

TITLE	Business Assurance Progress Report
FOR CONSIDERATION BY	Audit Committee on 27 November 2013
WARD	None Specific
STRATEGIC DIRECTOR	Julie Holland, Interim Head of Business Assurance & Democratic Services

OUTCOME / BENEFITS TO THE COMMUNITY

The Business Assurance Progress Report details the Business Assurance Activity between the 1 July 2013 and 30 September 2013. This is an update on the progress towards the formation of the Head of Internal Audit Opinion which forms part of the Annual Governance Statement. It provides assurance through the Audit Committee to Council and the wider public that the Council is managing its key risks and identifies any weaknesses identified in the governance, risk management and internal control. This assurance supports the council in the achievement of its vision, priorities, principles and objectives and provides for better and improved outcomes for our residents.

RECOMMENDATION

That the Audit Committee note the Business Assurance Progress report (attached)

SUMMARY OF REPORT

The report summarises the work completed by the Internal Audit and Investigations during the period and enables the Committee to discharge its oversight function in relation to these activities.

The report provides the opportunity for the Head of Internal Audit to provide details of the work of undertaken this financial year and highlight any areas of weakness the committee should be aware of.

Background

This progress report enables the Audit Committee to hold the Head of Internal Audit to account and facilitates the Audit Committee in holding management to account for managing weaknesses identified during the course of internal audit and investigations activities.

Analysis of Issues

The Business Assurance Progress report provides the committee with assurance over the key governance, risk management and internal controls operating in the Council. The committee should ensure that the coverage, performance and results of Business Assurance activity are clearly communicated to the Audit Committee and any additional assurances are identified by the Committee.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	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

Not applicable.

Reasons for considering the report in Part 2

Not applicable.

List of Background Papers

None.

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**WOKINGHAM
BOROUGH COUNCIL**

◆ **Business Assurance**
Successfully Improving Governance

BUSINESS ASSURANCE

PROGRESS REPORT

Quarter 2

2013/14

Wokingham Borough Council

15 November 2013

1. INTRODUCTION

- 1.1 This report summarises the main findings arising from the Business Assurance (BA) work completed in the period 1 July 2013 to 30 September 2013. There are two main strands to this work: Internal Audit (IA) and Investigations.
- 1.2 IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the council achieve its strategic objectives and realise its vision for the borough of Wokingham. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.3 Investigations are responsible for providing a comprehensive range of investigation services to all key stakeholders. Our primary objective is to meet the Chief Finance Officer's statutory obligation to prevent and detect fraud and corruption against the council. This includes benefit fraud, whistleblowing allegations and other types of corporate fraud such as Housing Tenancy Fraud.
- 1.4 The Investigations team also helps to drive improvements in performance across the council by investigating any serious breaches of the council's policies including the staff code of conduct. Other main areas of their work include delivery of the Government's National Fraud Initiative (NFI) and providing anti-fraud and anti-corruption awareness training to staff and Members.
- 1.5 BA 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 to date.

Purpose of the Business Assurance Progress Report

- 1.6 This report presents the council's Chief Executive, Directors and Audit Committee with information on all BA work covered and assurance in this respect during the period 1 July 2013 to 30 September 2013. It also provides an opportunity for the Interim Head of Business Assurance and Democratic Services to highlight to the council's Corporate Leadership Team (CLT) and Audit Committee any significant issues that they need be aware of.

2. EXECUTIVE SUMMARY

- 2.1 The IA team following discussion with finance and consultation with external audit (Ernst & Young) have decided to proceed with Key Financial Systems (KFS) audit work on WISE following the uncertainty surrounding the delivery of WISER (the council's new Finance, HR and Procurement system). If WISER is introduced prior to year end more audit work will be required to ensure coverage of KFS on the new, as well as the old system.
- 2.2 The Investigations team have already met the full year benefits overpayment target and whilst continuing to investigate allegations of benefit fraud are directing their resources towards other areas of the authority.
- 2.3 In relation to the Single Fraud Investigation Service (SFIS), no update has been received from the Department of Work and Pensions (DWP).
- 2.4 The Investigations team have continued to work on delivering their risk based proactive work plan, with proactive work being agreed in Tenant Services and Council Tax.

