TITLE	**Internal Audit and Investigations Annual Report 2013/14**
FOR CONSIDERATION BY	Audit Committee on 1 July 2014
WARD	None Specific
DIRECTOR	Julie Holland, Service Manager, Business Improvement (and Head of Internal Audit)

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 2013/14 Annual Governance Statement.

RECOMMENDATION

That the Audit Committee notes the Internal Audit and Investigations Annual Report 2013/14.

SUMMARY OF REPORT

The report provides the HoIA 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 2013/14 and reports on the teams Key Performance Indicators.

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 Internal Audit and Investigations 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

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	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 Internal Audit and Investigations Annual Report impacts on all Council's services as it provides assurance on the processes and systems that support governance, risk management and internal control in the Council.

Reasons for considering the report in Part 2
N/A

List of Background Papers
N/A

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Date 20 June 2014	**Version No.** v1

Internal Audit and Investigations

ANNUAL REPORT

2013/14

Wokingham Borough Council

20 June 2014

Contents

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1. INTRODUCTION

1.1 This report summarises the main findings arising from the work of Internal Audit and Investigations work completed in the 2013/14 financial year.

1.2 The Public Sector Internal Audit Standards (2013) requires me as the Council's Head of Internal Audit 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 Internal Audit and Investigations 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 2013/14 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 2013/14 by the Council's Internal Audit (IA) team as well as a small number of other assurance providers. Where the work of the 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 plan for 2013/14 was 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 Public Sector Internal Audit Standards (March 2013). A review conducted in February 2014 of Internal Audit against the PSIAS demonstrated that Internal Audit was broadly compliant. An analysis of the IA work undertaken during 2013/14 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 and information governance working groups;

- The Royal Borough of Windsor and Maidenhead Internal Audit service (Berkshire Pension Fund);

- The Bracknell Forest Council Internal Audit service (Public Health) 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 2013/14**. These included:

- There were two significant information security breaches related to the potential unauthorised disclosure of data. One was related to sensitive Children's data potentially disclosed. On the basis of information provided to it, as part of the enforcement case, the Information Commissioner has decided to mandate data security and data protection training for all staff. This training is being rolled out for all staff and will be completed by 30/06/14. The other information security breach related to Electoral Registration data related to 18,000 individuals that was disclosed due to a third party software error. The council was one of 90 local authorities who use this software and immediate action was taken to inform affected residents and remove names and addresses from the public domain.

- The Council framework for managing major projects (which is based on PRINCE2 – an industry standard project management framework) is continuing to be strengthened, although managing major and complex projects continues to be difficult, particularly around capacity constraints and ensuring consistency of approach.

- Improvements were agreed to strengthen the management information related to adults personal budgets to ensure that annual reviews have occurred in a timely fashion.

- The Council would benefit from improved utilisation of its scrutiny function.

- The Council's miscellaneous debt position has deteriorated this year. The economic environment has had an impact but also pressures on resourcing due to the delivery of new IT systems.

- There are a number of interim appointments/ temporary staff in key areas across the council. Following the restructure there is greater certainty emerging and this risk is reducing as permanent recruitment takes place.

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:

- The controls around the property services have improved and there has been strong progress in implementing the action plan. Action is being proactively monitored by management. IA are involved in supporting the introduction of a revised procurement process in this area.

- During the year a follow up of financial management in Optalis has verified that controls have improved in a number of key areas.

- The controls surrounding the Council's key financial systems remain robust despite the delay to the implementation of the new financial management system (WISER) that has impacted on a number of short term improvement opportunities. There is significant change planned in 2014/15 with the introduction of new financial management and accounting software. This will require substantial work to safeguard the transition to the new system.

2.10 Internal Audit Assurance Opinions

2.10.1 During the 2013/14 financial year, there was **one** LIMITED assurance and **no** NIL assurance IA opinions out of a total of 33 IA assurance reports (3 remain to be completed). 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.

2.10.1 The key IA reviews conducted in the year included:

- Adult Social Care Personal Budgets (Direct Payments) - Limited

The testing focused on service users and their annual reviews. These reviews are a statutory requirement and we have established that there was a backlog of reviews. There was insufficient management information related to overdue assessments being produced. Furthermore, Frameworki, which is used to manage case files and issue reports had several data quality issues.

- Debtors – Reasonable.

The council's debt position has deteriorated with an increase of £1.3m (to £5.4m). Management decided whilst being kept under review to increase its appetite for risk in the

short term to free up resources to invest in the longer term development of the new debtors system and improved controls in WISER. The audit also identified occasions where authorisations related to refunds, credits and write offs were not evidenced sufficiently.

- Major Project Governance – Reasonable.

The project management framework (PMF) sets out a pragmatic approach to the management of the council's major projects (the OMF is based on PRINCE2, an industry standard). At the inception of projects there was insufficient clarity around whether projects were subject to the PMF. There is the opportunity to adopt project management best practice identified during the audit across all the projects in particular around Business Cases.

- Scrutiny - Reasonable

The review identified that the effectiveness of scrutiny could be improved in a number of areas; greater use of pre-decision scrutiny, coverage of key issues facing the borough (including financial pressures), coordination and communication with officers and the engagement with the public

- Business Continuity Planning (BCP) - Reasonable

This review provided reasonable assurance over the BCP process; plans were in place but required updating and there was scope to improve quality assurance processes. We identified that there was a risk of role ambiguity between service BCP and council wide BCP processes and have suggested to management a BCP Champion role to ensure effective liaison and clarity of responsibility. This recommendation has been embraced by management. There has also been a marked improvement in BCP arrangements for critical contractors since the previous audit and the BCP Champion role will further enhance this process.

- Property - Reasonable

Several areas of significant risk were identified in the Property Service by Business Assurance in 2011/12; a management action plan was produced to address these areas. An Internal Audit review was commissioned into the area to assess the progress made against these actions and ensure robust improvements had been made to the control environment. This audit identified a strong direction of travel within the service since the previous review.

