

READING BOROUGH COUNCIL

INTERIM STRATEGIC DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25 January 2018	AGENDA ITEM:	4
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

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 September 2017.

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	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the green section.	<p>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.</p>
Reasonable	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the yellow section.	<p>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.</p>
Limited	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the amber section.	<p>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.</p>
No assurance	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the red section.	<p>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.</p>

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
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 misstatement.
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

3.2.2 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.

3.2.3 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

4.1 Public Health Grant



4.1.1 Although procedures for the administration of the Public Health Grant Fund are much improved there are areas that require addressing to provide greater clarity of funding allocations.

4.1.2 A number of projects were found to be in areas that had been classified as being 'miscellaneous expenditure' (£879k). Alongside this, the recharge of central establishment costs (£318k) did not show any detail as to their calculation (total PH budget £10m). This has resulted in monies being assigned internally to RBC cost centres to support activity that although is broadly in line with public health guidelines, are not necessarily in line with specific programme designations. In the main, expenditure for these projects have not been reviewed and signed off by the current public health management.

4.1.3 There is nothing to suggest that monies have been spent inappropriately or that with a relatively small change these projects cannot be brought back within a proper governance framework with a relatively small expenditure of effort or the calculation of costs that are recharged under the grant are made clearer.

4.1.4 The audit also noted that there were a relatively high number of journal transfers to move monies around codes and a relatively late application of funds for some projects which would suggest that there were issues around the budget build process.

4.2 Bank Reconciliations



4.2.1 The overarching objective of this audit was to follow up progress made on implementing audit recommendations, following the last review in January 2017. We hoped to see up-to-date bank reconciliations in place, with historic balances cleared and improved corporate oversight of all other control account reconciliations.

4.2.2 At the time of this audit, a revised Bank Reconciliation Process had been designed, but not implemented, as these changes required updates to the Council's cash system to progress. As RBC predominantly initiates payments through the Oracle Fusion Payments module or Payroll, there should be control at transaction level going forward. The new bank reconciliation process will essentially bring these together, and allow for the "timing differences" to reconcile the Oracle Fusion bank position with the actual bank account. However, no monthly bank reconciliations had taken place for the financial year 2017/18.

- 4.2.3 In the meantime daily checks are now being undertaken to check that all receipts in the bank account are processed by the Civica (cash) system, so it is known that cash has been allocated.
- 4.2.4 With regard to historic reconciliations, there has been some progress in clearing known unreconciled items so that the historic unreconciled balance is reduced and eventually removed.
- 4.2.5 Progress at individual system level has been minimal as the Corporate approach to reconciliations has not been agreed, including documenting procedures and reconciliation standards/conventions. The current format of reconciliations is sometimes unclear and unprotected with manual processes being necessary to physically input data from the systems being reconciled into excel spreadsheets. Services have now been instructed to send reconciliations to the Finance Service each month from September 2017 onwards within 1 month of the month end.

4.3	Business Rates	0	0	4	
-----	----------------	---	---	---	---

- 4.3.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and reconciled monthly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with collection and recovery performance monitored.

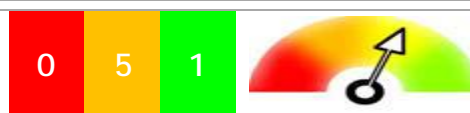
4.4	Direct Payments	3	4	2	
-----	-----------------	---	---	---	---

- 4.4.1 An important part of the control framework is the quarterly and annual review process(es) where the Direct Payment client (or representative) accounts for expenditure paid out. Audit sample testing of key control documents found that there were a number of gaps and inconsistencies between records. It was found that the quarterly monitoring and annual audit checks by staff of Direct Payment accounts are not being done on time and there are backlogs with both. The consequence of backlogs is that mistakes, errors or potential instances of fraud might not be identified and investigated in a timely way.
- 4.4.2 In common with most local authorities RBC requires separate bank accounts to be set up and used and for a prescribed pattern of central checking to be carried out. However to improve control, we've recommended that the Direct Payment client (or representative) is instructed to submit evidence of expenditure (invoices, receipts etc) on a quarterly basis for scrutiny, in addition to the regular monitoring return and copy bank statement that are required by RBC currently.

