

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	8 JULY 2015	AGENDA ITEM:	4
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
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**1. EXECUTIVE SUMMARY**

1.1 This is the annual assurance report of the Chief Auditor (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), which:

- Gives the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- Draws out key themes arising from the work of the Audit Team during the 2014/2015 financial year; and
- Compares the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

1.2 Detailed audit reports have been issued to the relevant Service Managers on the results of individual audits throughout the year, and to the relevant Directors and Heads of Service where unsatisfactory internal control has been identified. In addition, quarterly reports have been issued to, and discussed with, the Corporate Management Team (CMT) and the Audit & Governance Committee in order to report on standards of internal control, to provide appropriate focus on weaknesses and to progress remedial action where necessary.

Appendix 1 - Internal Audit Annual Assurance Report

**2. RECOMMENDED ACTION**

2.1 The Audit & Governance Committee are requested to note the assurance opinion given by the Chief Auditor and consider the issues raised in the annual report.

### 3. KEY ISSUES

- 3.1 As the Chief Auditor I am required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, internal control and governance processes. The opinion is designed to assist the Council to meet its obligations, under regulation 4 of the Accounts and Audit Regulations. In giving this opinion, it should be noted that assurance can never be absolute and, therefore the most that the Internal Audit service can provide the Council's Audit and Governance Committee with, is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.
- 3.2 I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, internal control and governance processes. In my opinion, based on the work we (Audit Services) have undertaken, for the financial year ended the 31<sup>st</sup> March 2015 the Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisations objectives.
- 3.3 Based on the work the internal audit team has completed during the course of the year, which is set out in more detail below, I have concluded that Reading Borough Council's control environment is effective for its business needs and operates in an effective manner.
- 3.4 In addition, using assurance gained from our audit work on governance matters I can conclude that RBC'S governance, including internal control, is adequate and effective.
- 3.5 There have been no restrictions imposed on the scope of the internal audit function.
- 3.6 However there were a small number of reports issued as part of the agreed audit plan that identified specific areas for improvement. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.
- 3.7 The main issues raised as a result of Internal Audit activity during 2014/2015 are summarised in the attached report, thereby providing an overview of the effectiveness of internal control across the Council.
- 3.8 The matters raised in this report are only those, which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

- 3.9 I am satisfied that by delivering the agreed audit plan we have met the internal audit needs of the Council. We employed a risk-based approach to determining the audit needs of the organisation at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

#### Summary of Key Issues

- 3.10 Our audit programme for the year has highlighted both good practice and areas for improvement. Some of the key messages identified during our audit work are set out below:

- Key Financial Systems: We are pleased to report that the systems for Treasury Management, Entitlement & Assessment, Housing Rents and Payroll were rated with positive assurance opinions. However following our review of the General Ledger we identified that there was a need to tighten control over journal transactions. In addition there has been a range of system issues within Accounts Payable and the General Ledger since the implementation of Oracle Fusion in August 2014. These have since been addressed or will be through planned system updates.
- Debt Management: An analysis on the level of outstanding debt shows that the level of outstanding debt has been increasing and the value of debt exceeding 150 days has increased. Resource to progress recovery action should be kept under review and greater corporate overview of all outstanding debt is needed. This has been recognised by CMT and a Corporate Debt Action Plan has been developed.
- Performance Management: although not subject to a specific audit, performance management has been highlighted as a common issue throughout our work. Although there are examples of good practice, we have highlighted inconsistency in performance management, both in terms of people performance and the reporting of performance information. Performance monitoring has been identified corporately by CMT and a new programme of reporting performance has been introduced.
- Our programme and project reviews of capital projects within Education and Highways (Traffic) have highlighted some good governance and project management in the delivery of multi million pound projects.
- Within Education Services we raised some concerns over operational procedures with the Home to School Transport Service and the need for more in-depth analysis of complaints and travel arrangements. We also recommended that further work is undertaken to identify the reason for the number of children with statements. There are some positive measures being made to highlight and support improvements in school attainment and to strengthen this we recommended measures to improve data quality and performance information.
- Leavers Processes: Although not subject to a specific audit we have identified common themes indicating weaknesses in the processing of staff who leave the Council.

