

READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	2 <sup>ND</sup> JULY 2014	AGENDA ITEM:	5
TITLE:	INTERNAL AUDIT & CORPORATE INVESTIGATIONS QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	HEAD OF AUDIT	E-MAIL:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee and Corporate Management Team with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2014.

1.2 The report aims to:

- Report back on those audit reviews outstanding at year end (31<sup>st</sup> March 2014) which have been finalised in Q1 of this financial year.
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit in Q1.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Provide details of forthcoming audit reviews and the status of programmed audits
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

1.3 In addition the report provides details of the work the Council's corporate investigations team and internal audit have undertaken since April 2014 with respect of investigations into benefit, housing tenancy fraud and other corporate investigations.

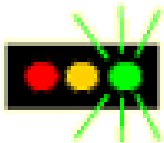
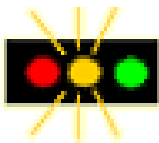
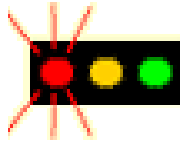
2. RECOMMENDED ACTION

2.1 Audit & Governance Committee are requested to consider the report

### 3. ASSURANCE FRAMEWORK

- 3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

#### Definition

<b>Substantial</b>		A Substantial opinion will be given where controls are generally operating effectively, however minor control weaknesses may have been identified. There are however, no high risk (priority 1) recommendations being made.
<b>Conditional</b>		A conditional opinion will only be given if the areas where the controls are missing or not consistently applied do not represent a significant risk to the system as a whole. Where a conditional opinion is given the report should clearly explain the area or areas to which the conditional opinion relates.
<b>Limited</b>		Risk that objectives will not be met, or are being met without achieving efficiency, effectiveness and/or value for money. A limited opinion will only be given where controls are not applied, consistently and effectively

- 3.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.
- 3.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited assurance.

#### 4. SUMMARY OF AUDIT FINIDINGS

	Draft	Final	RECS			Assurance
4.1 Debt Recovery	Feb 14	May 14	1	4	0	

4.1.1 The council's debtors system is categorised as a key system by the External Auditor and therefore requires an annual review. This year our focus was to review debt recovery performance and associated processes.

4.1.2 We have no particular issues with the debtors system per se, however in terms of effective monitoring and management of aged debts the audit found a number of shortcomings, namely that a significant number (and value) of invoices are outstanding as unpaid and appear not to have been effectively managed by service areas.

4.1.3 Debt does fluctuate and approximately 33% of the total debt outstanding is raised to other public bodies and therefore ultimately usually recovered. Nevertheless our analysis of the outstanding debt as at 31 December 2013 (£4.6m) identified invoices worth £3.1m remained at the recovery stage, with a further £0.87m classified as 'decide recovery action' which is a default stage. Of these invoices 43% were aged 30-60 days, 35% were aged 61-150 days and 39% were aged over 150 days.

4.1.4 As at the 30 April 2014 outstanding debt greater than 30 days (i.e. beyond the Council's normal expected payment period) was £3.9m.

4.1.5 In summary, based upon the statistics provided, it is apparent that there are a large number of unpaid invoices which do not appear to be being satisfactorily managed or pursued. The situation is compounded by the fact responsibility for the monitoring and chasing of unpaid invoices appears not to be widely publicised, and by the fact that that there is a very limited resource in the central debtors team for the coordination, overall management or monitoring of debtors' invoices.

	Draft	Final	RECS			Assurance
4.2 Adoption Grant Reform	Apr 13	May 14	0	0	0	

4.2.1 The grant expenditure was reviewed against the conditions set down for expenditure and was certified as having been spent appropriately.

	Draft	Final	RECS			Assurance
4.3 Social Fund Reform (Financial Crisis Support Scheme)	Apr 14	May 14	0	3	2	

4.3.1 There are policies in place which detail the scope and operation of the scheme and the eligibility criteria which is available on the Council's website. There were found to be various documents available on the Team's shared drive detailing the procedures to be followed and an indication of awards that can be given.

4.3.1 Due to the discontinuation of the funding for this scheme beyond March 2015, no single IT system was procured or developed to support the operation of the scheme. Although this is totally understandable, it has resulted in a number of repositories being created (including various spreadsheets, scanned applications, copies of letters issued etc). This in turn has made it slightly more difficult to follow through transactions to identify what assistance an applicant has actually been awarded and whether it was collected.

4.3.2 Part of the Financial Crisis Support Service funding has been given to a number of voluntary organisations. The services received from these organisations are documented within an SLA and monitored by the Funding Services team.