3. ANALYSIS OF BUSINESS ASSURANCE ACTIVITY: 1 JUL 2013 to 30 SEPT 2013

3.1 2013/14 IA Work

3.1.1 The individual IA reviews carried out in the 1 April 2013 to 30 September 2013 period are listed at Appendix A, which details the assurance levels achieved and provides an analysis of recommendations made (in accordance with the recommendation priorities outlined at Appendix C).

3.1.2 In the period between 1 July and 30 September the following IA activity was completed:

- Five terms of reference were issued.
- Two draft reports were issued.
- Five pieces of work were finalised and issued.

3.1.3 There were no Limited Assurance reports issued during the period. A draft report has been issued for Personal Budgets – Direct Payments but following discussions with management further audit testing is underway.

3.2 2012/13 Benefits Fraud Investigations

3.2.1 Between 1 July 2013 and 30 September 2013 there have been **five sanctions**, including **one successful prosecution** for benefit fraud.

3.2.2 Sarah Ashton, formerly of Bedfordshire Way, Woosehill, admitted to dishonestly failing to inform both the Department for Work and Pensions (DWP) and Wokingham Borough Council that she had got married in July 2011 and no longer needed to claim benefit. Her fraud meant that she had wrongly claimed more than £5,500 in benefits from the taxpayer.

3.2.3 The Magistrates gave Mrs Ashton full credit for her guilty plea and said that she needed to pay back the overpaid benefit as a matter of priority. In sentencing they issued a fine of £250 which was to be paid in addition to repaying the overpaid benefit, a victim surcharge of £25 and awarded the full prosecution costs of £747.50.

3.3 2013/14 Other Investigations

3.3.1 There have been **14** other investigation referrals during Q2:

- One internal case is ongoing;
- Two internal cases were not investigated following risk assessment;
- One internal case is being investigated by management;
- One case relating to Council Tax Single Person Discount is ongoing;
- Three cases relating to Council Tax Single Person Discount have been closed following risk assessment;
- Two cases relating to disabled persons Blue Badges have been closed following risk assessment;
- One case relating to Housing Tenancy application is ongoing;
- One case relating to Council Tax Student Exemption is ongoing; and
- One case relating to Housing Tenancy has been closed with no further action.

3.4 Deferred IA Reviews

3.4.1 Local Children's Safeguarding Board was deferred following discussions with the Chief Executive.

3.5 Key Performance Indicators

3.5.1 KPI 1 - Client Satisfaction Score

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

There have been a low number of post audit questionnaires returned in the period. The overall client satisfaction is **77.5%** for questionnaires returned in the reporting period.

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.

