

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25th September 2014	AGENDA ITEM:	6
TITLE:	INTERNAL AUDIT & CORPORATE INVESTIGATIONS TEAM QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
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1. EXECUTIVE SUMMARY

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

1.2 The report aims to:

- Report back on those audit reviews outstanding at year end (31st March 2014) which have been finalised in Q2 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 and Q2.
- 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.

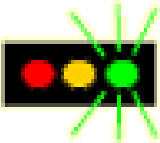
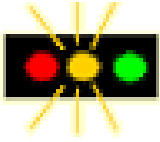
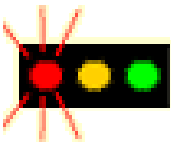
2. RECOMMENDED ACTION

2.1 The 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

Substantial		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.
Conditional		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.
Limited		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 FINDINGS

	Draft	Final	RECS			Assurance	
4.1	Asset Planning	June 14	June 14	0	2	1	

4.1.1 Although the principles set out in the existing corporate Asset Management Plan (AMP) remain valid and are still used as the basis for asset reviews, the plan itself is due for an update. It is anticipated that the outcomes of the reshape programme and move to Plaza West will be considered as part of the updated Asset Management Plan. A formal review and update of the targets set out in the Asset Management Plan was not found to have been reported on an annual basis and a recommendation was made to ensure this is undertaken.

4.1.2 There has been an ongoing commitment towards the implementation of an Asset Management system. Whilst the software has been procured, the data was in the process of being input onto the new system and therefore it could yet be another 18 months before the software is being fully utilised.

4.1.3 A sample of property valuations undertaken during 2013/14 was reviewed and it was confirmed that there was adequate information to support each valuation, including the basis on which the valuation was undertaken.

4.1.4 The documentation supporting disposals completed during 2013/14 found that an assessment process had been undertaken to ensure that the best price was received for the property and the income due had been received.


4.1.5 There was evidence within CMT minutes of the corporate direction being taken to consider assets as part of a strategy of reshaping of services and ongoing projects with other local public sector organisations to review the use of these assets by location and to rationalise them, where appropriate.

	Draft	Final	RECS			Assurance	
4.2	Supported Living	July 14	Sep 14	0	8	2	

4.2.1 Supported Living aims to help vulnerable people with a physical or learning disability or mental health problem to live more independently. It provides day to day support to help people live independently in their own accommodation. The nature of support provided includes help to access Welfare Benefits, helping people develop the skills they need to live alone and manage their housing and providing advice and advocacy.


4.2.2 The audit review looked to ensure that authorised care plans for each client detailing expected outcomes were in place and services are appropriately commissioned, monitored and assessed for effectiveness and value for money.

- 4.2.3 A total of £3.8m was spent on external supported living services within Mental Health and Learning Disability services, of which three providers were found to be delivering 46% of supported living package (28% of the spend value).
- 4.2.4 A good contract monitoring framework was found to be in place which actively focusses resources on a risk basis and the methodology used was assessed as fair and appropriate. We did however make recommendations to improve the control framework over the processing of payments to suppliers, particularly if there was evidence of a client who is in receipt of less supported living services than that authorised on the care plan.
- 4.2.5 Although a new process to procure supported living services was introduced in April 2013, at the time of the audit there was still work to be done to embed the new procedures consistently and ensure commissioning decisions are fully evidenced.
- 4.2.6 Following the implementation of Frameworki not all client data had been migrated to the new system, resulting in the continuing use of stand-alone excel spreadsheets to manage payments to providers. At the time of the audit the system was not being used to make provider payments for supported living services, although there are plans to rectify this.
- 4.2.7 The service has agreed to the audit recommendations with an action plan to implement by the 31 March 2015.

	Draft	Final	RECS			Assurance	
4.3	Looked After Children	Jun 14	Sep 14	0	6	5	


- 4.3.1 This audit review evaluated the robustness of the recruitment process for in-house foster care and evaluated placements for external foster care to ensure they had been properly contracted.
- 4.3.2 At the time of the audit the Foster Care Recruitment strategy was being developed. The recruitment campaign for new foster carers is supported by a significant number of events, although the success of these events is not analysed to be able to better inform future campaigns. Likewise whilst the profile of the existing Looked after Children base is known, further work needs to be undertaken in predicting the likely number and profile(s) of future service demand.
- 4.3.2 Information is available to prospective carers that gives them a good insight not only into the process of becoming a foster carer, but also into the Council's expectations of them.

- 4.3.3 Once the assessment report is finalised applications are presented to the foster panel (made up of independent panel members and some Reading Social Services staff) for consideration and approval. Job descriptions are provided for Panel Members and the Chair and although the Panel Member job descriptions exactly matched the guidance for this role, the Chair's job description did not reflect the responsibilities specific to this position. A revised job description was to be actioned immediately by the service following the audit review.
- 4.3.4 Recording of the assessment process is managed by an excel database and colour coded to give an immediate status overview of carer assessments. Testing found the process to be generally compliant with standard target timescales, although an inconsistency was noted about where and how assessment evidence was recorded and that this needs to be standardised.
- 4.3.6 Testing of case files generally established compliance with the foster carer approval process. Moreover testing found that overall the placement process is also working well. Evidence was found to show that wherever possible family and friend placements are considered and in-house placements are always searched for.
- 4.3.7 A matching grid system is used to prioritise identified needs although it was not always clear how each need was ranked or weighted.
- 4.3.8 With the implementation of Frameworki the manual process to authorise a placement to a framework agreement has recently changed, providing a better, clearer and easily accessible record.

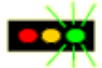
	Draft	Final	RECS			Assurance
4.4 Children Leaving Care	May 14	Aug 14	0	4	3	

- 4.4.1 Local authorities are responsible for the accommodation and maintenance of looked after children and care leavers until the age of 18. After this they have duties to provide assistance with education, training and employment and general assistance to the extent that their welfare requires it.
- 4.4.2 The purpose of this audit was to ensure payments are legitimate, case load capacity is monitored and to review the process for care leavers aged 18-24.
- 4.4.1 The control processes to ensure allowance payments are appropriate, substantiated and authorised in accordance with the Leaving Care Policy were found to be satisfactory, although some minor improvements could be made and subsequent recommendations were made to address these.

- 4.4.2 Due to the nature of the rental market, the service has to negotiate room rates for rented accommodation on a regular basis with an administrative cost associated with this. We recommended that the team should work with Housing to examine if more proactive work could be done to help manage this potential financial risk.
- 4.4.3 Recommendations were also made to assist in providing accurate budget forecasts for some service areas, in particular accommodation, subsistence and setting up allowances and where appropriate we have advised that subsistence allowances are paid into the young person's bank account to reduce cash handling.

	Draft	Final	RECS			Assurance
4.5 Overtime	July 14	-	0	3	2	

- 4.5.1 The review found a small overall increase of 1% in payment of overtime across the Council, although this was not evenly reflected across directorates and ranged from a reduction of 26% in Culture and Sports to an increase of 21% in Corporate Support Services. A cross service sample of overtime payments was tested to determine the reason(s) for these, which varied from having to cover both planned and unplanned staff absence and fulfilling contractual obligations.
- 4.5.2 The first two rounds of VRS do not appear to have adversely effected overtime payments made to the end of 2013/14.
- 4.5.3 There were isolated instances of staff being paid overtime in lieu of accrued flexi hours without evidence of prior agreement(s) and a small number of incidents of staff working occasionally in excess of EU working time directives
- 4.5.4 It was found that authorised overtime claim forms were not always being submitted promptly on a monthly basis, but saved up and submitted for several months at a time.
- 4.5.5 The Payroll Services team maintains a register of authorising managers and specimen signatures; however this was found to be out of date in some instances, although given the Council's reshape programme this is somewhat understandable. The service will undertake a review to update the register to capture changes in responsibilities etc.

	Draft	Final	RECS			Assurance	
4.6	Payment Card Industry Data Security Standards	May 14	July 14	0	3	2	

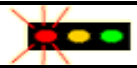
- 4.6.1 The Payment Card Industry Data Security Standards were created to increase controls around cardholder data to reduce credit card fraud via its exposure and is a security standard for organisations that handle cardholder information for the major debit, credit, prepaid and other cards.
- 4.6.2 The overall finding was that the control environment ensuring compliance with the standards is good and is in line with the Council's Information Security Policy.
- 4.6.3 The audit identified some areas for improvement in respect of existing practices and these comprise of a lack of historical audit trails for activity undertaken by users, a lack of proactive threat assessment and assurance that threats are controlled, and the need for review and update of the Information Security Policy on an annual basis to reflect changes in technology and business practices.
- 4.6.4 There is also a need for a corporate overview of credit card processing to ensure that compliance with PCI DSS is achieved across a number of business streams. A recommendation was made to address the need for a record to be maintained of persons and equipment being used where credit card processing takes place.
- 4.6.5 Following on from any central recording of activity the audit recommended that a decision be taken as to whether persons involved in credit card processing are required to sign a separate code of practice which the new PCI guidance recommends, alongside any corporate Information Security Policy. The new requirements seem designed to allow for greater ease in ensuring that anyone involved in credit card processing is fully aware and has signed up to best practice in respect of processing eliminating the defence of not understanding what was required and has not been properly trained. Audit recommended that signing up on this basis was advisable but can only be done if there is a consistent approach taken corporately across the business streams currently undertaking processing.
- 4.6.6 The Head of Finance has recognised that this is an important issue and will be updating and will be updating procedures to incorporate the new requirements when the Council moves over to the Lloyds Bank.

	Draft	Final	RECS			Assurance	
4.7	Register of Births, Deaths & Marriages	July 14	Aug 14	0	0	6	

- 4.7.1 A detailed business continuity plan is in place for the service, which has been recently reviewed, although the plan itself had not been tested for some time, and some of the arrangements had not been reconfirmed.
- 4.7.3 Robust stock security arrangements were noted as being in place to prevent the loss or misappropriation of stock or income. All stock is held securely in fireproof safes, with key access restricted to authorised personnel only. Testing confirmed daily reconciliations are performed to ensure that stock issued reconciles to income received.
- 4.7.4 Suitable banking arrangements are in place to minimise the risk of loss and robust application and inspection arrangements are in place to govern the approval of premises as a marriage venue.
- 4.7.6 A review of appointment allocation by the General Registry Office in February 2013 identified concerns over the e-diary system, particularly with regards to its efficiency. Whilst this audit did not re-perform this testing, the ongoing e-diary issues were discussed with the Superintendent Registrar. Some improvements have been made to ensure that appointment allocation is driven by the Registry Office rather than the Customer, which should have improved efficiency. Nonetheless the current e-diary system remains administratively burdensome and its continued use requires review.

	Draft	Final	RECS			Assurance	
4.8	Rent Accounting	Jul 14	Aug 14	0	0	0	

- 4.8.1 The audit review found strong systems and procedures relating to the administration and management of Housing Rents.
- 4.8.2 System property records are regularly reconciled to the stock records maintained by Accountancy.
- 4.8.3 Income collection performance was noted as having steadily improved with the latest performance levels noted at 98.4%. It was also noted that controls over and records governing the daily reconciliation of cash and periodic reconciliations with the general ledger were accurate and up to date. Similarly it was found that account monitoring is well evidenced and effective with arrears showing a 10.84% improvement over the same period in 2013-14.
- 4.8.4 Audit testing of refunds and write offs found these had been appropriately authorised, processed and evidenced.

	Draft	Final	RECS			Assurance
4.9 Patron Edge in Leisure Centres	May 14	Aug 14	0	0	0	

4.9.1 Patron Edge is the Council's software system to manage theatres and its use was extended in November 2012 to Leisure Centre sites being run by RSL (Reading Sports & Leisure) as well as to libraries. The purpose was to enable more efficient running of leisure services and to extend the capability to administer the YRP (Your Reading Passport) discount scheme to external sites to make enrolling for the scheme easier. It was also going to replace an out of date legacy system for finance called FLEX that had passed its operational life.

4.9.2 The review was carried out at the specific request of management to provide it with an independent and objective assessment of the efficiency and effectiveness of the Patron Edge system.

4.9.3 The overall conclusion regarding the use of Patron Edge within leisure centres is that it does not offer good value for money in respect of financial control, financial information and customer management. In particular the review noted that the booking and reporting functions were not fit for purpose with a consequent need to continue to rely on and use the FLEX system to perform certain functions, despite this system itself being slow and out of date.

4.9.4 No recommendations were made to address the shortcomings identified as this is subject to a separate exercise within RBC. The audit report is being considered by management as part of its review of operations across the service and options are being explored to replace Patron Edge.

4.10 Grant Reviews

4.10.1 Expenditure was reviewed against the relevant conditions set down for the grants listed below and was certified to the appropriate government department as having been spent appropriately.

- Local Bus Subsidy Grant
- Carbon Reduction Commitment
- Community Capacity (Capital Grant)
- Turnaround Families (interim)

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	Status
Agency Staffing Contracts	Dec 13	June 14			
Learning Disabilities Commissioning Budget	Oct 13	July 14			
Corporate Procurement	Jul 13				
Coley Primary School	Apr-13	July 14	July 14	July 14	☺
Children & Adults Commissioning	Jan-13				
Deputyship & Appointeeship	Jun-13				

Key: ☺ - Implemented ☹ - Partly implemented ☹ - Not implemented

6. INVESTIGATIONS

- 6.1 Housing & Council Tax Benefits - Since 1 April 2014 the Corporate Investigations Team (CIT) has received 214 referrals of benefit fraud. Of these there have been 14 sanctions made up of 7 prosecutions and 7 administrative penalties. Total benefit overpayment on the sanctioned cases is to the value of £196,723. This figure shows all sanctioned cases and does not count any case where a decision not to sanction has been made.
- 6.2 Housing/Tenancy Fraud Investigations - Since 1 April 2014 the CIT has received 11 referrals of Housing/tenancy Fraud. There are currently 6 ongoing investigations, with one case listed for a Court hearing in September 2014.
- 6.3 Blue Badges - Since 1 April 2014 the CIT has received 6 referrals of Blue Badge Fraud. At present there are 2 ongoing investigations.

7. SINGLE FRAUD INVESTIGATIONS SERVICE

- 7.1 As part of Welfare Reform, the Government have created a Single Fraud Investigation Service (SFIS) nationally and have begun to transfer local authority investigation work on Housing and Council Tax Benefit investigations to the new body. The transfer day to the SFIS for RBC is the 1 December 2014 and from this day the investigation of Housing Benefit and historical Council Tax Benefit fraud will move to the DWP.
- 7.2 The amendment of Housing Benefit and Council Tax Benefit claims will remain with Councils along with the calculation and recovery of any Housing Benefit and Council Tax Benefit overpayments.
- 7.3 The SFIS will not be responsible for investigating non-benefit and local taxation fraud such as Council Tax Single Persons Discount or Tenancy Fraud. Local Council Tax Support will not be included in SFIS and the responsibility for protecting this fund will remain with the Council. The Corporate Management Team has agreed to retain a reduced corporate investigations resource going forward, albeit at a reduced size.

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 Issued by the Relevant Internal Audit Standard Setters. 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