TITLE	**Internal Audit and Investigations Progress Report**
FOR CONSIDERATION BY	Audit Committee on 23 September 2014
WARD	None Specific
DIRECTOR	Julie Holland, Service Manager Business Improvement (and Head of Internal Audit)

OUTCOME / BENEFITS TO THE COMMUNITY

The Internal Audit and Investigations Progress Report details the Internal Audit and Investigations activity between the 1 April 2014 and 30 June 2014. 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 Internal Audit and Investigations 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	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?)
None

Reasons for considering the report in Part 2
N/A

List of Background Papers
None

Contact Julie Holland	Service Governance and Improvement
Telephone No 0118 974 6630	Email Julie.holland@wokingham.gov.uk
Date 27/08/14	Version No. 1

Internal Audit and Investigations

Q1 Progress Report

2014/15

Wokingham Borough Council
29 August 2014

Contents

The Internal Audit and Investigations key contacts in connection with this report are:

Julie Holland

Business Improvement Service Manager (and Head of Internal Audit)

T: 07917 814563

E: julie.holland@wokingham.gov.uk

Paul Ohsan Ellis

Internal Audit Team Manager

T: 07825 532200

E: paul.ohsan.ellis@wokingham.gov.uk

Victoria Jackson

Investigations, Insurance and Risk Team Manager

T: 07825 532189

E: victoria.jackson@wokingham.gov.uk

1. INTRODUCTION

1.1 This report summarises the main findings arising from the Business Assurance (BA) work completed in the period 1 April 2014 to 30 June 2014. There are two main strands to this work: Internal Audit (IA) and Investigations.

1.2 IA provides an independent review 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.

Purpose of the Internal Audit and Investigations Progress Report

1.5 This report presents the council's Chief Executive, Directors and Audit Committee with information on all Internal Audit and Investigations work covered and assurance in this respect during the period 1 April 2014 to 30 June 2014. It also provides an opportunity for the Head of Internal Audit 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 There are no significant findings from work completed this quarter that identifies risks that the committee need to be aware of.

2.2 Internal audit have been working closely with the WISER project team including attendance at the project board, User Acceptance Testing, reconcilation of data between WISE and WISER and access controls to the new system. There will be significant work to map the new system and provide assurance on the key financial systems this year.

2.3 The Investigations team have designed a risk based proactive work plan. This allows the Investigation Team to focus resources on the highest fraud risks to the authority. The Internal Audit approach continues to evolve to adapt to clients expectations and to focus on the key risks.

3. ANALYSIS OF BUSINESS ASSURANCE ACTIVITY: 1 APR 2014 to 30 JUN 2014

3.1 2013/14 IA Work

3.1.1 The individual IA reviews carried out in the 1 April 2014 to 30 June 2014 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 A significant amount of residual work was completed in Quarter 1. Details can be found in Appendix A. The results of this work were reported to the Audit Committee in July.

- 14 reports were finalised.
- 1 report was issued in draft.

All of these reports received either Reasonable or Good assurance opinions.

3.2 Key Performance Indicators (KPIs)

3.2.1 <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 **70%** for IA reviews completed in since 1 April 2014. 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.

