

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	24 th September 2015	AGENDA ITEM:	4
TITLE:	AUDIT & INVESTIGATIONS 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 and Corporate Management Team with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2015.

1.2 The report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations
- Provides details of investigations undertaken since April 2015 with respect to investigations into benefit, housing tenancy fraud and other corporate investigations.





1.3. Attached to this report in Appendix A are the internal audit assurance definitions and priority ratings of recommendations.

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 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:

Substantial	 GREEN	Substantial assurance can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with low impact on residual risk exposure .
Reasonable	 YELLOW	We can give reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.
Limited	 AMBER	Limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.
No assurance	 RED	There is no assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with high impact on residual risk exposure until resolved.

3.4 Grading of recommendations

3.4.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

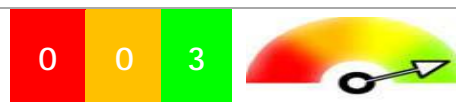
Priority	Current Risk
 High	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or mis-statement.
 Medium	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
 Low	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration

3.4.2 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.

3.4.3 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 and/or 'no' assurance.

3 SUMMARY OF AUDIT FINDINGS

3.1 Early Years & Play Centres

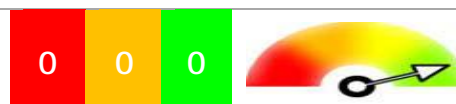


3.1.1 The main focus of this audit was to review the operation of the Council's play centres in the light of a recent visit from OFSTED and ensure that the adequacy of arrangements for the management of these sites reflects best practice. This included awareness of best practice regarding child safeguarding and ensuring that staff have the relevant training and are cleared through a DBS check on criminal records.

3.1.2 All the sites were well run and the staff friendly and knowledgeable about what they are doing. There were no issues found on site that would suggest problems with meeting the OFSTED requirements regarding safeguarding.

3.1.3 A few minor recommendations were made to tidy up practices on site.

3.2 Disabled Facilities Grant

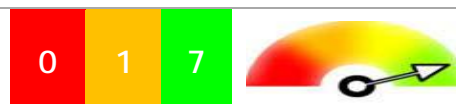


3.2.1 Mandatory Disabled Facilities Grants (DFGs) are available from local authorities and are issued subject to a means test. They are available for essential adaptations to give disabled people better freedom of movement into and around their homes.

3.2.2 The Minister of State for Housing and Local Government made funds available for such adaptations, under the Disabled Facilities Capital Grant. The grant may be used only for the purposes that a capital receipt may be used for, in accordance with regulations made under section 11 of the Local Government Act 2003.

3.2.3 Our review concluded that the conditions of the grant determination had been complied with and the grant had been spent in accordance with the grant determination conditions.

3.3 Waste PFI



3.3.1 The Re3 partnership of Reading Borough Council, Bracknell Forest Council and Wokingham Borough Council was first established in 1999 to develop waste management facilities across the area. In 2006 a 25 year PFI contract was let to FCC Environment to manage and dispose of all the household, and some trade waste, from the three boroughs in line with guidelines and regulations.

- 3.3.2 Re3 has two main sites, namely Smallmead and Longshot Lane and the management and administration of the contract is undertaken by a small team of officers based at Smallmead. The team is managed by a Project Director and a Joint Waste Disposal Board, drawn of Councillors from each of the boroughs. The administration and governance requirements for the scheme are laid down in a Joint Working Agreement (JWA).
- 3.3.3 Governance arrangements are sound, with a clear understanding by all partners to continually review the key elements of the contract, structure, roles and responsibilities of the main parties. There are satisfactory arrangements in place to monitor and appraise the strategic and operational risks for re3 underpinned by a robust risk management framework.
- 3.3.4 Client monitoring arrangements are in place for the monitoring of contractor performance with a detailed monitoring schedule and reporting mechanism to clarify the status of service and performance issues raised with the contractor.
- 3.3.5 Robust invoice verification protocols are in place to ensure that monthly figures reported by the contractor are accurate, and in accordance with the agreed forecasts and payments are made to the contractor in accordance with the contract.

3.4	Business Rates	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: red; color: white; padding: 5px;">0</div> <div style="background-color: orange; color: white; padding: 5px;">0</div> <div style="background-color: green; color: white; padding: 5px;">2</div> </div>	
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- 3.4.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and individual accounts were found to be appropriately calculated.

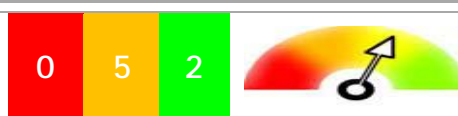
3.5	Better Care Fund	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: red; color: white; padding: 5px;">0</div> <div style="background-color: orange; color: white; padding: 5px;">1</div> <div style="background-color: green; color: white; padding: 5px;">0</div> </div>	
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- 3.5.1 The Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care through a set of national conditions and local objectives, including provisions relating to Care Act with implementation at a local level. The Fund requires local bodies to:-

- Bring health and social care planning together
- Support people's health and independence in the community, and
- Meet the challenges of increasing demand for care and constraints on public funding.