- Optalis Financial Management and follow up - Reasonable

Following the limited assurance report into Optalis Key Financial Controls we have completed a second follow up to ensure that controls that were put in place in June had become embedded. This follow up identified that there was a significant strengthening of financial controls in a number of key areas. There were some areas where action had yet to be fully completed but the overall position is a reduction in the level of financial risk and strengthened communication channels with WBC.

- PSN Compliance

The Council initially failed to secure Public Services Network (PSN) – formerly GCSX accreditation. This was largely due to a change in the compliance regime and a number of other local authorities also failed initially. The Council responded by mobilising a team to address the short falls and within 3 months were able to secure the requirements to be accredited. This ensured that the council was able to continue to function in a number of key areas.

2.11 Summary

2.11.1 The significant control weaknesses listed at para 2.8 were identified during 2013/14, 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 2013/14 is shown at Section 3 of this report.
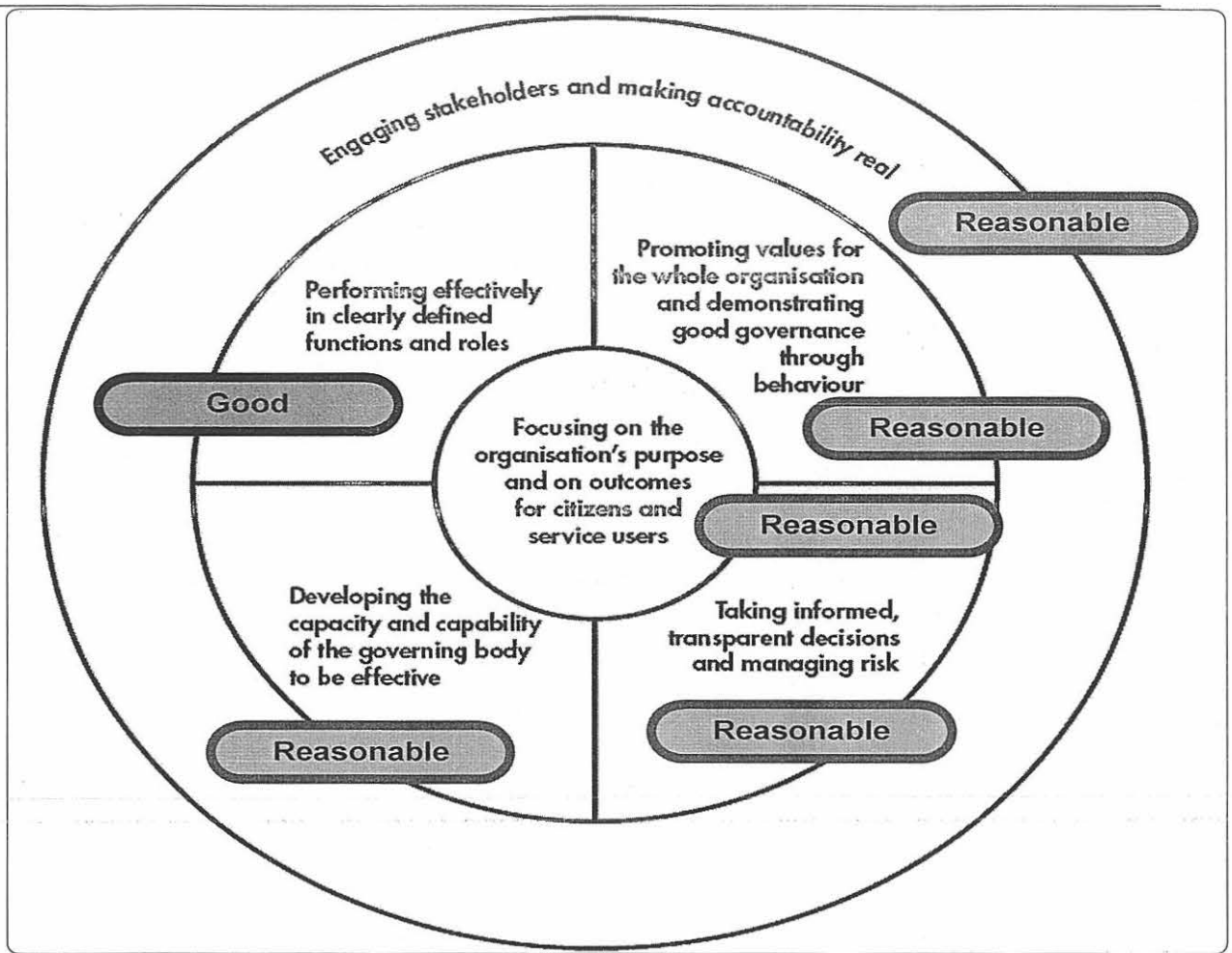
2.12 2013/14 Year Opinion

2.12.1 Risk Management

- *(Risk Management report in draft).* The IA opinion on the effectiveness of the Council's risk management arrangements is based on **the Treasury's Risk Management Assessment Framework.** IA have identified that the council has an effective RM policy, with top-level endorsement and with supporting guidance and that there is adequate leadership in relation to risk management. 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 is that the Council has **REASONABLE** assurance that **risk management** is effective.

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 reasonable 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 is underway but the link to the council's vision was not adequately clear. The Council's values continue to be embedded through the use of performance improvement dials. There was reasonable 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 ensuring that this is relevant and utilised. There has been an internal audit review 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. The overall **Governance arrangements** were assessed by IA as **REASONABLE.**

A circular diagram with the outer ring labelled "Engaging stakeholders and making accountability real". The inner segments are labelled:
- Performing effectively in clearly defined functions and roles — **Good**
- Promoting values for the whole organisation and demonstrating good governance through behaviour — **Reasonable** / **Reasonable**
- Focusing on the organisation's purpose and on outcomes for citizens and service users
- Developing the capacity and capability of the governing body to be effective — **Reasonable**
- Taking informed, transparent decisions and managing risk — **Reasonable**

2.12.3 <u>Internal Control</u>

- 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.