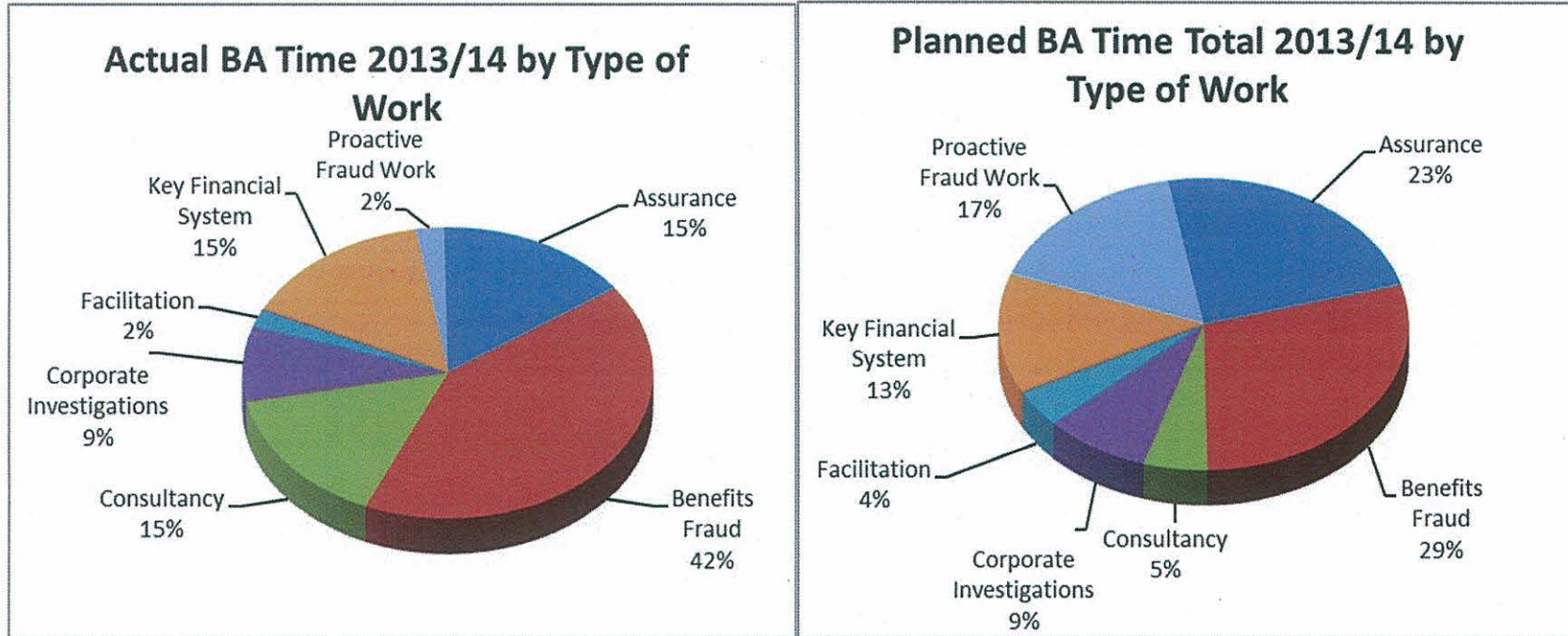
3.5.2 KPI 2 - Improvements to the Control Environment

Internal control and risk management improvements recommended to management accepted or implemented.

There were 94 recommendations made in reports that were finalised in the period from the 1 April 2013 to 30 September 2013. **100%** of these were accepted by management. There has been limited follow-up activity completed against 2012/13 recommendations and therefore the implementation rate has not been calculated as it would not represent a meaningful measure. Follow up activity will conclude in quarter 3 and results will be presented to the audit committee in February.

3.5.3 KPI 3 – Where the work of Business Assurance is focused

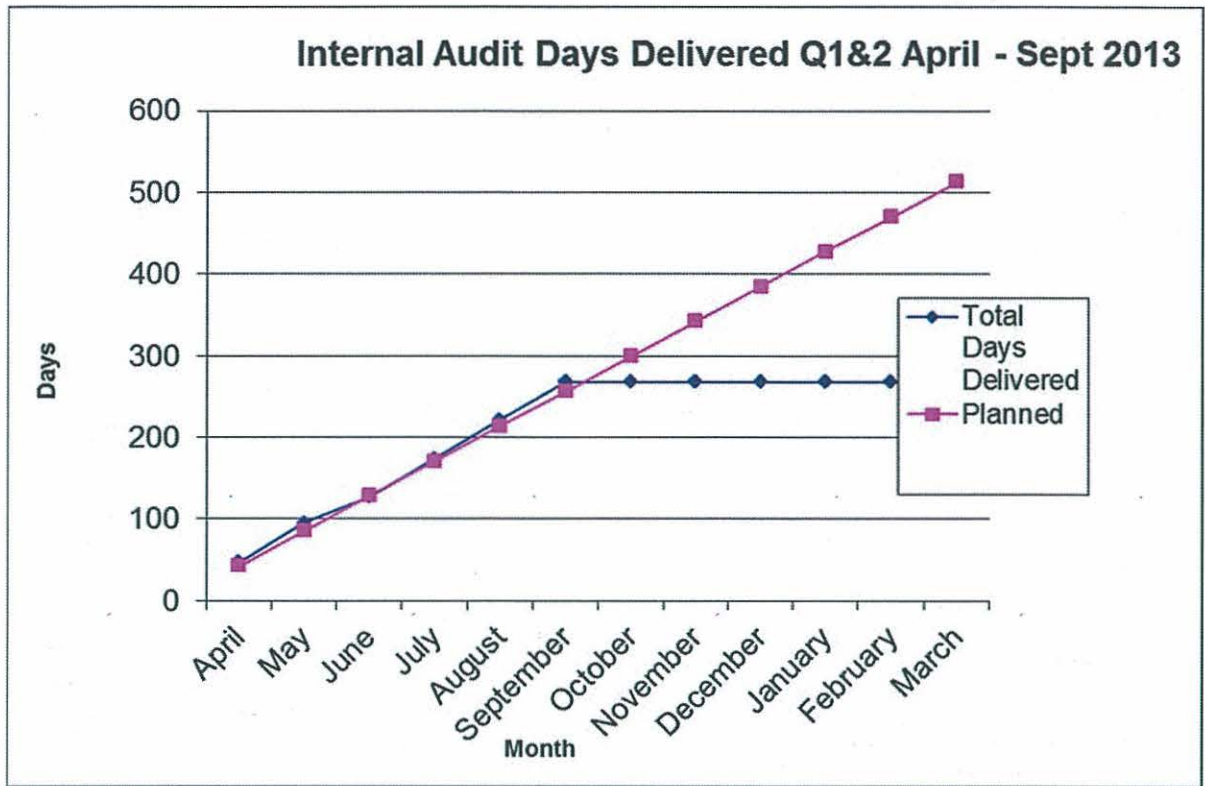
Comparison of actual and planned focus of BA by type of work undertaken:



These two charts detail the distribution of days by type of BA work. 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.

Due to the request for RWP/Change and Improve work, resources have been moved from planned assurance activity to consultancy work for this quarter. Other KPI's below (5 & 7) reflect outcomes achieved on Benefits Fraud. Following these results resources are shifting to proactive fraud work for the remainder of the year.

3.5.4 KPI 4 – Delivery of Internal Audit Days



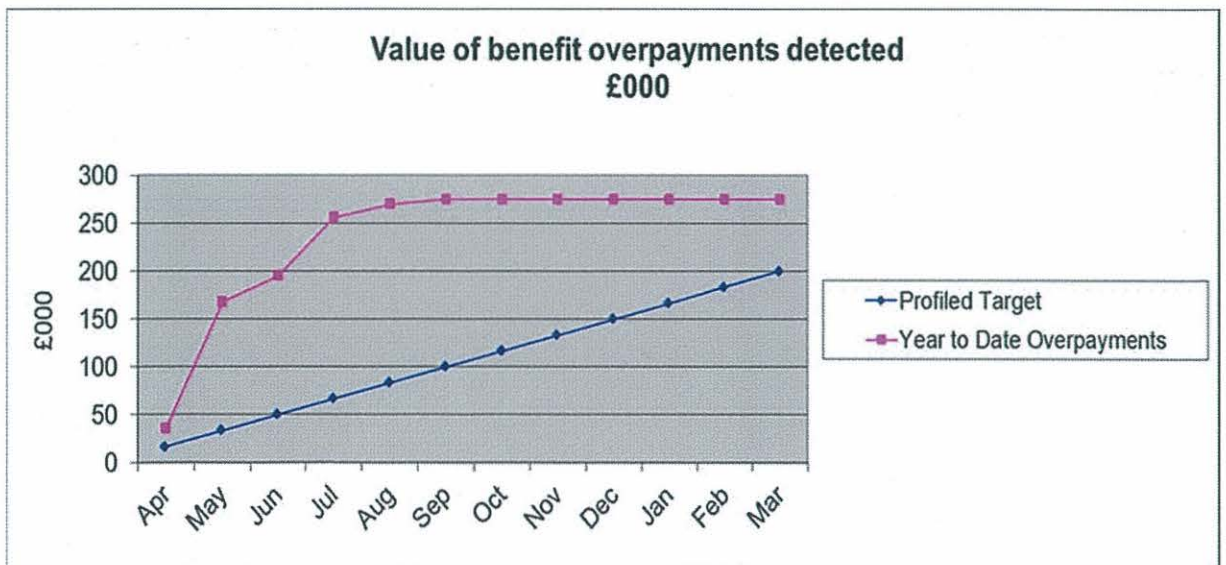
It should be noted that the number of days delivered contains some estimated for Q2 data given the change in time recording system implemented in this period. Q3 data will be based on actual data.