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

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

There were 135 recommendations made in since 1 April 2014 reports. **100%** of these were accepted by management.
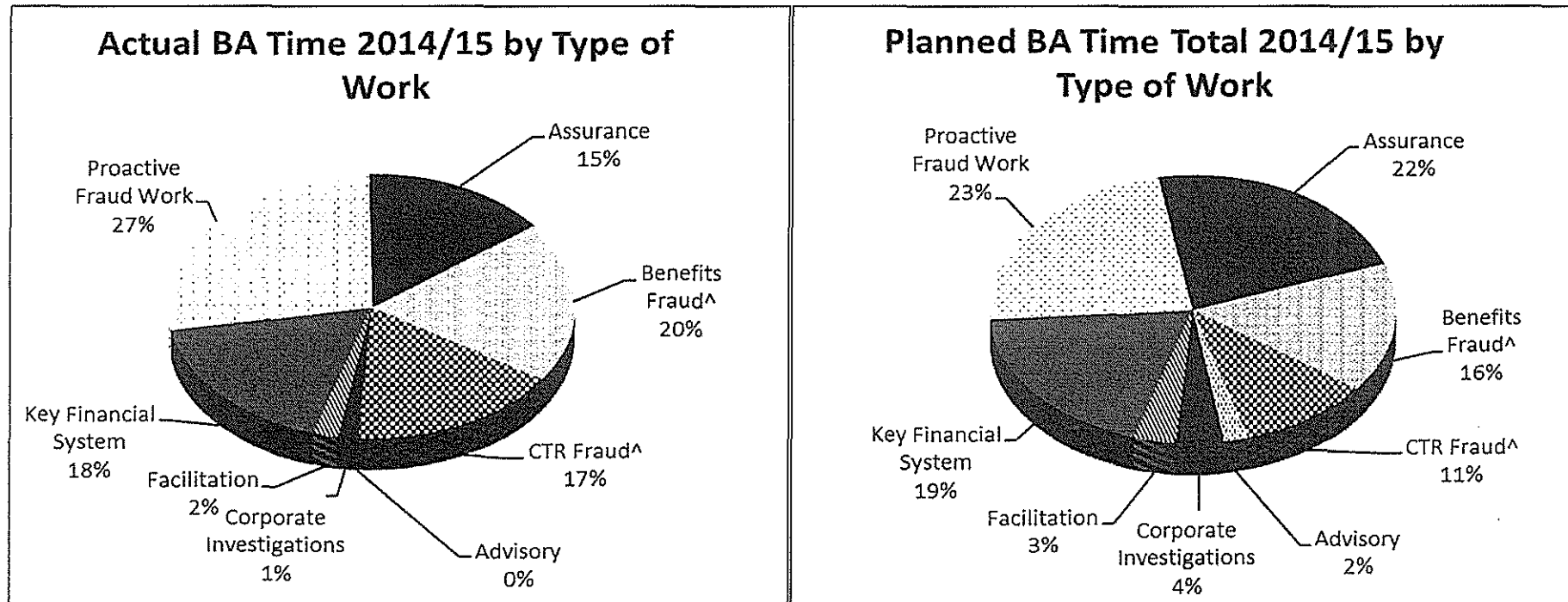
There was no follow-up activity completed against 2013/14 recommendations in the quarter.

3.2.3 KPI 3 – Where the work of Internal Audit and Investigations is focused

Comparison of actual and planned focus of Internal Audit and Investigations by type of work undertaken.

These two charts detail the distribution of days by type of work. This enables CLT and the Audit Committee to maintain an overview of where resources are being used. Both charts detail Internal Audit and Investigations work at Wokingham Borough Council and exclude any work provided to other local authorities/external Clients.


Actual BA Time 2014/15 by Type of Work

- Assurance 15%
- Proactive Fraud Work 27%
- Benefits Fraud^ 20%
- Key Financial System 18%
- CTR Fraud^ 17%
- Facilitation 2%
- Corporate Investigations 1%
- Advisory 0%

Planned BA Time Total 2014/15 by Type of Work

- Proactive Fraud Work 23%
- Assurance 22%
- Benefits Fraud^ 16%
- Key Financial System 19%
- CTR Fraud^ 11%
- Facilitation 3%
- Corporate Investigations 4%
- Advisory 2%

Internal audit work has been underresourced in Q1 and this has lead to an inflation in the percentage of work completed for investigations. This should equalise as resources are redeployed from investigations and resource increased for internal audit activity. CTR Fraud and Benefits Fraud has been seperated as this will enable a distinct post transfer of benefits fraud to SFIS (see para 4.5).