The COSO Internal Control Framework
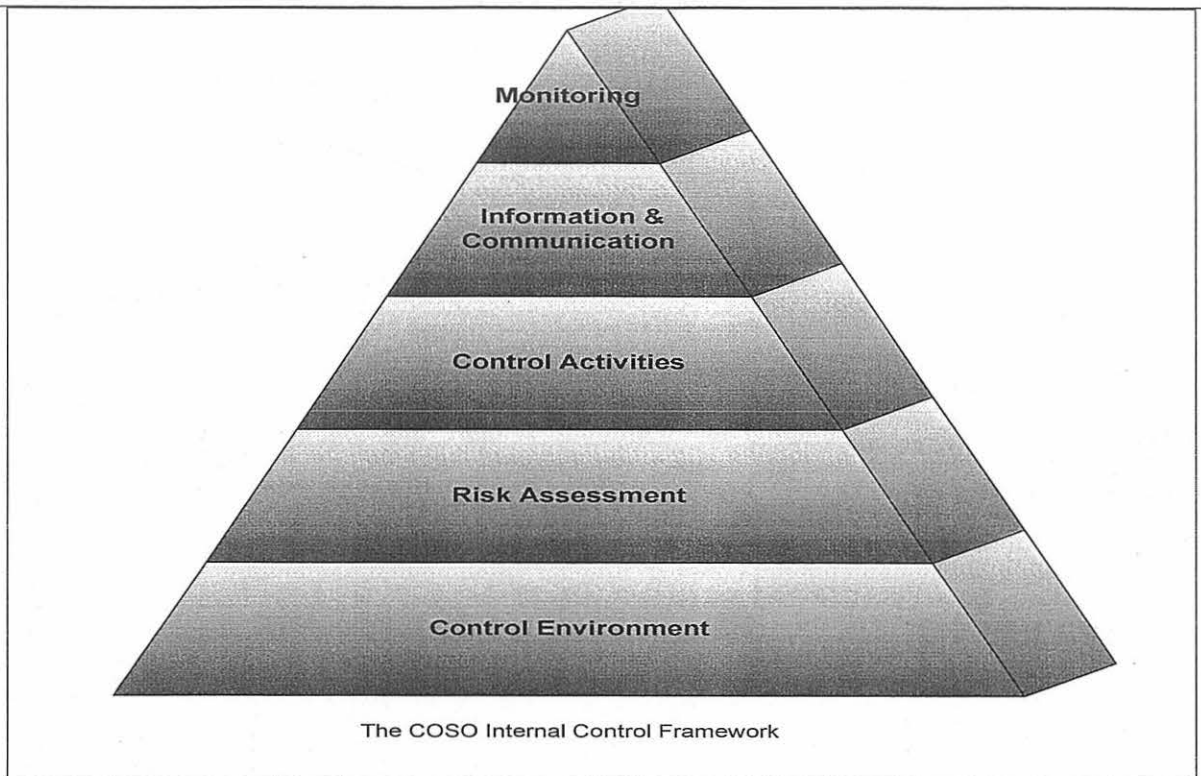
- From the IA work undertaken in 2013/14, and the other sources of assurance referred to in para 2.7, **it is my opinion that we can provide REASONABLE assurance that the system of internal control that has been in place at the council for the year ended 31 March 2014** accords with proper practice, except for any details of significant internal control issues referred to in para 2.8.

3. ANALYSIS OF INTERNAL AUDIT ACTIVITY 2013/14

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 2013/14 may be summarised by the assurance level achieved (ref Appendix B) as per the table below:

Assurance Level	Number of IA reports 2013/14
Outstanding	0
Good	8
Reasonable	22
Limited	1
Nil	0
Effective	2
Totals	**33**

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

Opinion of Internal Audit Reports 2013/14 by Percentage

Legend:
- Outstanding
- Good
- Reasonable
- Limited
- No
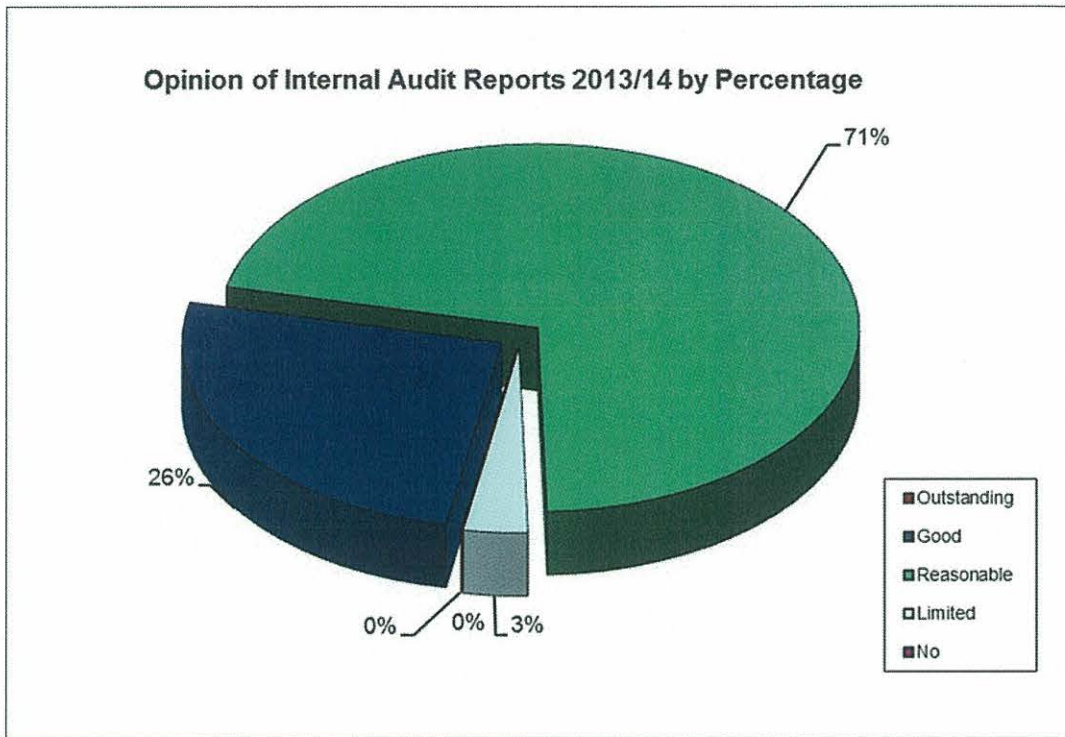
3.4 The graph above (para 3.3) highlights the **positive news** for the council that more than **92%** of the areas audited in 2013/14 were assessed by IA as **Reasonable** or **Good assurance** levels. This compares with a figure of 90% in 2012/13.