4.4.3 One of the ways to allocate, manage and monitor Direct Payments is through the use of pre-paid cards. There are advantages in the use of pre-paid cards and central and local government are keen for their widespread use as it is perceived to offer increased choice and responsibility for the client, as well as reducing the administrative burden on the local authority. It was disappointing to find therefore that the take up of pre-paid cards is low (less than 20%). It was also noteworthy that some other local authorities do not offer any choice to clients before switching them across to use pre-paid cards, whereas RBC clients are allowed to choose and to change systems. Clearly further efforts need to be made to improve this and it was a recommendation that this option is investigated further as it could potentially have important advantages for the Council.

4.4.4 The service has responded positively to the report and recommendations. In particular management has committed to review the strategy for Direct Payments, especially the extension of the use of pre-paid cards.

4.5 Adults Safeguarding



4.5.1 At the request of the service we were asked to undertake a quality assurance check on supervision procedures and supporting records to verify the consistency and quality of social worker supervision. This covered both personal supervision and case reviews¹.

4.5.2 An analysis of staff satisfaction² with the (personal) supervision framework, using a number of predefined questions revealed the average satisfaction rate to be 89.6%. In practice, staff satisfaction rates across all areas of the supervision process vary quite substantially, between 57% and 98% satisfied. However generally, most staff consider the process a useful experience, although there are elements that could be improved to increase compliance and consistency or could be adapted to suit a professional caseload focussed role such as social workers and case co-ordinators.

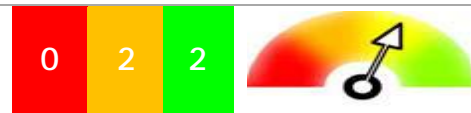
4.5.3 Based on our analysis the personal supervision process is generally working well, although consideration should be given to reinforcing value and importance of the supervision process.

4.5.4 There was evidence seen on supervision notes and Mosaic files that consideration is given to the Mental Health Capacity Act, risk assessments and joint working arrangements. We did however recommend that supervision is linked to social care standards, the frequency should be dependent on development status and there should be mandatory requirements i.e. standards of records, Mosaic inclusion and inspection of records.

¹ The audit tested evidence of case management supervision covering Mental Capacity, risk assessment, joint working arrangements and financial outcomes. It did not evaluate the quality or appropriateness of outcomes of the supervision.

² A questionnaire was made available to all adult social care staff (272), of which 58 (21%) responded.

4.6 Payroll



- 4.6.1 The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, and that payments made are accurate. In general, this was found to be the case, with effective controls in place to ensure that the pay run is accurate and payments and deductions are accurately applied to employee records. Suspense accounts were cleared in respect of payroll entries in a timely fashion.
- 4.6.2 The key part of the payroll process continues to be timely notification by the recruiting manager/budget holder of changes effecting pay and/or the establishment and staff submitting claims in a timely and legible fashion. This has led to overpayments in the current calendar year (January 17 to December 17) totalling £67k (including schools) or £41k (excluding schools).
- 4.6.3 This figure is for overpayments that couldn't be reclaimed automatically from an employee's next available pay such as leavers or negative net pay. The figure is net e.g. after refunding tax, national insurance and pension. In addition there are costs associated with the administration time and recovery of the debt.
- 4.6.4 Whilst, the values appear relatively low in context of the council's overall payroll budget (£71.7m), we are of the opinion that greater accountability needs to be placed with the budget holder to notify payroll of the leaver. Payroll will automatically reclaim money if they are able to do so, but when an employee leaves or does not have enough salary to reclaim the amount payroll will have to raise a debtor's account. We have recommended that the debt sits with the budget holder and not corporately, as currently there is little accountability for managers who fail to submit change/leaver forms and it is left to Payroll to raise a debtor's account and communicate with the individual.