- 3.5.2 The purpose of our review was to ensure the governance arrangements for the Health and Wellbeing Board are appropriate for monitoring the Better Care Fund and that there are robust controls in place for collecting and reporting data used for the 'Pay for Performance Metric'.
- 3.5.3 Although our review highlighted some areas for improvement, it is our opinion there is a very robust Berkshire wide combined monitoring framework in place both to monitor and to hold to account officers responsible for the implementation and delivering the better care fund project.
- 3.5.4 The signing and sealing of the Berkshire Section 75 Agreement to provide a legal framework for the partnership to deliver services on a collaboration basis across the various local authorities from the 1 April 2015 is now ready to be signed and sealed.

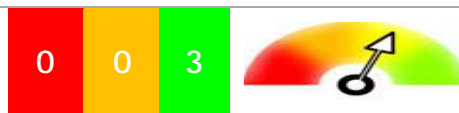
3.6 Additional Salary Payments



- 3.6.1 Employees may from time to time take on additional duties and responsibilities. As a direct consequence there may be circumstances where it may be appropriate to make an additional payment to employees who temporarily act up into a higher graded post, take on additional duties outside of their normal remit, or work substantial additional hours.
- 3.6.2 Comprehensive HR policies and procedures are in place covering additional salary payments such as honoraria, market supplements and acting up allowances and monitoring requirements are detailed in each policy.
- 3.6.3 The annual management authorisation to extend and continue paying staff the agreed additional payment is generally well supported with a clear evidence based argument, although the justification is not always revisited annually in accordance with the Policy. In some instances restructuring has also led to both acting up arrangements and honorarium payments to continue for a significant length of time. A review of all additional payments and temporary salary point increases will be completed by November 2015 and updated guidance will be issued.
- 3.6.4 During the audit we identified some inconsistencies in the treatment of an honorarium or acting up payment and as a result HR is to remind managers of their responsibilities. There will also be a review of the Council's 'Acting Up' policy to include time limits on acting up arrangements and requirements to adhere to a consistent method of calculation, with exceptions needing a clear objective justification.
- 3.6.5 Where recruitment and retention problems exist, a market supplement may be considered. The Council's policy is specific that supplement payments will be reconsidered at least annually and must take the form of a cash sum and not a percentage rate.

3.6.6 Records indicated that all supplement payments were last reviewed during 2014 following a recommendation made in the Equal Pay Audit, 2013, however prior to this monitoring was not always undertaken annually in line with Policy requirements. Seven posts identified as receiving a supplement calculated on a percentage rate and not the required cash sum are to be reviewed by HR following our audit. In addition a review of market supplements in social care across adults and children's services will be completed by October 2015 to ensure consistent methodology and application of process.

3.7 Local Pinch Point Fund - Reading Bridge



3.7.1 The Council successfully bid for funding for the strengthening works from the Department for Transport's 'Pinch Point' funding grant in 2014.

3.7.2 This audit focused on providing assurance that the conditions of the grant determination had been complied with and to review the procurement and contract management of the Reading Bridge Scheme (a successful bid under tranche 2 of the Local Pinch Point Fund).

3.7.3 Our review concluded that the conditions of the grant determination had been complied with and the grant had been spent in accordance with the grant determination conditions.

3.7.4 The procurement followed the restricted procedure process with the award issued on the 'lowest price' basis, as advertised and was let in accordance with OJEU¹ requirements.

3.7.5 There are appropriate contract management processes in place and evidence was seen to support this in operation. The Principal Engineer demonstrated a good understanding of his responsibilities in managing the project.

3.7.6 The scheme was originally due to be finished in late June/early July, however, work has taken longer than originally anticipated because the extent of the concrete repairs required was significantly more than estimated. Although the scheme had remained within budget at the time of the audit and financial forecasting/reporting had taken place during the course of the scheme, the latest financial forecast indicated that the project contingency fund had for all intents and purposes been spent. An update on the final budgetary position could not be provided at the time of writing this report.

¹ Official Journal of the European Union

4. AUDIT FOLLOW UP REVIEWS

- 4.1 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 which we have planned to follow up, along with progress made to date are shown in the table below.