3.5 The individual audits carried out during 2013/14 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 2013/14:

Analysis of Recommendations	2013/14
Number of recommendations raised	230
Number of recommendations agreed	230
Number of alternative actions proposed	0
Percentage of recommendations agreed	100%
Number of recommendations withdrawn/not agreed	0

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

Total 2013/14 Recommendations by Priority
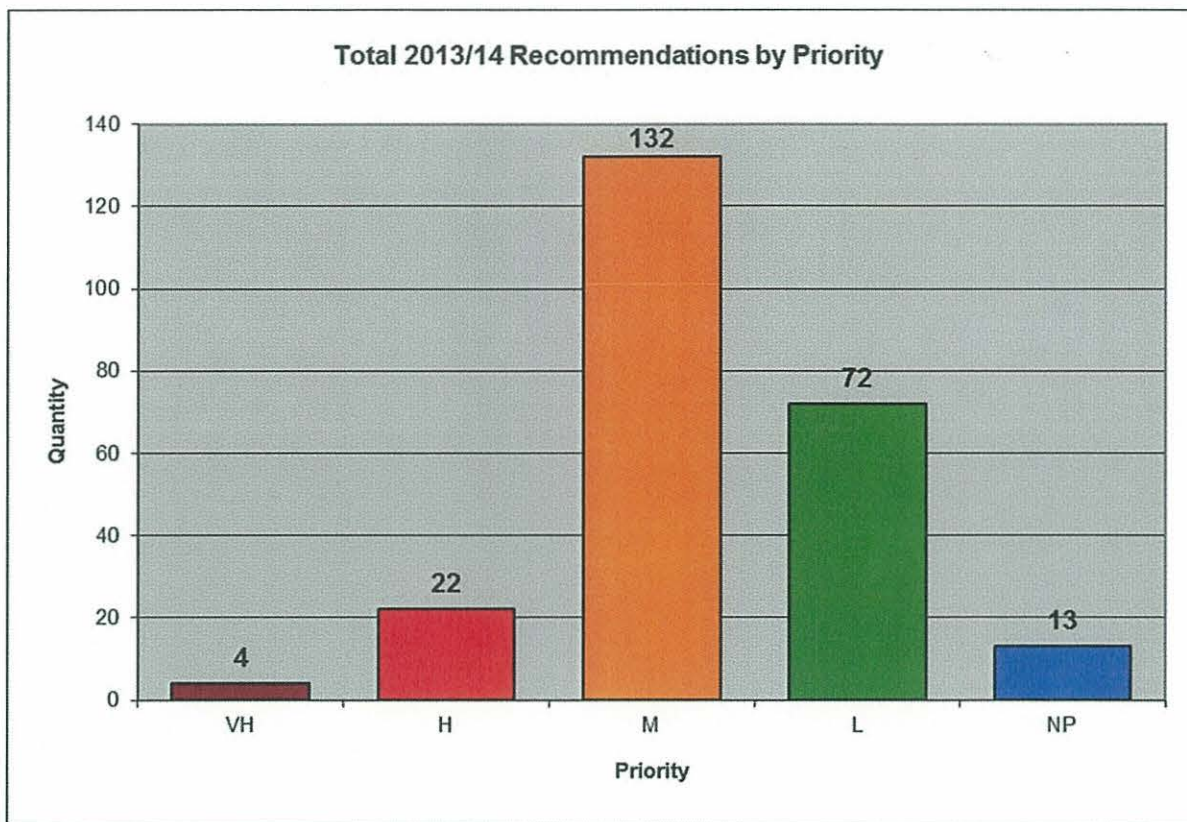
3.8 This graph highlights that there were five **Very High priority recommendations** raised by IA in 2013/14 (Adult Social Care Personal Budgets 4). In addition, **only 11%** of the recommendations raised by IA in 2013/14 were **categorised as High priority**. This compares to 18% in 2012/13. This in part reflects an overall improvement in the Council's control environment during 2013/14. Refer to <u>Appendix D</u> 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 2012/13. 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 **80 2012/13 recommendations followed-up** this year initially 22 (27%) recommendations were not verified as implemented. These have been escalated to the Audit Committee and Directors will be writing to the Audit Committee to confirm the position.

3.10 Key Performance Indicators (KPIs)

3.10.1 <u>KPI 1 - Client Satisfaction Score</u>

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

The overall cumulative client satisfaction is **75.9%** for IA reviews completed in 2013/14. 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.

3.10.2 <u>KPI 2 - Improvements to the Control Environment</u>

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

There were 242 recommendations made in 2013/14 reports. 100% of these were accepted by management.

There was extensive follow-up activity completed against 2012/13 recommendations and the outcome was 73% implementation rate. While IA can influence this implementation rate it is not under their direct control.

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

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.

Planned BA Time Total 2013/14 by Type of Work

- Assurance 23%
- Benefits Fraud 29%
- Advisory 5%
- Corporate Investigations 9%
- Facilitation 4%
- Key Financial System 13%
- Proactive Fraud Work 17%

Actual BA Time 2013/14 by Type of Work

- Assurance 23%
- Benefits Fraud 31%
- Advisory 8%
- Corporate Investigations 9%
- Facilitation 2%
- Key Financial System 19%
- Proactive Fraud Work 8%
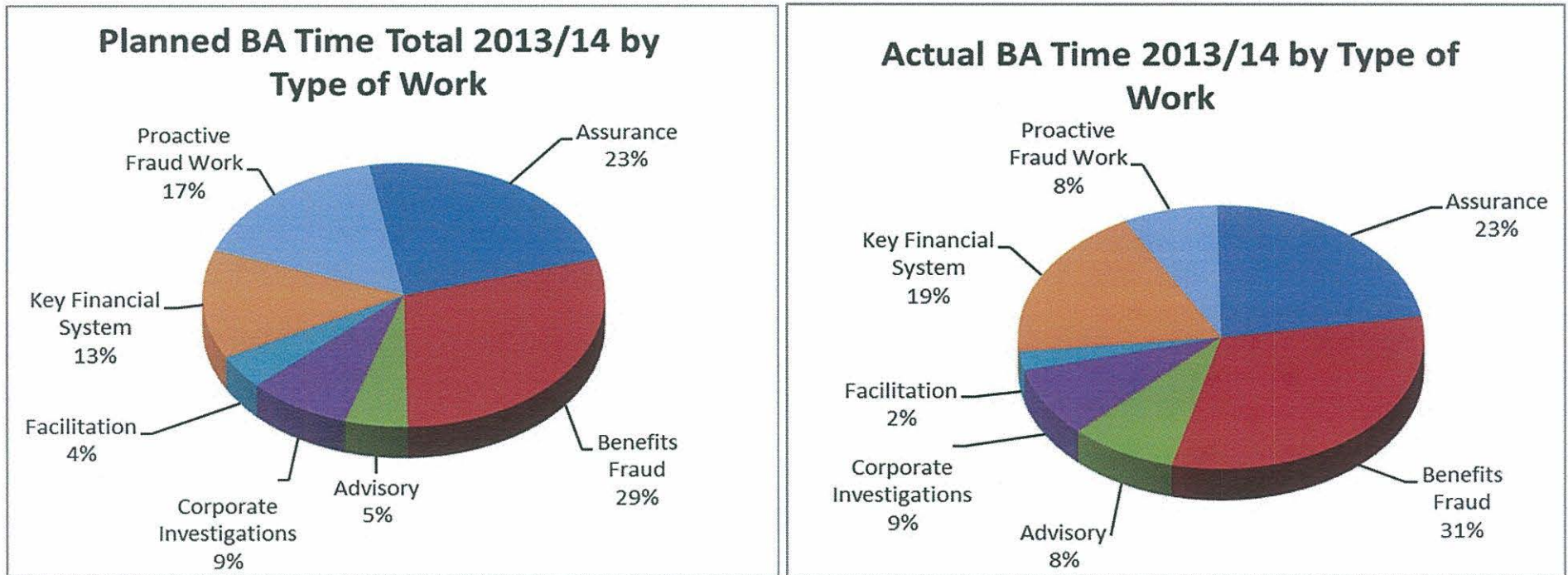
Due to the request for RWP/Change and Improve work, resources have been moved from planned assurance activity to consultancy work at the start of the year this is beginning to correct itself as assurance and KFS work increases. Other KPI's below (5 & 7) reflect outcomes achieved on Benefits Fraud. Following these results resources are shifting to proactive fraud work for the remainder of the year.

3.10.4 <u>KPI 4 – Delivery of Internal Audit Days</u>
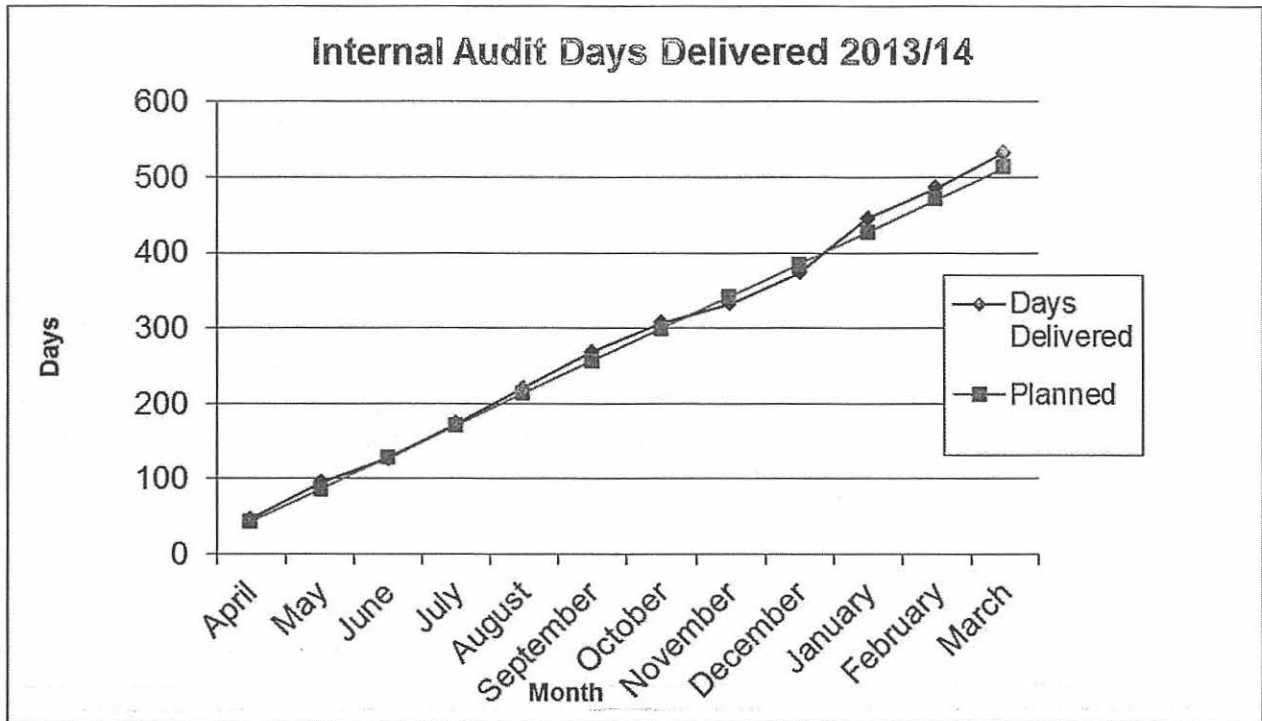
As reported in the previous progress reports, it should be noted that the number of days delivered contains some estimated for Q2 data given the change in time recording system implemented in this period. All other data is actual data.