3.2.4 KPl 4 – Delivery of Internal Audit Days

Internal Audit Days Delivered 2014/15
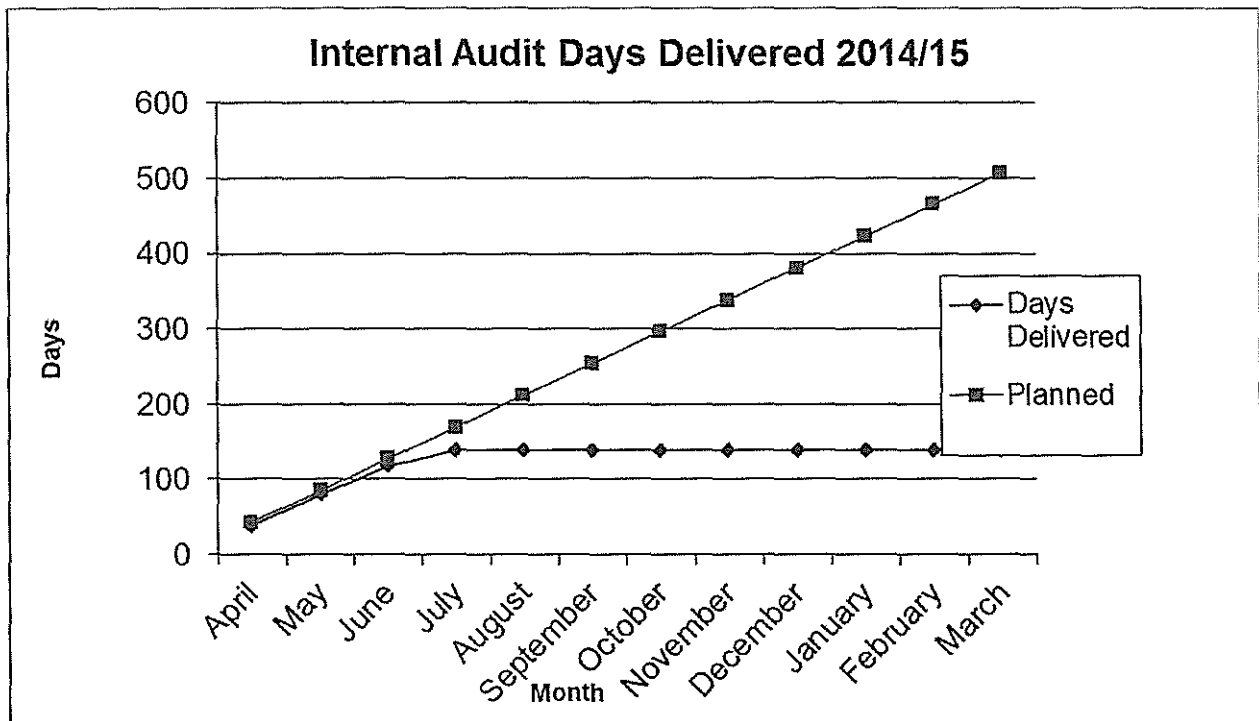
Internal Audit has a revised target to deliver 507 IA days in 2014/15. This does not include work provided to other local authorities/ external clients and is the total resources provided to WBC. This graph shows only planned days delivered to enable CLT and the Audit Committee to identify progress against plan.