3.5.5 KPI 5 – Benefit Overpayments



The year's target for identifying overpaid benefits (this can be due to either fraud or error) is £200,000 for 2013/14.

Between 1 July 2013 and 30 September 2013 a total of £78,732.43 of overpaid benefits has been identified by BA. In total £274,225.43 in overpaid benefits has been identified against the year to date target of £100,000.



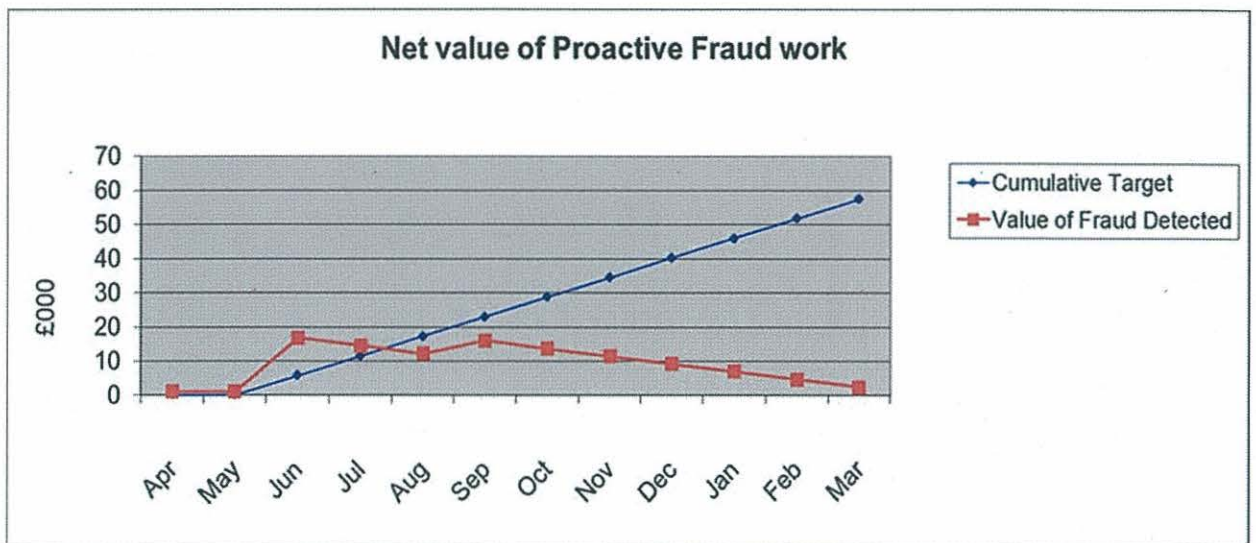
3.5.6 KPI 6 – Net value of Proactive work



The year's gross target for identifying non-benefit overpayments detected (this can be due to either fraud or error) is £80,000 for 2013/14. This is to be increased to £100,000 in 2014/15. The gross level of fraud identified to date is £25,000.

In order to determine the net benefit to the council we have netted off costs from the overpayments identified as a result of proactive work. This enables the committee to monitor the overall value generated by proactive fraud work.

Between 1 April 2013 and 30 September 2013 a net total of **£16,000** of non-benefit overpayment has been achieved, against the Q1 / Q2 target of **£23,000**.



3.5.7 KPI 7 – 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 **23 sanctions** for 2013/14. From 1 July 2013 to 30 September 2013 a total of **5** sanctions have been applied, against the Q2 target of 6. Within Q2 2 Cautions, 2 Administrative Penalties and 1 Prosecution were applied. In total, 79 investigations were completed in the period 1 July 2013 to 30 September 2013.



Sanctions Forward Look

- Thirteen investigations are currently awaiting prosecution, but they have not yet been heard in court due to factors outside of our control.
- Two further prosecution decisions have been made since the end of Q2.
- One Administrative Penalty has been offered and is currently within the '28 day cooling off period'.
- One further decision has been returned advising an administrative penalty.
- Two cases are currently awaiting appeal.

3.6 Additional Business Assurance Work

3.6.1 Internal Audit has continued to work supporting the activities to ensure Public Services Network (PSN) – formerly GCSX, compliance as part of their role on the Information Governance Group.