BA had an original target to deliver 513 IA days in 2013/14. This does not include work provided to other local authorities/ external clients and is the total resources provided to WBC. This did not include the 65 days provided to support the RWP work.

Internal audit was below target at the end of Q3 and procured additional temporary resources. The number of days delivered is therefore slightly more than planned at 533. This is due to additional time required on learning the audit process and reviewing work required by staff changes and the use of agency staff.

3.10.5 <u>KPI 5 – Benefit Overpayments</u>

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

A total of £388k of overpaid benefits has been identified by BA. This represents performance of **£188k** better than target, the graph below highlights this.

Value of benefit overpayments detected £000
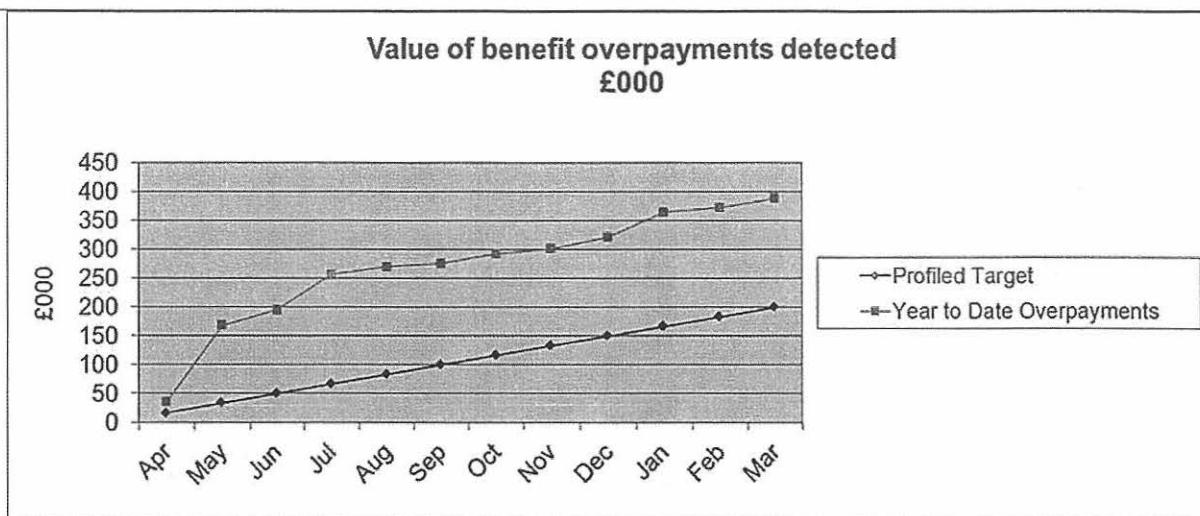
This vast over achievement of target is as a result of a small number of cases generating larger overpayments.

3.10.6 <u>KPI 6 - Value of Proactive work</u>

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

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.

	13/14 Target	Actual Value of Proactive work
Gross - Non-benefit overpayment	£80k	£88k
Net - Non-benefit overpayment (after costs of investigation deducted)	£50k	£65k

Therefore we have overachieved our net target by £15,000.

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).

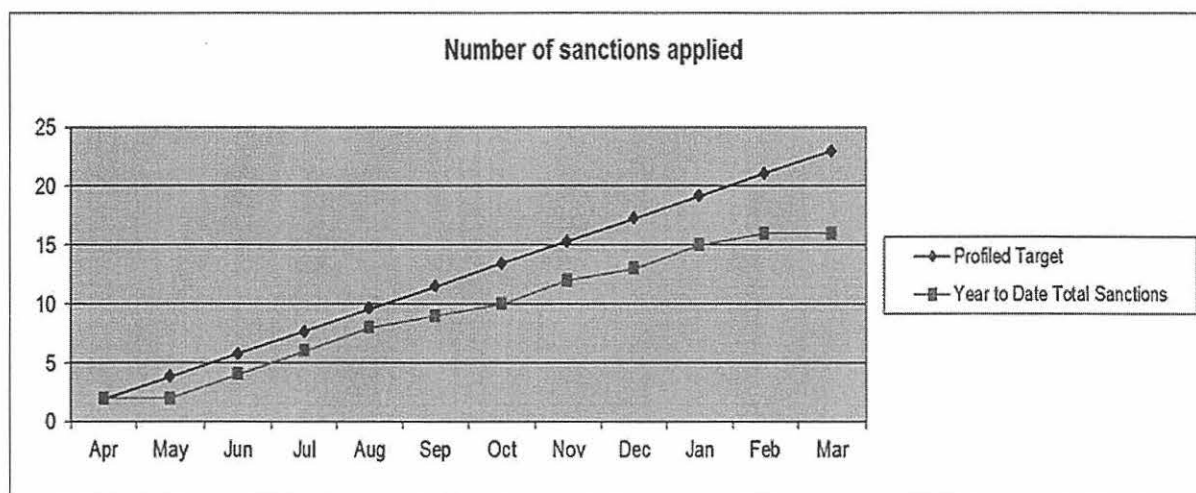These are referred to as 'sanctions' and a target was set to achieve **23 sanctions** for the year. From 1 April 2013 to 31 March 2014 a total of **16** sanctions have been applied, against a target of 23. In total, **219 fraud investigations were completed in 2013/14**.

The target for sanctions was not achieved due to a number of cases which were investigated during 2013/14 that are pending sanction. There are currently 12 cases that were investigated pending legal action and 5 cases are awaiting a decision.

4.   ANALYSIS OF INVESTIGATIONS ACTIVITY 2013/14

4.1   The Business Improvement 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 Proactive 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 16 sanctions applied, 6 were successful prosecutions, 5 cautions were issued and 5 administrative penalties were accepted. Press releases are issued for all successful prosecutions as this is an important deterrent and part of our prevention work.

4.4 Corporate Investigations

In 2013/14 a total of 98 referrals were received; these were in the following areas; Housing, Direct Payments, Council Tax Single Person Discount, Council Tax Student Discount and Attendence Allowance. Included in the above figure there were 9 whistleblowing referrals 1 of which passed the risk assessment and was investigated. The remainder were referred to the relevant service for management action, where necessary. The team have conducted elected member code of conduct investigations, on behalf of the Monitoring Officer. 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.

As a result of reactive alleged housing tenancy fraud investigations 3 Council properties were prevented from being allocated due to the detection of fraudulent applications. 1 property was recovered and returned to housing stock as a result of an investigation that revealed the tenant was not resident and the keys were returned. This created a saving of £72,000 for the authority (based on the Audit Commission's notional cost of £18,000 per property).

4.5 Counter Fraud Work

Counter Fraud Proactive Plan – In 2013/14 the Investigations Team undertook a fraud risk assessment of the entirety of the council's operations to assess the risk of fraud. Using literature from the National Fraud Authority high risk areas were identified for risk assessment. This is used to inform where our resources are focused. Proactive fraud areas included:
- Housing tenancy
- Council Tax student discount exemption
- Council Tax Reduction
- Fraud Awareness

4.7 Shared Services

In 2013/14 the team continued to provide audit and investigations services to other local authorities. This generated £135,000 of income in 2013/14.

5. FORWARD LOOK

5.1 Single Fraud Investigation Service

5.2 WBC have been informed that Housing Benefit investigations will transfer to the Single Fraud Investigation Service on 1 November. The DWP have advised that they will be operating a 'TUPE like' transfer process for members of staff who solely or predominantly investigate Housing and Council Tax Benefit fraud. Local authorities will continue to investigate all areas of fraud, including the investigation of Council Tax Reduction fraud. The DWP have indicated that discussions will take place around four months prior to the proposed implementation in each area. In the case of any benefits prosecution cases all of these will be processed by the CPS following the implementation of SFIS. Further updates will be communicated to Audit Committee.

5.3 Internal Audit Shared Service

5.4 The Council is exploring the option of a shared service for the provision of internal audit services. Talks are underway with Royal Borough of Windsor and Maidenhead. The benefits of a shared service would be to increase resilience and the opportunity to realise economies of scale. A decision in principle is due by WBC's Executive and RBWM Cabinet in June 2014.

Wokingham Borough Council

Julie Holland
Service Manager – Business Improvement (and Head of Internal Audit)

20 June 2014

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14

Key:
- o **VH** = Very High
- o **H** = High
- o **M** = Medium
- o **L** = Low
- o **NP** = Notable Practice
- o **IAC** = Internal Audit Contingency (ad-hoc requests for work, etc)

Residual 2012/13 IA Reviews (completed after 31 March 2013 not included in 12/13 Annual Report)

IA Ref.	IA Review Area	Status as at 20 June 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
019	Scrutiny Arrangements	Final report issued 20 January 2014	Reasonable	-	2	8	1	-	-
024a	Adult Social Care - Personal Budgets	Final report issued 20 January 2014	Limited	4	4	2	1	1	-
024b	Adult Social Care - Direct Payments	Final report issued 14 November 2013	Reasonable	-	2	1	1	-	-
041	Creditors	Final report 9 August 2013	Good	-	-	2	5	-	-

2013/14 Planned IA Reviews

IA Ref.	IA Review Area	Status as at 20 June 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
1	Staff Expenses	Final Report issued on 11 November 2013	Reasonable	0	0	8	1	0	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 Crispins	Final Report issued on 24 October 2013	N/A	-	-	-	-	-	Yes
6	Troubled Families Grant	Grant Certified on 29 July 2013 and 13 February 2014	N/A	-	-	-	-	-	-
7	Property	Final Report issued on 10 January 2014	Reasonable	-	2	7	2	-	-
8	Local Children's Safeguarding Board	Deferred	N/A	-	-	-	-	-	-
9	Optalis Follow up	Completed on 2 July 2013	N/A	-	-	-	-	-	Yes
10	Wiser Reconciliations	Deferred pending go live.	N/A	-	-	-	-	-	
11	Major Project Governance	Final Report issued 20 June 2014	Reasonable	-	1	5	-	-	-
12	Housing Benefits	Final Report issued on 1/4/14	Good	-	-	1	4	1	Yes
13	Housing Rents	Final Report issued on 11 October 2013	Reasonable	-	2	4	8	2	-
14	Financial Reporting and Budgetary Control	Final Report issued 20 June 2014.	Good	-	-	1	4	-	
15	Capital Programme (Accounting)	To be Completed Draft report issued 2 May 2014	Reasonable	-	2	6	3	-	
16	Council Tax & NNDR	Final Report issued 7 May 2014	Good	-	-	1	9	1	
17	Fixed Asset Register	Cancelled							
18	Material Schools (Waingels)	Final report issued 13 January 2014	Reasonable	-	-	5	-	-	
19	Treasury Management	Final report issued 5 February 2014	Reasonable	-	-	7	3	-	

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IA Ref.	IA Review Area	Status as at 20 June 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
20	VAT	Final Report issued on 7 February 2014	Reasonable	-	2	5	1	-	
21	BACS	Final issued 19 February 2014	Good	-	-	2	1	1	
22	Bank Reconciliations	Final issued 5 March 2014	Reasonable	-	-	6	1	-	
23	Cashiers	Final issued 11 April 2014	Good	-	-	2	5	1	
24	Creditors	Final issued 9 April 2014	Good	-	-	3	3	-	
25	Debtors	Final Report Issued 20 June 2014	Reasonable	-	4	6	1	-	
26	Financial Reporting	Merged with Budgetary Control	N/A	-	-	-	-	-	-
27	Main Accounting	Final report issued 15 May 14	Good	-	-	2	2	-	
28	Payroll	Draft report issued 20 June 2014	Reasonable	-	-	10	1	1	-
29	School Placements	Deferred to 14/15							
30	Safeguarding the vulnerable (Adults)	Final Report issued 18 February 2014	Reasonable	-	-	7	3	1	
31	Safeguarding the vulnerable (Children)	Deferred to 14/15	N/A	-	-	-	-	-	-
32	Infrastructure Repairs	Deferred to 14/15	N/A	-	-	-	-	-	-
33	Loss of Confidential Data	To be Completed	Reasonable						
34	Corporate Manslaughter	To be Completed							
35	Corporate Governance	Draft report issued 20 June 2014	Reasonable	-	1	3	2	-	-
36	Ethical Governance	To be Completed	Reasonable						
37	Information Governance	Final Report issued 19 June 2014	Reasonable	-	-	8	2	2	-
38	Effectiveness of Internal Audit and Counter Fraud	Final Report Issued	Effective	-	-	3	2	1	-
39	Effectiveness of Audit Committee	Draft Report issued 19 February 2014.	Effective	-	-	4	5	1	-
40	Risk Management	Final Report issued 4 June 2014	Reasonable	-	-	4	-	-	-
41	Good Governance Survey	Deferred	N/A	-	-	-	-	-	-

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IA Ref.	IA Review Area	Status as at 20 June 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
42	Balanced Scorecard	Final Memo Issued	N/A	-	-	-	-	-	-
43	Service Planning	Final Memo Issued	N/A	-	-	-	-	-	-
44	Schools financial controls	All testing completed. Memos written and being reviewed.							
44a	Crazies Hill	Memo issued 12 May 2014	N/A	-	-	-	-	-	-
44b	Emmbrook Infant	Memo issued 21 May 2014	N/A	-	-	-	-	-	-
44c	Emmbrook Junior	Memo issued 8 May 2014	N/A	-	-	-	-	-	-
44d	Hawthorns Primary	Memo issued 21 May 2014	N/A	-	-	-	-	-	-
44e	Robert Piggott	Memo issued 27 May 2014	N/A	-	-	-	-	-	-
44f	South Lake	Memo issued 9 June 2014	N/A	-	-	-	-	-	-
44g	St Nicholas	Memo issued 27 May 2014	N/A	-	-	-	-	-	-
44h	Westende	Memo issued 8 May 2014	N/A	-	-	-	-	-	-
44i	Winnersh	Memo issued 2 May 2014	N/A	-	-	-	-	-	-
44j	All Saints	Memo issued 8 May 2014	N/A	-	-	-	-	-	-
44k	Coombes	Memo issued 30 April 2014	N/A	-	-	-	-	-	-
45	IT audits - Network Security	-	N/A	-	-	-	-	-	-
46	IT audits - Backups and Data Recovery	-	N/A	-	-	-	-	-	-
47	IT audits - Software licences	-	N/A	-	-	-	-		
48	Public Health Services	ToR issued - 10.3.14 (Tfr to 2014/15)	N/A	-	-	-	-	-	-
49	Early Years	Memo issued 20 June 2014	N/A	-	-	-	-	-	-
51	Housing Repairs and Adaptations	Deferred	N/A	-	-	-	-	-	-
52	Personal Budgets & Direct Payments for Children's Svcs	Deferred	N/A	-	-	-	-	-	-
53	QA People Hub (Outcome Monitor)	Cancelled	N/A	-	-	-	-	-	-

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IA Ref.	IA Review Area	Status as at 20 June 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
54	IT BCP	Final Report issued on 10 December 2013	Reasonable	-	-	6	1	-	-
IAC78	Pre-Signed Cheques	Memo issued on 25 September 2013							
IAC79	RWP Project	Final Report issued on 25 Sept 2013	N/A	-	-	-	-	-	-
IAC80	WiSER Consultancy	Ongoing	N/A	-	-	-	-	-	-
IAC81	Follow up on 2012/13 Audits	Fieldwork completed on 23 December 2013	N/A	-	-	-	-	-	-
IAC82	Youth Centres - Financial Controls	Final Memo issued on 25 October 2013	Reasonable	-	-	3	-	-	-
IAC83	Integrated Transport	Certified Grant - completed in Oct 13	N/A	-	-	-	-	-	-

*Codes 55-77 are assigned to external work. Codes 78 onwards are for responsive work since the plan was finalised.

Total 2013/14 IA recommendations raised as at 20 June 2014

4	22	132	72	13

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APPENDIX B

INTERNAL AUDIT ASSURANCE LEVEL DEFINITIONS

The classifications of assurance levels for 2013/14 are set out below:

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[1] with due regard to the Council's risk appetite[2]. 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[3] 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.
Nil	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 RECOMMENDATIONS PRIORITY LEVELS

To assist management in using IA reports, IA categorise their recommendations according to the level of priority, which in 2013/14 was as follows:

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.

INTERNAL AUDIT RECOMMENDATIONS ANALYSIS

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

Comparison of No of Audits and Recommendations by Year between 2007/08 and 2013/14.

Year	Recommendations	Audit Reports
2007/08	187	35
2008/09	213	34
2009/10	151	31
2010/11	250	44
2011/12	236	41
2012/13	235	32
2013/14	230	33

— Recommendations   — Audit Reports

Recommendations by Priority for the last 6 years

Year	Low	Medium	High
2013/14	72	132	22
2012/13	82	112	41
2011/12	43	141	50
2010/11	52	147	51
2009/10	46	104	
2008/09	33	146	34

Legend: ■ Low ■ Medium ■ High ■ Very High

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