Internal audit were slightly below target at the end of Q1 but it will be noted that days delivered were less than planned. At the end of July there were 30 days less delivered than required to complete the plan. Additional resources (circa 50 days) are planned to be utilised from investigations in Q2/3 to narrow the gap between available resources and required days but this will remain an area to be monitored given the pressures on delivery and lack of contingency within the plan.
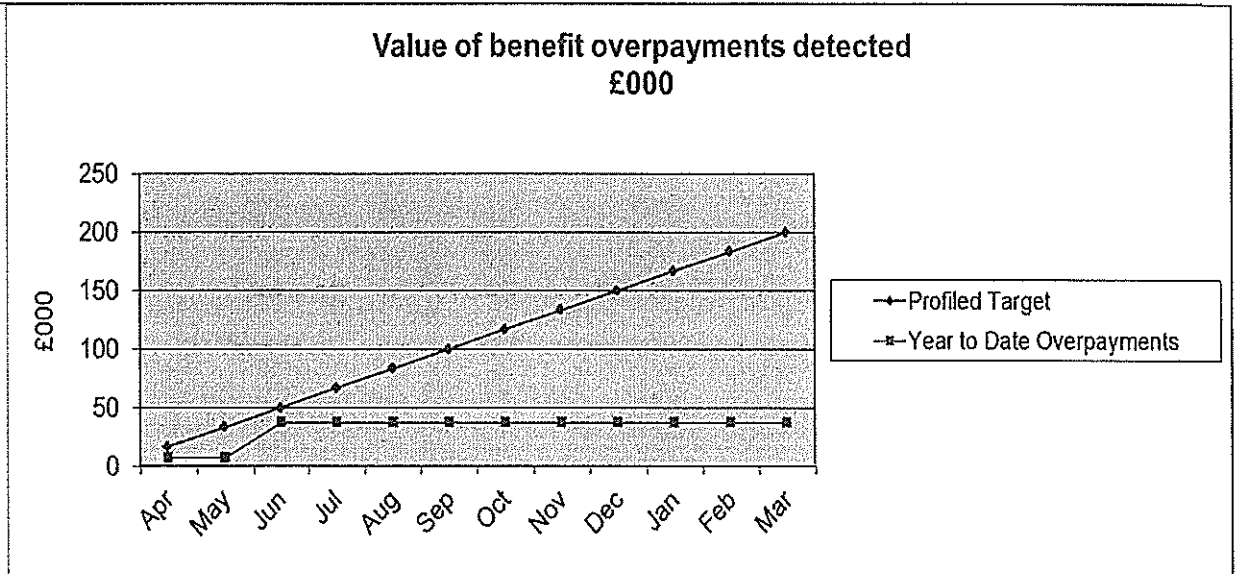
KPl 5 – Benefit Overpayments

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 £37k of overpaid benefits has been identified by the team, against a Q1 target of £50k.

Value of benefit overpayments detected
£000

3.2.5   KPI 6 - 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 £100k for 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.

	14/15 Target £000	Q1 Target £000	Q1 Actual £000
Gross Non-benefit overpayment	100	25	1
Net Non-benefit overpayment (after costs of investigation deducted)	72	17	-6

The outcomes of the proactive drives will be shown in this indicator as the year progresses, as detailed in paragraph 4.3.

The Investigations Team are currently following their Counter Fraud Plan for year, therefore results of individual drives will be seen later on the financial year. In relation to the results of reactive Council Tax Reduction investigations, overpayments will be visible towards the end of the financial year.

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3.2.7 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 a target was set to achieve **23 sanctions** for the year. In Q1 **8** have been applied against a target of 6. In total, **22 benefit fraud investigations were completed Q1 of 2014/15.**

Number of sanctions applied

→— Profiled Target	
—■— Year to Date Total Sanctions	
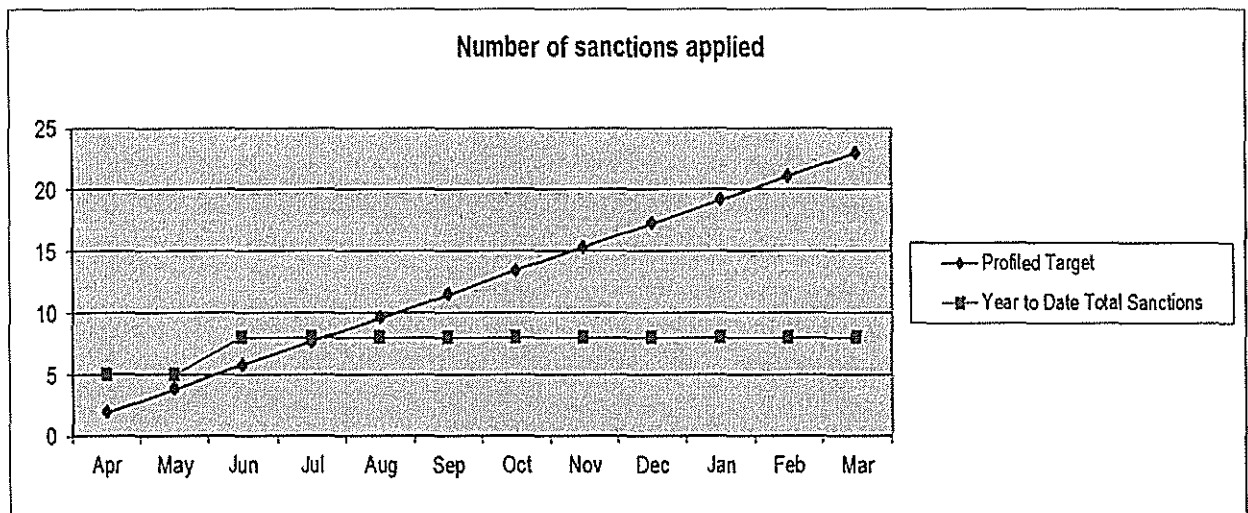
4. ANALYSIS OF INVESTIGATIONS ACTIVITY 2014/15