3.6.2 Following a request from the Constitutional Review Working Group and the Head of Finance IA under took a review of pre-signed cheques. The findings have been reported elsewhere in the agenda.

3.6.3 Following the previous Audit Committee in September IA have provided information on non-order purchase orders to assist the committee in quantifying and understanding the causes of this risk. The findings have been reported elsewhere in the agenda.

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- 3.6.4 At the request of the project manager for Youth Centre project we were requested to look at the financial controls during the restructure process to ensure that they remained robust given the context of change. Some recommendations were made although there were no high priority actions.
 - 3.6.5 At the request of the Scrutiny Committee IA are following up and validating the management action from the Major Incident Report.
 - 3.6.6 Business Assurance has continued throughout this quarter to undertake work for external clients which has generated income for the Council. Total income will be reported at year end.

3.7 Business Assurance Key Developments

- 3.7.1 The Principal Internal Auditor post left vacant has been filled on an interim basis by one of the team's Senior Internal Auditors. This has created another vacancy. A further vacancy has occurred at Internal Auditor level. These two losses to IA will significantly impact the team. Contingency arrangements have been put in place to cover these vacancies.

4. FORWARD LOOK

- 4.1 The Council restructure of the senior management posts should be confirmed before the February Audit Committee. The Head of Governance and Improvement has been confirmed as Andrew Moulton.
- 4.2 The IA Plan for 2014/15 will be presented to the February Audit Committee.
- 4.3 There are no other matters that the Head of Internal Audit needs to bring to the attention of the Committee.

Julie Holland

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

15 November 2013

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14

Key:

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

Residual 2012/13 IA Reviews (completed after 31 March 2013)

IA Ref.	IA Review Area	Status as at 17 October 2013	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
019	Scrutiny Arrangements	Draft report issued 25 June 2013	N/A	-	-	-	-	-	-
024a	Adult Social Care - Personal Budgets	Draft report issued 21 June 2013	N/A	-	-	-	-	-	-
024b	Adult Social Care - Direct Payments	Final report issued 14 November 2013	Reasonable	-	2	1	1	-	-
040	Debtors	Final report 1 July 2013	Reasonable	-	1	6	2	-	Yes
041	Creditors	Final report 9 August 2013	Good	-	-	2	5	-	-
042	Payroll	Final report 19 June 2013	Good	-	-	4	-	-	-
044	Council Tax & NNDR	Final report issued 18 April 2013	Good	-	-	2	6	1	Yes
045	Treasury Management	Final report issued 11 June 2013	Good	-	-	5	-	1	-
054	Capital Accounting	Final report issued 4 July 2013	Good	-	1	2	6	1	-
055	Budgetary Control & Financial Reporting	Final report issued 3 May 2013	Good	-	-	1	2	1	-
058	Material Schools	Final report issued 8 April 2013	N/A	-	-	2	-	-	-
059	Corporate Governance	Final report issued 3 June 2013	Reasonable	-	2	8	1	-	-
063	Bank Reconciliations	Final report issued 21 May 2013	Good	-	-	-	4	1	Yes
067	Schools Financial Value Standard	Final report issued 12 June 2013	Reasonable	-	2	5	-	-	-

IA Ref.	IA Review Area	Status as at 17 October 2013	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
068	WISE Replacement Project	Project assurance work completed (ongoing to project implementation)	N/A	-	-	-	-	-	-
BAC 11	Optalis Financial Management	Final report issued 29 May 2013	Limited	-	3	8	1	-	-
BAC 12	Lessons Learnt Response to Major IT Incident Report	Final report issued 16 September 2013	N/A	-	-	-	-	-	-