Audit Title	Date of original audit	Follow up Completed	Status of recs
Licensing	Nov 14	Sep 15	Partial Implementation
Deferred Payment Scheme	Dec 14	Aug 15	Partial Implementation
Pheonix School	Nov 14		
Special Education Needs	Feb 15		
Fuel System	May 15		
Home to School Transport	Nov 14		
School Attainment	Ap4r 15		
Fleet Management	Jun 15		

4.2 Deferred payment scheme

- 4.2.1 On completion of our audit review of deferred payments in December 2014 five recommendations were made, two were priority 2 recommendations and three were priority 3 recommendations. We recommended that the format of record keeping should be standardised to provide a consistent approach and with the implementation of the Care Act, a full review of the policies and procedures should be undertaken. The review should involve debt recovery team and their role in the process.
- 4.2.2 Our follow up review of deferred payments acknowledged that the outcome of the review is still work in progress and additional work is required to be able to fully implement the audit recommendations made, whilst developing processes to align with the requirements of the Care Act and the development of the social care system.

4.3 Licencing

- 4.3.1 On completion of our audit review of the Licencing in November 2014 twelve recommendations were made, nine were priority 2 recommendations and three were priority 3 recommendations. We made recommendations to undertake a detailed modelling for Taxi and Premises Licensing fees, which separate out administrative and enforcement costs and addressed the storage, retention and destruction of electronic records in the Civica APP database (FLARE²).
- 4.3.2 Our follow up review concluded that there was supporting evidence show that there has been progress in implementing all recommendations, although in some areas progress is reliant on outside service factors and is still work in progress.

5. AUDIT PLAN 2015/2016

- 5.1 The internal audit plan is developed to allow adequate coverage of the key risks faced by the Council. The findings of reviews performed in the year inform the opinion³ of the Chief Auditor over the Council's internal control environment and the annual Governance Statement in the financial statements.
- 5.2 Although the agreed audit plan is in place to allow for the effective discharge of statutory responsibilities, it must remain flexible to match the Council's changing risk profile and if necessary be revised in response to new information and priorities.
- 5.3 The internal audit team have been requested by the Council's Corporate Management Team to undertake some targeted reviews to ensure proper processes are being followed and the Council can demonstrate it is spending appropriately. Our objective will be to ensure procedures are fit for purpose, determine if procedures can be improved to reduce spend and/or control and work with services to update where appropriate. The areas to be covered are as follows:
- Contracts
 - stationery
 - No Purchase Order - No Payment
 - Payment Cards
 - Interim/Ad hoc Staff
 - Overtime standby Rates / honorariums
 - flexitime
 - Train/Air Travel
 - Legal Charges
 - Consultants
 - Courses/Conferences/Training
 - Care Packages (new & review) & Placements

² FLARE is an integrated IT solution for regulatory services, including Environmental Health, Trading Standards, Planning, Building Control, Streetcare, ASB, Highways and Parks.

³ The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement.

- 5.4 In addition there is currently a vacancy in the team and although approval has been given to fill the post, the plan has been reassessed to factor in the vacancy and complete the additional work and as a result some planned audit reviews will be delayed or postponed until the following financial year.
- 5.5 The requested work will still require the control environment and governance process to be evaluated, thus I am satisfied that sufficient internal audit work will have been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, internal control and governance processes at financial year ending the 31 March 2016.
- 5.6 The table below details the revised plan, those audit reviews in progress. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted are detailed in tables 2 and 3.

Audit Title		Start Date	Draft Report	Final Report
Waste PFI contract	Q1	May 15	Jul 15	Jul 15
Repair & Review Grant	Q1	April 15	April 15	April 15
Better Care Fund	Q1	Apr 15	Aug -15	Sep 15
Children Services Performance Management	Q1	Jul-15	Sep 15	
Adult Social Care Income & Charging	Q2	Aug 15	Sep 15	
Nursing & Residential Care Packages	Q2	Aug 15	Sep 15	
Learning Disability Reassessment/review process	Q2	Jun 15	Sep 15	
Homelessness	Q2	Sep 15		
Disabled facilities Grant	Q2	May 15	July 15	July 15
Grant Certification - Pinch Point & Local Transport Capital Settlement	Q2	Apr 15	Aug 15	Sep 15
Business Rates	Q2	Jul 15	Aug 15	Sep 15
School Places Capital programme	Q3			
Foster Carer & Adoption (Allowances)	Q3			
EP Collier Primary School	Q3	Oct 15		
Geoffrey Field Infant School	Q3	Nov 15		
St Mary's & All Saints Church of England	Q3	Oct 15		
Holybrook	Q3	Sep 15		
Troubled Families Grant Sign off	Q4			
LSTF - Grant Sign Of	Q4			
Creditors (Accounts Payable)	Q4			
Frameworki/MOSAIC (Finance Payments)	Q4			
Child Protection - visiting and recording	Q4			

Table 2 Audit Reviews added

Audit Title		Start Date	Draft Report	Final Report
Client Possessions including the Mayor's vault	Q1	Jun 15	Jun 15	Jul 15
Early Years & Play Centres	Q1	Jun 15	Jul 15	Jul 15
Spending Appropriately*	Q2	Aug 15		
Health & Safety	To be scheduled			
Information Security	To be scheduled			

* The spending appropriately project encompasses a number of work streams to review and test procedures.

Table 3 Audit reviews to be rescheduled

Audit Title	
Refuse & Recycling Collections	To be rescheduled in 2016/17
Asset Management/compliance & condition work (non-housing)	To be rescheduled in 2016/17
Right to Buy	To be rescheduled in 2016/17
Atrium	To be rescheduled in 2016/17
Reading Girls School	To be rescheduled in 2016/17
Payroll (iTrent)	To be rescheduled in 2016/17
General Ledger (inc Budget management)	To be rescheduled in 2016/17
Debtors system & debt management	To be rescheduled in 2016/17
St Anne's Catholic Primary School	To be rescheduled in 2016/17

6. INVESTIGATIONS

Benefit Investigations

- 6.1 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.
- 6.2 For the period April 2015 to September 2015 the total Housing Benefit overpayment figures for cases prosecuted (eight cases) is £65,602. With regards to Council Tax Support we receive on average twenty-five referrals per week. To date has £6,622 has been put into recovery, which includes Administration Penalties⁴ to a value of £3,311.
- 6.3 We are also now looking at referrals from Council Tax in relation to possible criminal offences under the Council Tax Support regulations. We have one case which has been approved for prosecution and criminal charges are to be laid on this matter.
- 6.4 We are also working very closely with RBC Housing Benefit teams on the Fraud & Error Reduction programme (FERIS). The scheme is a DWP initiative and Investigations are undertaking a number (forty-five) per month planned visits on current Housing Benefit claims. Whilst we no longer undertake Housing Benefit investigations the FERIS programme will help ensure that the information held on systems is accurate and up to date. Investigation staff will also look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded.

Blue Badges

- 6.5 In the period April 2015 through to September 2015, we have been working very closely with RBC Parking services and with the Parking Enforcement offices. We have seen an increase in the cases referred to us and have been actively involved in a number of badge seizures. In the period we have received a total of thirty-five referrals of inappropriate use. Seventeen parking notices have been issued for minor Blue badge offences and six Blue Badges have been seized and removed from circulation and we have successfully brought two prosecutions for Blue Badge fraud in Reading. The notional cost we have calculated for Blue Badge fraud with the RBC area is £2,200 per annum. Using this figure the notional savings achieved since April 2015 is £13,200.

⁴ 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.

Housing

- 6.6 Since April 2015 seven cases of alleged Housing Tenancy Fraud have been investigated and to date we've assisted in the return to stock of two Council properties and two properties for Social Landlords within Reading.
- 6.7 It is difficult to quantify the financial implications of these types of investigations, however the national agreed figure of £18,000 is considered to be the average cost per Local Authority for retaining a family in temporary accommodation. Using this figure (4x £18,000) in the region of £72,000 could have been saved as a result of tenancy investigations.
- 6.8 As part of the ongoing joint work we have been undertaking with Housing services since July 2015, investigations staff have verified 247 Home Choice applications. From these case we have identified 58 cases which have had issues over information supplied.
- 6.9 Investigation officers have been working with Housing to undertake a rolling programme of tenancy Audits (55 visits to date), which has led to further investigations into potential non-residency for two tenancies.
- 6.10 Since April 2016 we've received eleven referrals of suspected improper succession applications, one of these was returned recommending not to proceed with the application.

Social Care

- 6.11 Following protracted investigations into an external provider for Supported Living clients, £24,000 has been repaid as a result of overcharging.

Identity Fraud

- 6.12 We are currently trialling an Identification scanning system. The system will, it is hoped, aid front line officers who have issues over document authenticity. Investigation staff are closely working with Customer Services on the project which went live August 2015. The scanners will help identify false documents brought in as proof of identification.

Internal Investigations

- 6.13 An investigation was undertaken into missing client possessions following the civic offices relocation. The items were subsequently discovered and recommendations have been made to improve the storage, day to day access, and management of records for such items.
- 6.14 We have five ongoing internal matters, two of these we have just completed stage 2 investigations.

7. CONTRIBUTION TO STRATEGIC AIMS

- 7.1 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 contributing to the strategic aim of remaining financially sustainable.

8. COMMUNITY ENGAGEMENT AND INFORMATION

- 8.1 N/A

9. LEGAL IMPLICATIONS

- 9.1 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.
- 9.2 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.
- 9.3 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”.
- 9.4 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.

10. FINANCIAL IMPLICATIONS

- 10.1 N/A

11. BACKGROUND PAPERS

- 11.1 N/A