4.7 N3 Accreditation

4.7.1 N3 was the NHS National Network and accreditation will allow RBC to access NHS records for the purposes of delivering better social care. In order for access to be granted, RBC must have a number of policies and procedures in place and these must be evidenced before the technical work to link our network to the NHS can go ahead. These policies cover a number of areas including:

- Information Governance Management
- Confidentiality and Data Protection Assurance
- Information Security Assurance
- Care Record Assurance

4.7.2 In total there are 28 compliance conditions complete with evidential requirements that need to be formally evidenced and signed off by internal audit. We have worked with the officers concerned to ensure that the conditions are achieved or are likely to be met due to measurable actions being taken moving forward. Each compliance condition required evidence to be attached to a master document before submission for accreditation.

4.7.3 On the 17th November 2017 we were informed that we had passed and were accredited which meant that the next phase of technical work to join networks could go ahead.




4.7.4 It is worth noting that N3 has recently been replaced the by HSCN (Health & Social Care Network).

4.8 Journals

4.10.1 We have been working with Finance to quality assure the evidence to support journal transactions for the 2016/17 financial year. This has involved sampling hundreds of journal transactions and evaluating the standard of the supporting evidence. We have also worked with the Oracle Fusion Team and Technical Accountant to review processes within Fusion which allow evidence and working papers to be uploaded directly to Fusion and authorisation process to be built into workflows.

4.7 School Audits

4.7.1 We have completed three school reviews this quarter as follows:

Emmer Green Primary School	0	1	1	
Geoffrey Field Junior School	0	0	6	
Oxford Road Community School	0	5	5	

5 AUDIT REVIEWS 2017/2018

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
eTendering system (C/Forward)	Q1	Mar-17	May-17	Jun-17
MOSAIC / Oracle Fusion end of year reconciliation (follow up)	Q1	May-17	Sep-17	Sep 17
Child Exploitation & Missing Children	Q1	Apr-17	Jun 17	Sep 17
Financial Assessments for Adult Care	Q1	Apr-17	Dec 17	
Public Health Grant	Q1	May 17	Sep 17	Sep 17
Corporate Buildings H&S Statutory Compliance Regimes (c/forward)	Q1	Apr 17*		
Sec 106 Agreements (follow up)	Q1	May 17	Jun 17	Jun 17
Corporate Governance Overview	Q1	Apr-17	Jun-17	Jun 17
Safeguarding (Adults)	Q1	Jul 17	Aug-17	Dec 17
Direct Payments/Personal Budgets**	Q1	Jun-17	Sep 17	Dec 17
Information Governance (follow up)	Q2	Dec 17		
Payroll	Q2	Sep 17	Dec 17	Jan 18
Local Transport Plan Capital Settlement (Grant Certification)	Q2	Jul 17	Jul 17	Jul 17
Bank & Cash Rec	Q2	Sep 17	Oct 17	Dec 17
MASH (Multi-Agency Safeguarding Hub)	Q2	Cancelled - focus on improvement plan		
Pothole action fund	Q2	Jun-17	Jul 17	Jul 17
NHS CHC	Q2	To be rescheduled for 18/19		
EDRM (follow up)	Q2	Dec 17		
Deputyship and Appointeeship	Q2	Oct-17		
Children's Services Improvement Plan	Q2	Jan 18		
Emmer Green Primary School	Q2	Nov 17	Nov 17	Dec 17
Council Wide Savings	Q2	Jul 17	Sep 17	Sep 17
Bus Subsidy Grant	Q2	Jun 17	Jul 17	Jul 17
Business Rates	Q2	Sep 17	Oct 17	Nov 17

* Currently delayed until Q4

** added following a request by the Interim Director of Finance and external auditor.

Audit Title	Timing	Start Date	Draft Report	Final Report
Redlands Primary School	Q3	To be rescheduled for 18/19		
St Michaels Primary School	Q3	To be rescheduled for 18/19		
Commercial property acquisitions and management	Q3	Dec 17		
Blagdon Nursery School	Q3	To be rescheduled for 18/19		
Homes for Reading	Q3	Oct 17	Nov 17	Dec 17
Whitley Park Primary School	Q3	Nov-17		
The Hill Primary School	Q3	To be rescheduled for 18/19		
Corporate Governance Overview	Q3	Dec 17		
General Ledger	Q3			
Geoffrey Field Junior School	Q3	Nov 17		
Oxford Road Community School	Q3	Oct 17	Nov 17	Nov 17
Arts & Theatres income collection	Q3	Dec 17		
Sundry Debtors	Q3	Oct 17		
Foster care (inc follow up)	Q4	Jul 17	Dec 17	
Creditors (Accounts Payable)	Q4	Jan 17		
Network Infrastructure Security	Q4	Dec 17		
Right to Buy (follow up)	Q4			
Troubled Families Grant Sign Off	Q4	Sep 17	Dec 17	Jan 17
Subject Access Requests (follow up)	Q4	Feb 18		

6 INVESTIGATIONS (April 2017 - September 2017)

6.1 Benefit Investigations

6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case for a (now) former employee was referred back to investigations team by the DWP. The total overpaid benefit for this case was £12,000. The defendant was found guilty of two fraud Act charges and received a suspended sentence and was also ordered to complete 200 hours of unpaid work within 12 months.

6.2 Council Tax Support (CTS)

6.2.1 Due mainly to resources and other priorities, over the past 6 months we have not undertaken any new work on Council Tax Support. However, we are engaged with the service on a project to data match Person Discounts (SPD) data sets with credit agencies. It is hoped that this work will start in the new financial year.

6.2.2 We have sanctioned two cases for offences, including one prosecution. The total savings for CTS is £5,000 and admin penalties (fines) of £1,761.

6.3 Housing tenancy investigations

6.3.1 Since 1 April 2017 Investigation officers have investigated 49 referrals of alleged housing tenancy fraud, and have assisted in the return to stock of 13 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 (13 x £15,000), to date notional savings of £195,000 have been made as a result of tenancy investigations.

6.4 Right to buy (RTB)

6.4.1 Between April and December 2017 we have been working with the Council's RTB team on applications made with the purpose of preventing money laundering and/or selling Council properties to someone who is not entitled.

6.4.2 The RTB discount can be as high as £78,800 and in addition, once a property is sold rental income is lost.

6.4.3 Since April 2017 the investigations team have undertaken enhanced checks of 29 RTB applications and following these checks one application was cancelled.

6.4.4 The notional savings have been calculated as £85,600 - £78,800 (full RTB discount) plus a 12 month rental income of £6,812 for this property.

6.5 Housing (other)

6.5.1 The investigations team has been assisting housing officers in the succession and accession process, with the aim of preventing fraud from entering onto the system by actively working with housing staff to run a set of basic verification checks prior to agreement. This includes identification checks as part of the overall verification of identity documents.

6.6 Blue Badge Investigations

6.6.1 We have received a total of 32 case referrals which has resulted in 20 of these been further investigated. As a result of this work 17 parking notices have been issued for minor Blue badge offences. A total of 4 Blue Badges have been seized and removed from circulation. There have been 2 prosecutions for Blue Badge frauds the notional cost we have calculated for Blue Badge fraud with the RBC area is £2,200 (per badge) per annum .Using this figure the notional savings achieved since April 2017 to December 2017 is £13,200.

6.4 Social Care Fraud & Investigations

- 6.4.1 We currently have two cases with our Criminal Lawyers pending fraud charges. One case with respect to direct payments³, whereby it appears monies paid by RBC have not been used in accordance with the care plan. Following months of complex investigation we have gathered evidence which indicates that over £60,000 has been misappropriated and not been used for purposes for which the monies were intended.
- 6.4.2 The second case involved allegations that care workers employed by a care agency, which provides domiciliary care and support to service users, had been falsifying time sheets, and subsequently claimed for work which was not undertaken.
- 6.4.3 Following investigation two employees of the agency were arrested for suspected offences under the Fraud Act 2006. It was then found that both individuals had obtained employment using false identification, to allow them to work in the UK. The overcharge amounted to just under £2,000.

6.5 Internal Investigations

- 6.5.1 For the period April 2017 to December 2017, we have been involved in two internal investigations, both of which have been passed to the Council's criminal solicitor to consider charges.

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

³ Direct payments are payments for people who have been assessed as needing help from social services, and who would like to arrange and pay for their own care and support services instead of receiving them directly from the Local Authority.

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”.

8.1 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.

9. FINANCIAL IMPLICATIONS

9.1 N/A

10. BACKGROUND PAPERS

10.1 N/A