- Health & Safety: our review of Health & Safety recognised that a great deal of progress has been made by the Council in driving improvements in the control of health and safety risks. In addition we noted that there is an effective programme of gas inspections in place for the Council's housing stock.
- Two areas where we have raised some specific concerns are in the maintenance and procurement of the Councils fleet of vehicles and control and usage of fuel. Improvement plans have been put in place to address audit concerns and progress will be reported back through DMT's
- Engagement: On the whole there has been good engagement from management and this has helped to ensure the outputs from our work assist management in addressing any issues identified and add value. However, we have continued to find that management are slow to provide their responses to audit recommendations.

3.11 All of these reviews have been reported to the Audit & Governance Committee during the year and follow up action will be reported back during 2014/2015 as part of the audit plan.

3.12 Whilst the overall opinion should inform the Annual Governance Statement, the Managing Director and the Corporate Management Team need to take into account those audit reviews assigned a limited assurance opinion and/or concerns flagged up following an investigation, together with other issues they have become aware of during the year. This should enable the Annual Governance Statement for 2014/15 to have considered all assurances, risks and other governance issues that have arisen.

#### **4. THE PROPOSAL**

4.1 That this report forms the basis for CMT and the Audit & Governance Committee to undertake their annual review of internal control and to approve the annual governance statement for 2013/14 for signature and publication with the Council's accounts.

#### **4. CONTRIBUTION TO STRATEGIC AIMS**

4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

**5. COMMUNITY ENGAGEMENT AND INFORMATION**

5.1 N/A

**6. LEGAL IMPLICATIONS**

6.1 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.

6.2 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.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 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”.

**7. FINANCIAL IMPLICATIONS**

7.1 N/A

**8. BACKGROUND PAPERS**

8.1 N/A

# INTERNAL AUDIT AND INVESTIGATIONS

Annual Report  
For the year ended 31 March 2015

## 1. ANNUAL ASSURANCE

### 1.1 Introduction

- 1.1.1 The Chief Auditor's annual assurance opinion is designed to assist the Council to meet its obligations, under Regulation 4 of the Accounts and Audit Regulations 2015, to review at least annually the effectiveness of the system of internal control and for a committee or body to consider its findings.
- 1.1.2 In accordance with the Public Sector Internal Audit Standards<sup>1</sup> (PSIAS) the Head of Internal Audit (Chief Auditor) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control (i.e. the organisations system of internal control). The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.
- 1.1.3 Internal auditors give assurance to all levels of management about the efficiency and effectiveness of operations, compliance with laws and regulations, accuracy and reliability of management reporting, and the safeguarding of assets and interests. Internal audit fulfils this role by undertaking a range of reviews which critically evaluate the council's internal control framework. Where necessary, Internal Audit makes recommendations for improvement and introduces best practice throughout the council.

### 1.2 Purpose and scope of this report

- 1.2.1 The coverage of this report:
- a) includes an opinion on the overall adequacy and effectiveness of the council's risk management systems and internal control environment
  - b) discloses any qualifications to that opinion, together with the reasons for the qualification
  - c) presents a summary of the audit and anti-fraud work from which the opinion is derived, including reliance placed on work by other assurance bodies
  - d) Draws attention to any issues the Chief Auditor judges particularly relevant to the preparation of the Annual Governance Statement.

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<sup>1</sup> *Public Sector Internal Audit Standards - Applying the CMIIA International Standards to the UK Public Sector.* Institute of Internal Auditors, April 2013.

## 2. CHIEF AUDITOR ASSURANCE OPINION

### 2.1 Purpose

- 2.1.1 This opinion statement is provided for the use of Reading Borough Council in support of its Annual Governance Statement (required under Regulation 4(2) of the Accounts and Audit Regulations 2015) that accompanies the statement of accounts for the year ended 31 March 2015.
- 2.1.2 Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2014/15, including our assessment of the Council's corporate governance and risk management processes. The internal audit plan for 2014/15 was developed to primarily provide the Audit & Governance Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, governance and risk management.