4.3.3 BACS payments can be made to individuals where they require large items, e.g. white goods. Sample tests confirmed that those transactions detailed as BACS payments had been adequately reflected on the general ledger. Post Office top up payments were also found to have been correctly reflected on the general ledger. Due to the unrestricted nature of payments, there is no guarantee that payments are used to purchase the required goods. {subject to response from Kirsty/Zoe}

#### 4.12 School Audits

	Draft	Final	RECS			Assurance
Park Lane Primary	Mar 14	Apr 14	0	0	4	

4.12.1 There are no issues to report.

5. **PLANNED AUDIT FOLLOW UP REVIEWS**

5.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 - 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). Audit areas given limited assurance which we have planned to follow up are as follows:

Audit Title	Date of audit	Follow up start date	Draft Report	Final Report
Agency Staffing Contracts	Dec 13	May 14		
Learning Disabilities Commissioning Budget	Oct 13			
Corporate Procurement	Jul 13			
Coley Primary School	Apr-13			
Children & Adults Commissioning	Jan-13			
Deputyship & Appointeeship	Jun-13	Jul 14		

Key: 😊 - Implemented 😐 - Partly implemented ☹️ - Not implemented

## 6. AUDIT REVIEWS 2013/2014

6.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit Title	Timing	Start Date	Draft Report	Final Report
Homelessness	Q1	Apr 14		
Charging arrangements for adult social care services	Q1	Apr 14		
Access to records (Adults & Children)	Q1	Apr 14		
Register of Births Deaths and Marriages	Q1	Apr 14		
Payment card Industry Data Security Standard (PCIDSS)	Q1	Apr 14	June 14	
Overtime	Q1	Apr 14		
Health & Safety Review	Q1	Apr 14	June 14	
Whistle Blowing Arrangements	Q1	Apr 14		
Local Pinch Point Fund	Q2			
Licensing	Q2			
Patron edge in leisure centres	Q2			
Children leaving care	Q2			
Deferred Payment Scheme	Q2			
Home to School Transport	Q2			
Entitlement & Assessment (LCTS & HB)	Q2			
Business Rates	Q2			
General Ledger (inc Budget management)	Q2			
Public Health Responsibilities	Q2			
Local Sustainable Transport Fund (LSTF)	Q3			
Fleet Management	Q3			
Gas/Electric Inspections	Q3			
Culture & Sport Income generation	Q3			
School Places Capital programme	Q3			
Special Education Needs	Q3			
Whitley Primary School	Q3			
Caversham Primary School	Q3			
St Anne's Catholic Primary School	Q3			
Blagrove Nursery School	Q3			
All Saints Infant School	Q3			
Pheonix	Q3			

Audit Title	Timing	Start Date	Draft Report	Final Report
ICT Hardware Management	Q3			
Collection and Debt Recovery	Q3			
Rent Accounting	Q3			
Creditors (Accounts Payable)	Q3			
Payroll	Q3			
Equal pay	Q3			
Sec 106 Agreements (C.I. Levy Regulations)	Q4			
Fuel system	Q4			
Self Financing HRA	Q4			
PRS licences	Q4			
Children's Centres	Q4			
Integration Transformation Fund (ITF)	Q4			
School Attainment	Q4			
Frameworkki (Finance Payments)	Q4			
Blagdon Nursery School	Q4			
New bridge Nursery School	Q4			
Capital Accounting (Fixed Assets)	Q4			
Treasury Management	Q4			

## 7. INVESTIGATIONS

- 7.1 Housing & Council Tax Benefits - Since the 1<sup>st</sup> April 2014 the corporate investigations team have received 87 referrals of benefit fraud. Of these there have been 7 sanctions which are made up of 6 prosecutions and 1 administrative penalty. Total benefit overpayment on the sanctioned cases is to the value of £70,841. This figure shows all sanctioned cases and does not count any case where a decision not to sanction has been made.
- 7.2 Housing/Tenancy Fraud Investigations - Since the 1<sup>st</sup> April 2014 the corporate investigations team have received 4 referrals of Housing/tenancy Fraud. There are currently 4 ongoing investigations.
- 7.3 Blue Badges - Since the 1<sup>st</sup> April 2014 the Corporate Investigations Team have received 4 referrals of Blue Badge Fraud. At present there are 3 ongoing investigations and one has been closed no further action required.
- 7.4 Human Resources (HR) - One case from last year has just been resolved with an individual being dismissed from employment. Criminal proceedings will now commence in this case. There is currently one other case referred involving the disciplinary process which is just about to commence.

## **8. CONTRIBUTION TO STRATEGIC AIMS**

- 8.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **9. COMMUNITY ENGAGEMENT AND INFORMATION**

- 9.1 N/A

## **10. LEGAL IMPLICATIONS**

- 10.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.
- 10.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.
- 10.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.
- 10.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

## **11. FINANCIAL IMPLICATIONS**

- 11.1 N/A

## **12. BACKGROUND PAPERS**

- 12.1 N/A