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 Council Tax Reduction Fraud;

- Managing Corporate Investigations, including Whistleblowing allegations;

- Delivery of the Proactive Counter Fraud Plan resulting in the identification of savings and recommendations for preventing and controlling the risk of fraud in service areas; and

- Delivery of the Audit Commission's National Fraud Initiative (NFI).

4.3 **Counter Fraud Work**

Counter Fraud Proactive Plan – At the beginning of 2014/15 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:

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- Housing tenancy
- Procurement
- Direct Payments and Personal Budgets
- Council Tax student discount exemption
- Council Tax Reduction
- Fraud Awareness

This work is scheduled to be delivered on a quarterly basis, the results of which will be reported to the Audit Committee at the end 2014/15.

4.4 Investigations and Audit – External Work

In Q1 the team continued to provide audit and investigations services to other local authorities.

5 FORWARD LOOK

5.1 Single Fraud Investigation Service

Housing Benefit and Council Tax Benefit investigations will transfer to the Single Fraud Investigation Service on 1 November 2014. 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. One member of team has been identified to be transferred as part of the process. Local authorities will continue to investigate all areas of fraud, including the investigation of Council Tax Reduction fraud. The DWP have engaged in initial discussions with the team regarding the implementation of the transfer.

It has been confirmed that the DWP have taken into consideration local authorities concerns regarding 'low level' fraud, and have confirmed that cases below the DWP's criminal threshold will be passed to the DWP's compliance team for civil investigation.

5.2 Internal Audit Shared Service

The planning for the Internal Audit Shared Service is established and the likely "go-live" date will be the 1 October. However this will be the formal transfer of Royal Borough of Windsor and Maidenhead staff and the impacts of the fully shared service are unlikely to be truly felt until the 2015/16 planning cycle commences. As part of planning for the shared service both teams have undertaken an intial mapping exercise of current processes as the first stage of a Lean review for the shared service.

5.3 Investigations Shared Service

Following the decision to implement a shared Internal Audit service, Executive are being asked to confirm the inclusion of the Investigations team with the shared service. The team will focus on continuing the counter fraud work in new areas and a bid has also been submitted to access funding from the Counter Fraud fund. The prospective date of implementation is 1 December 2014, more details will be reported to the committee once established.

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

29 August 2014

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15

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 2013/14 IA Reviews (completed after 31 March 2014)

IA Ref.	IA Review Area	Status as at 20 August 2014	Assurance Level	Priority VH	H	M	L	NP	PAQ Received?
11	Major Project Governance	Final Report issued 20 June 2014	Reasonable	-	1	5	-	-	-
12	Housing Benefits	Final Report issued 1 April 14	Good	-	-	1	4	1	Yes
14	Financial Reporting and Budgetary Control	Final Report issued 22 July 2014.	Good	-	-	1	4	-	Yes
15	Capital Programme (Accounting)	Final Report issued 29 July 2014	Reasonable	-	2	6	3	-	-
16	Council Tax & NNDR	Final Report issued 7 May 2014	Good	-	-	1	9	1	Yes
23	Cashiers	Final Report issued 11 April 2014	Good	-	-	2	5	1	Yes
24	Creditors	Final Report issued 9 April 2014	Good	-	-	3	3	-	-
25	Debtors	Final Report Issued 20 June 2014	Reasonable	-	4	6	1	-	-
27	Main Accounting	Final report issued 15 May 2014	Good	-	-	2	2	-	-
28	Payroll	Final Report issued 29 July 2014	Reasonable	-	-	10	1	1	-
33	Loss of Confidential Data	Final report Issued 15 July 2014	Reasonable	-	-	8	3	-	-
34	Corporate Manslaughter	Draft report issued 4 August 2014	Reasonable	-	-	8	-	-	
35	Corporate Governance	Draft report issued 20 June 2014	Reasonable	-	1	3	2	-	-
36	Ethical Governance	Final Memo issued 2 July 2014	Reasonable	-	-	6	-	-	-

IA Ref.	IA Review Area	Status as at 20 August 2014	Assurance Level	Priority VH	H	M	L	NP	PAQ Received?
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	-	-	-
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	-	-	-	-	-	Yes
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	-	-	-	-	-	Yes
44i	Winnersh	Memo issued 2 May 2014	N/A	-	-	-	-	-	-
44j	All Saints	Memo issued 8 May 2014	N/A	-	-	-	-	-	Yes
44k	Coombes	Memo issued 30 April 2014	N/A	-	-	-	-	-	-
49	Early Years	Final Memo issued 8 August 2014	N/A	-	-	-	-	-	-

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

2014/15 Planned IA Reviews

IA Ref.	IA Review Area	Status at 24 August 2014	Assurance Level	Priority					PAQ Received?
				VH	H	M	L	NP	
1	Benefits	ToR drafted							
2	Housing Rents	Audit Scheduled October 2014							
3	Budgetary Control & Reporting								
4	Capital Programme (Allocation, Accounting & Budgetary Control)								
5	Council Tax & NNDR	ToR issued 13 August 2014							
6	Fixed Asset Register								
7	Material Schools								
8	VAT								
9	Treasury Management								
10	BACS								
11	Bank Reconciliations								
12	Cashiers								
15	Main Accounting								
16	WISEr Reconciliation Checks	Memo issued 18 August 2014							
17	Payroll								
18	Schools financial controls								
19	Corporate Governance								
20	Ethical Governance								
21	Information Governance								
22	Effectiveness of Internal Audit								
23	Effectiveness of Audit Committee								

24	Risk Management											
25	Balanced Scorecard											
26	Corporate/Service Planning											
27	School Place Provision - Corporate Risk 2	ToR issued 1 August 2014										
28	Safeguarding Vulnerable Adults - Corporate Risk 8											
29	Infrastructure Repair - Corporate Risk 12	ToR issued 5 August 2014										
30	Safeguarding Vulnerable Children - Corporate Risk 7											
31	Delivery of Key Objectives - Corporate Risk 14	ToR drafted										
32	Judicial Review - Corporate Risk 15											
33	Strategic Infrastructure Provision - Corporate Risk 19											
34	Health and Social Care Failure - Corporate Risk 27											
35	HWB Strategic Response to Increased Demand											
39	Property Services											
41	Coaching Culture Embeddedness Review	ToR drafted										
44a	Troubled Families/Family First Grant Certification (August)	Grant Certified 22 August 2014										
44b	Troubled Families/Family First Grant Certification (December)											
48	WISEr Security Controls	Fieldwork commenced 31 July 2014										

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50	Major Corporate Projects	Scheduled November 2014							
53	Community Infrastructure Levy (S106 Transition)								
56	Integrated Transport IT Block & Integrated Transport Maintenance Block								
57	Local Sustainable Transport Fund (Travel Behaviour and Sustainable Chilterns Gateway grants)								
58	Decent Homes and Twyford Orchards grant	Liaison with External Audit							
59	Facilitating the AGS								
64	Tender Opening Attendance and Analysis of Tender Results	Fieldwork commenced 29 July 2014							
	Public Health	Fieldwork completed							

INTERNAL AUDIT ASSURANCE LEVEL DEFINITIONS

The classifications of assurance levels for 2014/15 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.

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APPENDIX C
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INTERNAL AUDIT RECOMMENDATIONS PRIORITY LEVELS

To assist management in using IA reports, IA categorise their recommendations according to the level of priority, which in 2014/15 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.

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