2013/14 Planned IA Reviews

IA Ref.	IA Review Area	Status as at 17 October 2013	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
1	Staff Expenses	Draft Report issued on 30 September 2013	-	-	-	-	-	-	Yes
2	Cashiers Consultancy	Completed on 22 August 2013	N/A	-	-	-	-	-	-
3	Integrated Transport Fund	Grant Certified on 11 October 2013	N/A	-	-	-	-	-	-
4	Early Years OTS Visit	Completed on 26 June 2013	N/A	-	-	-	-	-	-
5	St Crispin's	Draft Report issued on 20 August 2013	-	-	-	-	-	-	Yes
6	Troubled Families Grant	Grant Certified on 29 July 2013	N/A	-	-	-	-	-	-
7	Property	Fieldwork in progress							
8	Local Children's Safeguarding Board	Deferred	N/A	-	-	-	-	-	-
9	Optalis Follow up	Completed on 2 July 2013	N/A	-	-	-	-	-	Yes
10	Wiser Reconciliations	Dependent on go live (Q4)							
11	Major Project Governance	ToR drafted							
12	Housing Benefits	ToR issued on 8 October 2013							
13	Housing Rents	Final Report issued on 11 October 2013	Reasonable	-	2	4	8	2	-
14	Financial Reporting and Budgetary Control	Audit Scheduled for 13 January 2014							
15	Capital Programme (Accounting)	Audit Scheduled 16 December 2013							
16	Council Tax & NNDR	Audit Scheduled for 2 March 2014							
17	Fixed Asset Register	TBC							
18	Material Schools	Audit Scheduled 24 February 2014							
19	Treasury Management	Audit Scheduled 11 Nov 2013							

IA Ref.	IA Review Area	Status as at 17 October 2013	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
20	VAT	ToR issued on 14 October 2013							
21	BACS	Audit Scheduled 2 December 2013							
22	Bank Reconciliations	Audit Scheduled 16 December 2013							
23	Cashiers	Q4							
24	Creditors	Audit Scheduled 2 December 2013							
25	Debtors	Q4							
26	Financial Reporting	Merged with Budgetary Control							
27	Main Accounting	Audit Scheduled for 14 December 2013							
28	Payroll	Q4							
29	School Placements	Q4							
30	Safeguarding the vulnerable (Adults)	Fieldwork commenced on 4 October 2013							
31	Safeguarding the vulnerable (Children)	Fieldwork commenced on 6 September 2013							
32	Infrastructure Repairs	Q4							
33	Loss of Confidential Data	Q4							
34	Corporate Manslaughter	ToR issued on 30 September 2013							
35	Corporate Governance	Q4							
36	Ethical Governance	ToR issued on 9 October 2013							
37	Information Governance	Q4							
38	Effectiveness of BA	Fieldwork commenced on 16 October 2013							
39	Effectiveness of Audit Committee	Fieldwork commenced on 25 September 2013							
44*	Schools financial controls	Audit Scheduled 24 February 2014							
49	Early Years Control Framework	Fieldwork commenced on 10 Oct							

IA Ref.	IA Review Area	Status as at 17 October 2013	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
		2013							
78	Pre-Signed Cheques	Memo issued on 25 September 2013	N/A	-	-	-	-	-	-
79	RWP Project	Final Report issued on 25 Sept 2013	N/A	-	-	-	-	-	-
80	WiSER Consultancy	Ongoing							
81	Follow up on 2012/13 Audits	Fieldwork commenced on 23 July 2013	N/A	-	-	-	-	-	-
82	Youth Centres - Financial Controls	Draft Memo issued on 10 October 2013	N/A	-	-	-	-	-	-

*Audits 40-43, 45-48, 50-54 are planned for Q4 but have yet to be scheduled. Codes 55-77 are assigned to external work. Codes 78 onwards are for responsive work since the plan was finalised.

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

In our professional opinion the IA assurance levels and definitions are:

Assurance Level	Definition
Outstanding	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 with due regard to the Council's risk appetite. There is positive assurance that objectives will be achieved.
Good	There is a good level of assurance over the management of the key risks to the council objectives. The control environment ¹ is robust with no major weaknesses in design or operation. There is good assurance that objectives will be achieved.
Reasonable	There is a reasonable level of assurance over the management of the key risks to the council objectives. The control environment ¹ is in need of improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains a risk that objectives will not be achieved.
Limited	There is a limited level of assurance over the management of the key risks to the council objectives. The control environment ¹ 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.
No	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 ¹ in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite ² and the residual risk ³ 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 RECOMMENDATION PRIORITY RATINGS AND DEFINITIONS

In our professional opinion the priority ratings and definitions of IA recommendations are:

Priority	Definition
Very High ●	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.
High ●	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.
Medium ●	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.
Low ●	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.
Notable Practice ●	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.