

**READING BOROUGH COUNCIL  
HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>29 September 2016</b>	<b>AGENDA ITEM:</b>	<b>6</b>
<b>TITLE:</b>	<b>AUDIT &amp; INVESTIGATIONS QUARTERLY PROGRESS REPORT</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR STEVENS</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
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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 July 2016.

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 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

**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 expose 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.

## 3.2 Grading of recommendations

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

Priority	Current Risk
<b>High</b>	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 misstatement.
<b>Medium</b>	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
<b>Low</b>	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.

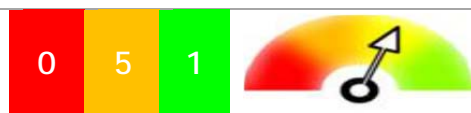
3.4.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

#### 4. HIGH LEVEL SUMMARY OF AUDIT FINDINGS

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##### 4.1 Accounts Payable



4.1.1 Since the introduction of Oracle Fusion there have been some significant implementation issues and in general the Council has not adjusted all of the accounts payable business processes to take full advantage of Fusion's functionality and improve financial controls and processes.

4.1.2 Currently the Accounts Payable Team has a number of manual processes, which are inefficient. Invoices are processed manually, including printing off electronic invoices received by email and supplier set up is a time consuming manual process given the volume of new suppliers set up daily on the system.

4.1.3 Supplier categorisation also needs to be improved to provide better quality management information on categories of spend and to limit the number of suppliers on the system to a manageable level.

4.1.4 Since September 2015 the Council has undertaken an improvement program with Oracle to deal with a number of outstanding implementation issues, with the introduction of a more robust Purchase to Pay (P2P). A new business process was mapped with services and then the new process was launched with a variety of training, support and communications. The correct use of the P2P process is essential for good governance and improved efficiency.

4.1.5 Enhancements of Fusion functionality together with revisions to finance and business processes are in train or are being planned.

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##### 4.2 MOSAIC Finance Payments



4.2.1 Mosaic is the Adult and Children Social care system, but also includes a substantial finance module to support the successful delivery of these services. The purpose of the review was to establish that the financial information held on Mosaic and Oracle Fusion reflects an accurate picture of the expenditure on social care.

4.2.2 The audit did not find formal written procedures for financial processes in either system (Mosaic Finance and Oracle Fusion). In particular there did not seem to be any clear guidance on Mosaic financial reporting. There is an acknowledgment that a major issue is the quality of financial data and being able to report accurately. It has also been recognised that the standard reports in Mosaic require a great deal of manual intervention.

- 4.2.3 The Mosaic finance module is used to manage the social care purchasing system (for both adults & children. It creates purchase orders and issues them to suppliers; as well as paying scheduled contracted block and other care service payments. Oracle Fusion pays the invoices in accordance with supplier requirements and shows the expenditure on designated codes, but only holds information on expenditure in arrears after services have been supplied, but does not currently show future commitment.
- 4.2.4 Financially what is in the Oracle Fusion system can be traced back to activity in Mosaic regarding expenditure and vice versa.
- 4.2.5 A review of the physical processes around the creation of invoices and set up of suppliers in Mosaic found no significant issues, however testing of the timeliness of payments highlighted a number of issues in the area of personal budgets around the processing of adjusted invoices and the time taken to process some invoices from issue date to payment. Alteration and amendments to payments were also examined and it was noted that there were a lot of adjustments after the event, but that there was an audit trail that justified these changes. The need for credit notes to adjust invoices and amendments for correct accounting for VAT payments between the systems added to the delay as both require a great deal of manual intervention to achieve satisfactory resolution. The process of identifying and correcting payments is also time consuming and means that establishing a fixed reconciliation point is problematic.
- 4.2.6 Testing of the commitment and budgeting options for personal budgets in Mosaic did not produce confidence that the figures in the system accurately represented committed expenditure as a whole and there were multiple cases where purchase orders and their commitments had not been closed or where orders or variations to orders were retrospective creating potential overpayments with regards to invoices and payment in Fusion. The records in Fusion often show considerable amendment and adjustment for expenditure coding and payment amounts which reflected the delays and difficulties in getting accurate information.
- 4.2.7 The reason for the limited number of recommendations and positive assurance opinion is due to recognition that Mosaic and Fusion interfaces require development and although inefficient, manual interventions provide the basis for reasonable financial reporting. To help drive improvements CMT have agreed that Fusion will be the main reporting resource. Data will be brought in from Mosaic to allow comprehensive management reports to be produced (allowing actuals and commitments data all in one place, and work on this has subsequently begun). Oversight for both the finance module of Mosaic and Fusion sits with the Finance System Team manager. An additional temporary resource has been brought in to provide day to day support to Mosaic and as part of this role will be training the Finance system team to support Mosaic (Finance) and they in turn will be producing procedural notes.

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### 4.3 Right to Buy

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- 4.3.1 The Government introduced increased discounts to tenants wishing to buy their home under the Right to Buy (RTB) scheme almost four years ago. The Council has experienced a large rise in applications to the scheme when the discount was first increased; however this has now slowed down due to the escalating house prices in Reading. Often significant officer time is taken up processing applications which do not complete due to tenants being unable to afford the purchase price, even after the discount has been applied.
- 4.3.2 The RTB scheme is lucrative to potential fraudsters and is considered as an area of emerging fraud risk by the CIPFA Counter Fraud Centre. With the national average value of a RTB fraud £64k per property, it lends itself to money laundering and encourages sub-letting/non-residency in order to take advantage of the scheme. If undetected it permanently deprives the Local Authority of that property for future use.
- 4.3.3 This is a recognised area for improvement, with verification processes currently under review and following our recommendations the service is putting in place additional measures to provide more rigorous checks.
- 4.3.4 In the majority of cases, the required statutory timescales are met for processing applications, with the necessary documentation sent to tenants. Property valuations are carried out in-house by an appropriately qualified individual, with the discount calculated appropriately and consistently.
- 4.3.5 Regular reconciliations are conducted to ensure the correct sale proceeds are recognised in the Council's financial system and evidence such as CHAPS<sup>1</sup> receipt, workflow process or record of telephone conversation are now to be retained to evidence that sale proceeds and rent checks have been conducted prior to RTB completion.

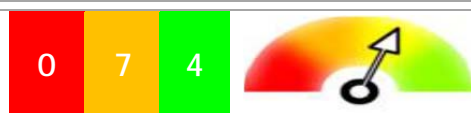
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<sup>1</sup> Clearing House Automated Payment System

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4.4 School Expansion Programme

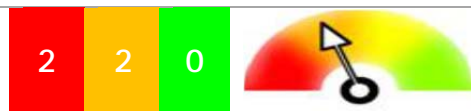


- 4.4.1 In common with many other local authorities, Reading Borough Council is facing a significant increased demand for primary school places. In order to be able to cater for the increase in numbers, the Council has initiated a major building programme for either a new school or development and extension of a number of existing schools.
- 4.4.2 An audit review of the scheme was carried out in 2013/14 at an early stage of the building programme which noted that there were robust governance arrangements, procurement processes were generally sound and that adequate programme and financial management processes and controls existed.
- 4.4.3 The purpose of this review was principally to update the position and provide assurance that a satisfactory control framework continues to operate for the scheme(s).
- 4.4.4 The School Expansion Programme represented a major (£64 million) capital programme project for RBC and is currently forecast to be delivered to time and budget. Given the scale and scope of the programme this represents a significant achievement for those officers and parties involved. Although we made a few recommendations in respect of the existing programme, generally we found good governance and programme structure in place. A number of recommendations (lessons learnt) were made for consideration in respect of any future construction programmes.

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4.5 Sec 106 Contributions



- 4.5.1 Whilst reconciling financial data at year-end, Section 106 contributions for two developments, totalling £42,000, could not be accounted for by the Council. An immediate investigation identified that a member of staff was re-directing funds into a non-RBC bank account. The officer in question had substituted the Council's official bank account details with his personal bank account details in letters sent to developers instructing them to make payment.
- 4.5.2 Running parallel to the criminal investigation (see paragraph 6.5), the Head of Planning, Development & Regulatory Services commissioned an urgent Internal Audit review of the control processes covering the receipt and accounting of Section 106 contributions. The purpose of the review was to examine the procedures associated with collecting S106 receipts, and did not examine the allocation or use of S106 contributions.

- 4.5.3 The audit highlighted inherent weaknesses in the administration of the billing and collection of developer S106 contributions. There was a lack of clarity over the extent of supervision of the monitoring officer, with limited checks being undertaken on transactions. Letters (word documents) were being used to request contributions from developers, which were not being verified/checked or approved by a senior officer. This was further compounded by the absence of independent checks/reconciliations to periodically verify the receipt of contributions against what was expected. There was insufficient segregation of duties.
- 4.5.4 Although existing documented procedures cover the start-to-end process, procedures did not provide sufficient operational detail specifically on roles and tasks covering the income collection and receipting process. This enabled tasks being assigned to the one individual without sufficient monitoring and managerial supervision, or separation of duties.
- 4.5.5 Amended procedures detailing operational steps and standards, control requirements and workflow processes are now being prepared for discussion with internal audit and the Head of Finance. Once agreed, these procedures will be issued to staff along with appropriate training provided and staff will be required to sign to confirm they have received and understood the new procedures.
- 4.5.6 The service has recently experienced a wholesale change in the key personnel as part of broader resource issues and more recently a restructure of the Planning Service has taken place. Whilst it is acknowledged that structures and roles can change, it is important that roles and responsibilities remain clear and where possible a separation of duties exist. It is recognised that job descriptions and procedures need to clearly specify supervisory responsibilities and how this relates to the administration or monitoring of S106 monies. The Head of Service has since confirmed that roles will be made clearer and that job descriptions for staff directly involved in undertaking or supervising work on S106 are being re-written to include reference to carrying out duties in accordance with procedures. At the time of writing the Head of Planning, Development and Regulatory Service is consulting staff on a number of organisational changes including the introduction of a new S106/Community Infrastructure Levy (CIL) officer role and changes to the administrative officers' role to include relevant S106 /CIL tasks.
- 4.5.7 Consideration is being given to either exploring the use of the Council's Corporate Debtors system (which is managed separately from the Planning Service) or acquiring a comparative system which enforces greater separation of duties between the initiation and actual recovery of contributions and to provide an audit trail of income due and received.



## 5. AUDIT REVIEWS 2016/2017

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

Audit Title	Timing	Start Date	Draft Report	Final Report
MOSAIC (Finance Payments)	Q1	Mar 16	July 16	Aug 16
Creditors (Accounts Payable)	Q1	Dec 15	Apr 16	Aug 16
Nursing & Residential Care Packages	Q1	Mar 16	June 16	
School Places Capital programme	Q1	Mar 16	May 16	Aug 16
Right to Buy	Q1	Apr-16	Jun 16	Aug 16
Leisure (Income Collection)	Q1	Apr 16	Jun 16	Jun 16
MOSAIC/Oracle Fusion End of year reconciliation	Q1	May 16	Aug 16	
Overtime	Q1	Jun 16		
Health & Safety Review	Q1	May 16	Sep 16	
Information Governance & Data Protection	Q1	Jun 16	Sep 16	
Electronic Document and Records Management	Q1	Apr 16	May 16	Jun 16
Troubled Families (Grant Sign Off)	Q2	Sep 16	-	
Pinch Point (Grant Certification)	Q2	-	-	
LTP Capital Settlement (Grant Certification)	Q2	-	-	
Integrated Discharge Scheme	Q2	Aug 16		
Access to Records	Q2	May-16		
MASH (Multi-Agency Safeguarding Hub)	Q2			
Use of cash vouchers & cash accounts	Q2	Jun-16	Sep 16	
Sec 106 contributions*	Q2	Jun 16	Aug 16	Sep 16
RBC childcare settings*	Q2	Sep 16		
Pupil Premium Funding	Q3	Aug 16		
Caversham Nursery School	Q3	Oct 16		
Cranbury College	Q3	Nov 16		
Manor Primary School	Q3	Oct 16		
Corporate Buildings H&S	Q3			
Housing & Communal areas Buildings H&S	Q3			
Bed and Breakfast Placements	Q3			
Key financial system reconciliations	Q3			
Financial Assessments of Adult Care (follow up)	Q3			
Extra Care Housing	Q3			

Audit Title	Timing	Start Date	Draft Report	Final Report
eTendering	Q4			
Mosaic (Data Quality)	Q3			
Looked After Children	Q3			
Troubled Families (Grant Sign Off)	Q3	-	-	
Early Years	Q4			
Reading Girls School (Follow up)	Q4			
Micklands Primary School	Q4	Nov 16		
Moorlands Primary School	Q4	Jan 17		
The Hill Primary School	Q4			
The Ridgeway Primary School	Q4			
Corporate Governance Overview	Q4	-	-	
Foster Care & Adoption Allowances (follow up)	Q4			
General Ledger	Q4	-	-	
Creditors (Accounts Payable)	Q4	-	-	

\*Audits added in-year following specific request

## 6. INVESTIGATIONS (April 2015 - March 2016)

### 6.1 Benefit Investigations

- 6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case has been referred back to investigations team by the DWP, the total overpaid benefit for this case was **£13,600**.
- 6.1.2 The investigation officers are also now looking at referrals from Council Tax in relation to possible criminal offences under the Council Tax Support regulations. Investigations receive on average 22 referrals per week from the service and at present have 25 ongoing investigations.
- 6.1.3 The Council Tax Support overpayment figure as at Aug 2016 is **£16,121**, which includes one prosecution. In this period 9 claimants investigated have been subject to Administration Penalties<sup>2</sup>, with the total fines imposed amounting to **£6,407**.

<sup>2</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.

## 6.2 Fraud & Error Reduction Incentive Scheme

6.2.1 Investigation officers are working very closely with Housing Benefit teams on the Fraud & Error Reduction Incentive Scheme (FERIS). The scheme is a DWP initiative and provides financial incentives (approximately £6.5k per month) to local authorities who reduce fraud and error in their Housing Benefit cases. A schedule of planned visits (40 per month) on current Housing Benefit claimants are undertaken to ensure claimant details held are accurate and up-to-date.

6.2.2 Investigation officers will look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded.

## 6.3 Housing Tenancy

6.3.1 Since 1 April 2016 Investigation officers have investigated 21 cases of housing tenancy fraud and have assisted in the return to stock of 3 Council properties.

6.3.2 It is difficult to quantify the financial implications of these types of investigations, however the RBC agreed figure of £15,000 is considered to be the average cost for retaining a family in temporary accommodation. Using this figure (3x £15,000) in the region of £45,000 could have been saved as a result of tenancy investigations.

6.3.3 We are working alongside a Financial Investigator in connection to a previous Housing Tenancy fraud case in which the defendant was found guilty at trial in 2015. An application under the Proceeds of Crime Act (POCA) has progressed through initial stages and there is an application on file for hearing this year at Reading Crown Court. The application is in respect of the defendant had benefitted to the sum of £122,500. In addition to this, compensation amounts to £90,000.

6.3.4 However this is a very complex case, the decisions on amounts and payments (if any) we will not know until the Court has considered all arguments, but we are hoping to get a decision from the Crown Court later this year.

6.3.5 Investigation officers have been working with Housing to undertake a rolling programme of tenancy Audits (58 visits to date), which has led to further investigations into potential non-residency for 5 tenancies, with one property in the final stages of returning back to RBC stock.

6.3.6 The investigations officers also work closely with housing colleagues on succession/accession applications. Since April 2016 we've reviewed 19 such cases, with six referred back to Housing for further review.

6.3.7 As part of the ongoing joint work we are doing with Housing services. Since April 2016 investigation staff have assisted in the verification and checking of 586 Home choice applications. There were 6 cases in which SPD /CTRS issues were identified. These cases have resulted in a CTRS overpayment of £3,760.

#### 6.4 Blue Badge investigations

6.4.1 In the period April 2016 through to August 2016, we have received a total of 8 case referrals, 2 Blue Badges have been seized and removed from circulation.

#### 6.5 Sec 106 Fraud

6.5.1 As detailed in section 4.5 officers undertook an investigation into missing sec 106 contributions. Enquiries and subsequent evidence identified that a member of the Planning Team was re-directing funds into a bank account which was not managed by RBC. The officer in question had substituted the Council's official bank account details with his personal bank account details in letters sent to developers instructing them to make payment.

6.5.2 Section 106 contributions for two developments, totalling £42,000, were fraudulently diverted into his personal bank account.

6.5.3 From our examination of records relating to S106 contributions due, two further cases, were identified where the S106 Monitoring Officer had attempted to get the developer(s) to pay outstanding S106 contributions directly into his account. Neither was successful as they were inadvertently thwarted by staff.

6.5.4 The investigation also revealed that the officer wrote to customers who had made enquiries for section 106 searches offering to carry out the service for a fee of £50; however it was unclear how many customers had made this payment.

6.5.5 Following a detailed investigation the officer was arrested, charged with offences under the fraud act and later sentenced for two years.

6.5.6 The Court has agreed to an order under the Proceeds of Crime Act, which is being pursued by the Crown Prosecution Service.

## **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, 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.

## **11. FINANCIAL IMPLICATIONS**

- 11.1 N/A

## **12. BACKGROUND PAPERS**

- 12.1 N/A