### 2.2 Assurance Opinion

- 2.2.1 Based on the work the internal audit team has completed during the course of the year, which is set out in more detail below, as Chief Auditor *I have concluded that Reading Borough Council's control environment is acceptable for its business needs and operates in an effective manner*. However there were a small number of reports issued as part of the agreed audit plan that identified specific areas where improvements were required. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.
- 2.2.2 The Council has to secure further savings in the region of £28m over the two year period from April 2016 and has already embarked on significant transformation and change programmes, following an organisation restructure. Whilst it is important for the Council to remain flexible and agile to ensure that changes are successfully embedded and savings are delivered, it is also vital that lines of responsibility and accountability are clear, both during the transition and into any new target operating model. This needs to include an effective framework for providing assurance (often referred to as the three lines of defence) to senior management, members and citizens: service management, corporate oversight and independent assurance provided by Internal Audit.
- 2.2.3 The opinion takes into account of the work undertaken by the Audit and Investigations Team. This has included audits in a number of areas receiving positive risk ratings: Schools Monitoring, Transport Schemes, Culture & Sport Income, School Capital Programme, Payroll, Treasury Management, Register of Births Deaths and Marriages, Rent Accounting and compliance with the Payments Card Industry Data Security Standard. However, we have identified areas for development including: Fleet Management, Fuel control, Debt Management, Home to School Transport, SEN and Journal transactions. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.



- 2.2.4 We've reviewed seven key financial systems during the year. One of the key areas has been the implementation of Oracle Fusion which went live in August 2014. There have been implementation problems with the new system which, whilst these have been or are being addressed, has created additional risks which need to be monitored to ensure performance is maintained.
- 2.2.5 Given the risks presented via the significant changes being delivered and further cost reduction activity across the Council senior management needs to continue to closely monitor the operation of the Council's control environment through the transformation and change processes. It is also important that effective mechanisms for learning lessons are embedded. In continuing to provide ongoing robust assurance on the control environment, Internal Audit will need management's support to ensure that reviews are undertaken as planned and management responses are prompt and appropriate.

### 3. SUMMARY OF THE AUDIT WORK

- 3.1 An annual audit plan was produced by Internal Audit to cover the period 1 April 2014 to 31 March 2015, which was agreed with the Corporate Management Team and the Audit & Governance Committee. The annual audit plan was in line with the Public Sector Internal Audit Standards for Internal Audit.
- 3.1.1 Satisfactory progress has been made against the Internal Audit plan during the period. Assignments have been completed in accordance with the plan, although there are a small number that still require finalisation of the reports. We completed 29 planned audit reviews, 5 school reviews and 7 grant claim certifications. The table below summarises the report classifications for the audit reviews undertaken in 2014/2015,

Report Classification	Number of reviews					
	2014/15		2013/14		2012/2013	
Substantial Assurance (Low Risk)	10	34%	21	58%	16	47%
Conditional Assurance (medium risk)	17	59%	14	36%	14	41%
Limited Assurance (High Risk)	2	7%	3	8%	4	12%
<b>Subtotal</b>	<b>29</b>		<b>36</b>		<b>34</b>	
Grant Claims certified	7		4		2	
School Audits	5		9		8	
Projects in progress	1		2		2	
<b>Total</b>	<b>42</b>		<b>51</b>		<b>46</b>	

## Priority of Recommendations

- 3.1.2 At the time of writing we have made a total of 156 audit recommendations in our reports (both draft and finalised), excluding schools (51), of which 6% were classified as high risk (2013/2014: 3%).
- 3.1.3 In the following section we have set out the key themes and findings identified during our audit work for 2014/2015.
- 3.1.4 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 1.

## **4. KEY MESSAGES FROM PLANNED AUDITS**

- 4.1 Our audit programme for the year has highlighted both good practice and areas for improvement. Some of the key messages identified during our audit work are set out below:
- **Key Financial Systems:** We are pleased to report that the systems for Treasury Management, Entitlement & Assessment, Housing Rents and Payroll were rated with positive assurance opinions. However following our review of the General Ledger we identified that there was a need to tighten control over journal transactions. In addition there has been a range of system issues within Accounts Payable and the General Ledger since the implementation of Oracle Fusion in August 2014 and we've acknowledged that work is underway to address these either through the current version of Fusion or future releases. In the meantime we will work with Finance to ensure that any temporary processes are sufficiently robust and new system processes have adequate controls prior to implementation.
  - **Debt Management:** An analysis on the level of outstanding debt shows that the level of outstanding debt has been increasing and the value of debt exceeding 150 days has increased. Resource to progress recovery action should be kept under review and greater corporate overview of all outstanding debt is needed. This has been recognised by CMT and a Corporate Debt Action Plan has been developed.
  - **Performance Management:** although not subject to a specific audit, performance management has been highlighted as a common issue throughout our work. Although there are examples of good practice, we have highlighted inconsistency in performance management, both in terms of people performance and the reporting of performance information. Performance monitoring has been identified corporately by CMT and a new programme of reporting performance has been introduced.
  - Our programme and project reviews of capital projects within Education and Highways (Traffic) have highlighted some good governance and project management in the delivery of multi million pound projects.

- Within Education Services we raised some concerns over operational procedures with the Home to School Transport Service and the need for more in-depth analysis of complaints and travel arrangements. We also recommended that further work is undertaken to identify the reason for the number of children with statements. There are some positive measures being made to highlight and support improvements in school attainment and to strengthen this we recommended measures to improve data quality and performance information.
- Leavers Processes: Although not subject to a specific audit we have identified common themes indicating weaknesses in the processing of staff who leave the Council.
- Health & Safety: our review of Health & Safety recognised that a great deal of progress has been made by the Council in driving improvements in the control of health and safety risks. In addition we noted that there is an effective programme of gas inspections in place for the Council's housing stock.
- Two areas where we have raised some specific concerns are in the maintenance and procurement of the Council's fleet of vehicles and control and usage of fuel. Improvement plans have been put in place to address audit concerns and progress will be reported back through DMT's
- Engagement: On the whole there has been good engagement from management and this has helped to ensure the outputs from our work assist management in addressing any issues identified and add value. However, we have continued to find that management are slow to provide their responses to audit recommendations.

## 4.2 Corporate Governance

4.2.1 In our opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- Assurance provided by the external auditors in their Annual Audit and Inspection Letter with regard to the Council's accounts and governance,
- Work completed by the internal audit team throughout 2014/2015
- The Council's annual governance statement and action plan

4.2.2 As in 2014/15, it has been necessary for the Council to continue to find significant reductions in resources and further significant reorganisations and transformation programmes have been ongoing. The Council undertook a review of 'capacity and resilience' across the organisation which identified areas where additional staff resources are potentially needed to deliver key corporate issues. During 2015/2016 we will look to assess the management of the risks associated with some of these changes and future planned changes.

- 4.2.3 Governance arrangements also need to be supported by appropriate management information that can support key strategic and operational decisions. These decisions are needed to make longer-term savings whilst minimising impact on service delivery. They need to be based on high quality information that covers the entire organisation, in order to support the organisation to prioritise activities and generate alternative ways of working that will be needed to achieve these goals.
- 4.2.4 The Council has recognised this and as from the 1<sup>st</sup> April 2015 has introduced a new approach to performance monitoring to increase accountability on service areas. Internal audit recommendations, lessons learned, other inspections will be reported which we believe will further improve governance and accountability.
- 4.2.5 During the year The Council's Financial Procedural Rules (Regulations) were updated across their length, to reflect the move from executive (Cabinet) arrangements to a committee system and organisational change as a result of the Council's reshape program. The Regulations provide the framework for managing the authority's financial affairs and apply to every Member and Officer of the Authority and anyone acting on its behalf.
- 4.2.6 The Council approved the Authority's updated Delegations Register in January 2015. The Delegations Register is a statement of the authority under which officers may exercise the functions delegated to them and do not inadvertently make decisions about functions which have not been delegated to an officer to exercise. Financial delegations and regulations need to be kept under continuous review.

#### 4.3 Assurance from other sources

- 4.3.1 In compiling this Annual Report, I have taken account of other sources of assurance in arriving at my overall opinion for 2014/15. These sources include, but are not limited to: the achievement of Public Services Network (PSN) accreditation for the Council, however it is noted that comprehensive ICT Security Policies need to be maintained and kept up to date. The draft Annual Governance Statement (AGS) compiled by the Policy Team with assistance from CMT. I have reviewed the draft AGS which adequately reflects the arrangements in place, the effectiveness of those arrangements and the identification of significant issues. Reports by officers to the various Council committees on matters including health and safety, treasury management, budget monitoring, complaints and human resources related matters. In particular KPMG's 2013/14 opinion stated that the financial statements give a true and fair view of the financial position of the Authority and the Group and of its expenditure and income for the year. In relation to value for money, KPMG also concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### 4.4 Conformance with standards

4.4.1 As the Council's Chief Auditor I can confirm that the Internal Audit Service has carried out an assessment to ensure that the Internal Audit Service is effective when compared against the Public Sector Internal Audit Standards (PSIAS). I undertake periodic reviews of the quality of internal audit work completed and also review all draft and final reports issued. In delivering the Internal Audit Service, in planning, conducting and reporting on reviews and in compiling this Annual Report, we have done this in conformance with the requirements of the PSIAS, published by the Chartered Institute of Internal Auditors and the subsequent Local Government Application Note in respect of PSIAS published by CIPFA.

#### 4.5 School Audits

4.5.1 During 2014/15 we undertook 5 school audits (as identified in annex 1). Our work involved carrying out targeted internal audit testing to assess the adequacy and effectiveness of financial management arrangements within each school visited, informed by a control, risk, self-assessment undertaken by each school. A snapshot of the results of our financial reviews carried out is as follows:

Report Classification	Number of reviews					
	2014/15		2013/14		2012/2013	
Substantial Assurance (Low Risk)	1	20%	6	67%	3	43%
Conditional Assurance (medium risk)	4	80%	3	33%	3	43%
Limited Assurance (High Risk)	-	-	-	-	1	14%
<b>Total</b>	<b>5</b>		<b>9</b>		<b>7</b>	

4.5.2 We made a total of 51 audit recommendations for schools (2013/14: 63), of which 4% were classified as high risk (2013/14: 2%).

4.5.3 A report is issued to each school detailing the finding and the actions which governing bodies should take to ensure that controls remain appropriate and effective.

#### 4.6 Implementation of internal audit recommendations

4.6.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where “limited” assurance is given then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources and agreed recommendation target dates, but our aim is to complete the follow up within six to twelve months of completion of the audit. The table below shows the number of recommendations which are now due to have been implemented, and the number and percentage of those which have been evidenced as implemented, by level of risk.

	Total Recs reviewed	Recs implemented	%	Recs partially implemented	%	Recs not implemented	%
Priority 3 (Low Risk)	5	3	60%	1	20%	1	20%
Priority 2 (medium risk)	10	7	70%	2	20%	1	10%
Priority 1 (High Risk)	2	1	50%	1	50%	0	0%
<b>Total</b>	<b>17</b>	<b>11</b>	<b>65%</b>	<b>4</b>	<b>24%</b>	<b>2</b>	<b>11%</b>

4.6.2 Based on the data in the table above, overall management has implemented or partially implemented 89% of all recommendations reviewed with 11% having not been implemented. It is crucial that Priority 1 (High Risk Recommendations) are implemented promptly if the Council is to improve its overall control environment and therefore we are pleased to note this level of performance has been maintained during 2014/15.

### 5. OVERALL PERFORMANCE OF INTERNAL AUDIT

Key Performance Indicators	Target	Actual
Client Satisfaction	90% or above	93%
Production of final report within 2 weeks of receipt of management responses	95%	97%
Management responses received within 3 weeks of issue of draft report	75%	38%
Number of audit projects completed relative to those in the Plan	90%	86%
Actual spending of controllable budget	100%	99.79%
% Of working days lost to sickness	2%	1.36%

## 6. COUNTER FRAUD ACTIVITY

6.1 The Investigations Team that deals with benefit, housing tenancy, blue badge and internal fraud etc., have had a successful year and have once again demonstrated the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified £405k from both overpayments and savings. The deterrent of this activity should not be underestimated. The following table contains details of successful outcomes by the Investigations Team:

	2013/14	2014/15
<b>Housing Fraud</b>		
Recommendations for recovery	9	7
Properties Recovered	5	3
Estimated saving from Recoveries <sup>2</sup>	£108,000	£72,000
Prosecutions Secured	0	1
SPD savings	0	£4,200
<b>Housing Benefit Fraud</b>		
Prosecutions	20	19
Other Sanctions ( Caution/Add Pens)	11	11
Value fraudulent Overpayments Identified	£282,200	£293,467
<b>Council Tax Reduction Scheme</b>		
Prosecutions	22	17
add pens	6	6
value of fraudulent overpayments identified	£31,966	£21,467
<b>Lawful developments certificates (planning)</b>		
referred for investigation	0	1
prosecutions pending	1	1
<b>Parking Fraud</b>		
Blue Badges recovered	6	2
prosecutions secured	1	1
PCN's issued	3	2
estimated annual savings	£13,200	£4,400
<b>Internal fraud</b>		
Dismissals/contract terminations	1	0
Resignations taken after investigation	2	1
Written Warnings issued	5	1
Criminal prosecution	1	1
Investigations pending outcome	0	5
Estimated annual savings	£14,000	£10,000

<sup>2</sup> Based on the Audit Commission's national assessment that it costs a local authority £18,000 per year to place a family in temporary accommodation who would otherwise have been housed in a property which was being unlawfully sub-let.

### 6.3 Housing Fraud

- 6.3.1 Housing fraud is now the most resource intensive function carried out by the team. The Council has recognised the need to maintain a resource of investigators given the risks of tenancy fraud. Although nationally tenancy fraud is the most widespread in the London area, where the differential between social housing rents and private housing rents is greatest, the prevalence of tenancy fraud is also applicable to Reading.
- 6.3.2 The team has dealt with all reactive housing tenancy referrals (33 in total) during 2014-15, in addition to carrying out proactive exercises such as tenancy audits (visits), tenancy succession authentication (see case study 1), validating new housing applications (537) to identify failure to report changes (e.g. Single Person Discount) and right to buy applications.
- 6.3.3 A significant development in recent years was the introduction of the Prevention of Social Housing Act 2013. This makes subletting a criminal offence and allows councils to prosecute those found to be subletting their property. Unlawful profit orders can also be applied to those who are found to have sublet their tenancies for a profit. The team have a number of cases under investigation or with legal services and in those suitable such orders will be considered.
- 6.3.4 The team have also commenced a programme, with housing services to undertake checks into any suspect succession application submitted. These checks help to prevent persons with no entitlement in obtaining an RBC tenancy. Succession allows tenants to "pass on" their tenancies to close family members, providing the criteria are fully met.

*Case Study 1 - An application for succession had been submitted by a Miss A. Miss A stated that she had lived with her Grandmother (Mrs B) at the address as her carer. Miss A claimed that she had lived at the address for a period in excess of 12 months preceding Mrs B's death, and was therefore fully entitled to succeed her late Grandmother's tenancy. After an extensive investigation the Court upheld the Council's decision to refuse succession. The evidence gathered proved that Mrs A had not been living at the address and the Council was able to re-let the property to a person with a need for Social Housing.*

### 6.4 Additional funding for tenancy investigations

- 6.4.1 Reading made a successful bid in August 2014 for funding from the DCLG over a two year period. The bid provided the technology to set up an intelligence hub for proactive tenancy fraud prevention, detection and deterrence through the sharing and matching of data. This will initially be in partnership with Bracknell Forest Council, Civica Fraud Detection Solutions and a number of Housing Associations in the Reading and Bracknell area. The project will go live in September 2015. During year two of the project, from April 2016, the team will be working with the following six housing associations:

- Thames Valley Housing
- Sanctuary Housing
- Affinity Housing
- Bracknell Forest Housing
- Catalyst Housing
- Sanctuary Housing



## 6.5 Benefit Fraud

- 6.5.1 This has been a period of transformation with the roll out of the Single Fraud Investigation Service; however there are a number of ongoing Housing Benefit fraud cases which did remain with RBC. These are cases where legal charges have been laid or legal advice obtained. The team secured 30 sanctions made up of 19 prosecutions and 11 administrative penalties<sup>3</sup> or cautions.

*Case Study 2 - One case brought to trial in 2015 involved the fraudulent activities of two sisters. Housing Benefit had been assessed in 2009 based upon the application stating that the tenant was not related to her Landlady. Following our investigation it was established that the tenant and landlady were in fact sisters. Both admitted at interview to the relationship and following legal proceeding in 2015 both were sentenced at Reading Crown Court. Miss A was sentenced to 10 months imprisonment suspended for a period of two years and ordered to do 120 hours unpaid work. Mrs B was sentenced to 8 months imprisonment suspended for a period of two years and ordered to do 120 hours unpaid work. Following Proceeds of Crime applications both sisters paid back almost £32,000 in overpaid Housing Benefits. They were also ordered to repay over £6,000 in legal costs*

## 6.6 Internal Fraud

- 6.6.1 Internal fraud consists of employee fraud and although incidences are low, given the size of the organisation, such occurrences will and do happen, despite the control measures and safeguards in place. Internal or employee frauds are when fraud is committed against the organisation a person is working for and can include travel and subsistence fraud, procurement fraud and even theft
- 6.6.2 The Council has a zero tolerance to any type of fraud or irregularity and incidences are investigated by a mixture of qualified investigators and auditors working together as and when required.

*Case Study 3 - In one case completed this financial year an allegation was made that an employee was drawing off very high levels of fuel from the fuel pumps at the service yard. The investigators examined CCTV images, GPS tracking data, fuel reports and undertook covert surveillance in order to gather evidence. Following a number of weeks of investigation sufficient evidence had been secured to formally interview Mr X. At this interview Mr X fully admitted to the theft of fuel with an approximate value of £12,630. Mr X was charged with a number of counts of theft and pleaded guilty at his crown Court trial. As a result of the investigation a full internal investigation was commenced and in June 2014 following a full disciplinary hearing Mr X was dismissed from his post.*

## 6.6 Blue Badge (Parking Fraud)

- 6.7.1 Blue badges or disabled parking permits are issued by Reading BC to persons with a genuine need to access facilities by car. However there are some people who are prepared to misuse or fraudulently acquire these badges. There is a significant cost to the Public purse as inappropriately used Badge holders may avoid resident parking charges and/or car parking charges. One officer is leading on Blue Badge parking the officer has attended Parking enforcement group meeting and is working with enforcement officers to undertake proactive Town Centre drive on identifying misuse of blue badges.

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<sup>3</sup> We offer an administrative penalty in circumstances where it is felt that it would be more suitable to dispose of the matter without criminal proceedings being initiated.

## ANNEX 1: Detailed analysis of internal audit reviews 2014/15

**SUBSTANTIAL ASSURANCE** - There is a sound system of internal control and there is consistent operational compliance with controls across all areas reviewed. There are no key findings and only enhancements or minor issues with limited consequences to the achievement of system objectives (may) have been highlighted.

Title	Start	Draft	Final	Recs		
				H	M	L
Gas/Electric Inspections	14-Oct-14	20-Feb-14	10-Apr-14	0	2	4
LSTF Cycle Hire Scheme	01-Jun-14	24-Oct-14	06-Nov-14	0	0	3
Culture & Sports Income Generation	15-Dec-15	23-Feb-15	23-Feb-15	0	2	6
School Places Capital Programme	01-Apr-14	10-Mar-15	10-Mar-15	0	0	0
Register of Births Deaths & Marriages	07-Apr-14	11-Jul-14	04-Aug-14	0	0	6
Payment Card Industry Data Security	07-Apr-14	29-May-14	23-Jul-14	0	3	2
Rent Accounting	18-Jun-14	21-Aug-14	15-Sep-14	0	0	0
Treasury Management	09-Dec-14	18-Mar-14	07-Apr-14	0	0	4
Payroll	28-Oct-14	30-Mar-15	28-Apr-15	0	1	0

**CONDITIONAL ASSURANCE**- Generally, there is a sound system of internal control and broadly there is operational compliance with those controls. However, some weaknesses in the design of controls and/or inconsistent application of controls could put the achievement of particular system objectives at risk.

Title	Start	Draft	Final	Recs		
				H	M	L
Licensing	09-Jun-14	03-Oct-14	05-Nov-14	0	9	3
Children Leaving Care	12-Jun-14	27-Aug-14	20-Aug-14	0	4	3
Deferred Payment Scheme	09-Jun-14	20-Nov-14	24-Dec-14	0	2	3
Adult social care charging arrangements	25-Apr-14	08-Dec-14	30-Jan-15	0	5	1
Special Education Needs	07-Oct-14	14-Jan-15	05-Feb-15	1	3	1
School Attainment	06-Jan-15	18-Mar-15	20-Apr-15	1	2	0
Home to School Transport	23-Jun-14	02-Sep-14	19-Nov-14	1	4	5
Access to records	17-Apr-14	17-Sep-14	20-Oct-14	0	3	1
Social Fund Reform	01-Apr-14	01-May-14	27-May-14	0	3	2
Entitlement & Assessment	09-Jul-14	29-May-14	02 Dec-14	0	4	1
Collection & Debt Recovery	08-Oct-14	18-Feb-15	12-Mar-15	0	4	0
General Ledger (Journals)	01-Aug-14	02-Dec-14	03-Marc-15	0	4	2
Accounts Payable	27-Oct-14	04-Dec-14	03-Mar-15	0	4	2
Overtime	02-Apr-14	23-Jul-14	03-Oct-14	0	3	2
Thameside Primary School	19-Nov-14	24-Nov-141	04-Dec-14	0	3	8
Public Health	04-Jul-14	12-Dec-14	16-Jan-15	0	5	2
Health & Safety	04-Apr-14	12-Dec-14	16-Jan-14	0	4	2

**LIMITED ASSURANCE** - Whilst some control is evident, weakness in the design, and/or inconsistent application of controls, put the achievement of the system objectives at significant risk in a number of areas reviewed.

Title	Start	Draft	Final	Recs		
				H	M	L
Fleet Management	15-Dec-14	02-Apr-14	14-May-15	3	2	1
Fuel System	18-Dec-14	19-Mar-15	18-May-15	0	5	5

**SCHOOL AUDITS-** during 2014/15 we undertook 5 school audits (as identified below). Our work involved carrying out targeted internal audit testing to assess the adequacy and effectiveness of financial management arrangements within each school visited.

Title	Start	Draft	Final	Recs		
				H	M	L
Thameside Primary School	19-Nov-14	24-Nov-14	04-Dec-14	0	3	8
English Martyrs Catholic Primary	30-Jun-14	14-Nov-14	27-Nov-14	0	4	7
Phoenix College	07-Oct-14	14-Oct-14	05-Nov-14	2	9	2
Blagrove Nursery School	23-Oct-14	01-Dec-14	18-Dec-14	0	3	4
Caversham Primary School	12-Nov-14	14-Nov-14	24-Nov-14	0	1	8

**ASSURANCE NOT APPLICABLE** - Reviews undertaken during the year, to which the assurance ratings are not appropriate.

Title	Start	Final
Patron Edge in Leisure systems	29-May-14	22-Aug-14
Local Transport Capital Settlement	12-Sep-14	29-Sep-14
Local Pinch Point Grant Funding	12-Sep-14	29-Sep-14
Bus Subsidy Grant	20-Jul-14	22-Jul-14
Carbon Reduction Commitment Grant	14-Jul-14	31-Jul-14
Troubled Families Programme	1-Feb-15	13-Feb-15
Adoption Reform Grant	20-May-14	22-May-14
Community Capacity (Capital) Grant	01-Aug-14	01-Aug-14