-	-	-	-	-	-

## Business Assurance Annual Report 2012/13

(Ctd)

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
071	Risk Management Facilitation	Q4	Q4 risk management work is in progress	N/A	-	-	-	-	-	-
072	Corporate Risk Register	Q4	Q4 risk management work is in progress	N/A	-	-	-	-	-	-
073	Performance Management Project Board	Q4	Consultancy work on this project is in progress	N/A	-	-	-	-	-	-
INV07	Investigations	Q3-Q4	Q4 Investigations work is in progress	N/A	-	-	-	-	-	-
INV08	Benefits Fraud	Q3-Q4	Q4 Benefits fraud work is in progress	N/A	-	-	-	-	-	-
INV09	Proactive Fraud Prevention	Q3-Q4	Q4 Fraud prevention work is in progress	N/A	-	-	-	-	-	-
BAC 1	Troubled Families Grant	Q1	Initial verification of eligibility of families identified	N/A	-	-	-	-	-	-
BAC 2	Children's Centre Imprest Reconciliations	Q2	Final memo issued 17 October 2012	Limited	-	-	-	-	-	-
BAC 3	Waste Collection Implementation	Q2	Report issued 3 August 2012	N/A	-	-	-	-	-	-
BAC 4	Waste Collection – Project Assurance	Q2	Memo issued 29 October 2012	N/A	-	-	-	-	-	-
BAC 5	Transport Capital Block Funding Grant	Q3	Grant verified 29 November 2012	N/A	-	-	-	-	-	-
BAC 6	Tender Opening Memo	Q2	Final memo issued 16 October 2012	N/A	-	-	-	-	-	-
BAC 7	Service Planning Benchmarking	Q2	Final memo issued 27 September 2012	N/A	-	-	-	-	-	-
BAC 8	Carbon Reduction Commitment	Q3	Fieldwork completed.	N/A	-	-	-	-	-	-
BAC 9	Keep Mobile (external work)	Q4	Draft report issued 13 May 2013	N/A	-	-	-	-	-	-

## Business Assurance Annual Report 2012/13

IA Ref.	IA Review Area	Timing	Status as at 4 July 2013	Assurance Level	Priority					PAQ Received?
BAC 10	Council Decision Making Governance Arrangements	Q4	IA Consultancy on Analysis of Member and Officer feedback completed.	N/A	-	-	-	-	-	-
BAC 11	Optalis Financial Management	Q4	Final report issued 29 May 2013	Limited	-	3	8	1	-	-
BAC 12	Lessons Learnt Response to Major IT Incident Report	Q4	Draft report issued 13 May 2013	N/A	-	-	-	-	-	-

**Total 2012/13 IA recommendations raised as at 4 July 2013**

<b>0</b>	<b>41</b>	<b>112</b>	<b>8</b>	<b>16</b>
			<b>2</b>	

### INTERNAL AUDIT ASSURANCE LEVEL DEFINITIONS

The classifications of assurance levels for 2012/13 are set out below:

Assurance Level	Definition
<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 2012/13 was as follows:

Priority	Definition
<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:

