

To: Councillors Stevens (Chairman),  
Duveen, Lovelock, McKenna, Page and  
Terry

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9 April 2018

Your contact is: **Michael Popham - Committee Services**

### NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE - 17 APRIL 2018

A meeting of the Audit & Governance Committee will be held on Tuesday 17 April 2018 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

#### AGENDA

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1. DECLARATIONS OF INTEREST	-
2. MINUTES OF THE COMMITTEE'S MEETING OF 25 JANUARY 2018	1
3. QUESTIONS	
4. ACCOUNTS 2016/17	35
This report sets out the ongoing and future actions to deliver the 2016/17 accounts and to improve the quality of financial processes and systems in order to deliver a true and fair view in the future.	
5. ANNUAL CERTIFICATION REPORT	6
This report summarises the results of the work carried out by EY on the Council's 2016/17 claims and returns.	
6. INTERNAL AUDIT QUARTERLY PROGRESS REPORT	21
This report provides the Committee with an update on key findings from Internal Audit reports issued since the last quarterly progress report in January 2018.	
7. EXTERNAL AUDITOR UPDATE	-

To receive a verbal update from the Council's external auditor EY.

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## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2018

Present: Councillors Stevens (Chairman), Lovelock, McElligott, McKenna, Page, Steele & Terry.

Apologies: Councillors Duveen and Rodda.

Also in attendance:

Adrian Balmer	EY LLP
Alan Cross	Head of Finance
Maria Grindley	Director and Engagement Lead, EY LLP
Paul Harrington	Chief Auditor
Peter Lewis	Strategic Finance Director
Kevin Parker	Principal Auditor
Jean Stevenson	Chief Accountant

### 24. MINUTES

The Minutes of the meeting of 21 November 2017 were confirmed as a correct record and signed by the Chairman.

### 25. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports and investigations issued since the last quarterly progress report in September 2017. The report set out a summary of the audit reports in respect of Public Health Grant, Bank Reconciliations, Business Rates, Direct Payments, Adult Safeguarding, Payroll, N3 Accreditation and Journals. The report also referred to three school audits, which had been carried out and contained a table showing the audit reviews currently in progress and those planned for the next quarter.

In relation to the audit of Bank Reconciliations, it was noted that progress had been made to clear the backlog of historic reconciliations, prior to 2017/18. In the future, it was anticipated that as the Council predominantly initiated payments through the Oracle Fusion Payments module or Payroll there should be control at the transaction level, enabling the 'timing differences' to reconcile the Oracle Fusion bank position with the actual bank account automatically. Unfortunately, whilst the revised Bank Reconciliation Process had been designed, it had yet to become operational and as a result no monthly bank reconciliations had taken place so far in the current financial year.

The Committee referred to the concerns related to Direct Payments highlighted in the Chief Auditor's report. The Council currently offered clients the choice of managing and monitoring Direct Payments through either a bank account or pre-paid cards. There were demonstrable advantages to the use of pre-paid cards but in Reading the take-up was low at below 20%. The Service had responded positively to the recommendations in the audit report and would be reviewing the strategy for Direct Payments, with the intention of extending the use of pre-paid cards.

Resolved: That the report be noted.

## 26. CORPORATE (STRATEGIC) RISK REGISTER

The Chief Auditor submitted a schedule updating the Committee on the Q3 status of the Council's 2017/18 Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. The SRR was attached to the report at Appendix 1.

The report explained that the SRR had been developed to provide a focused and high level overview of strategic risks for staff, councillors and other stakeholders, and was supplemented by more detailed directorate, service and project risk registers. The report noted that the Council now faced significant financial pressures and risk mitigation would be limited by how much was available to spend. The appetite for the level of risk the Council was prepared to accept would by necessity have to increase accordingly, and under this new approach it was important that the level of risk appetite was determined. The SRR had therefore been re-formatted to include unmitigated and risk appetite scores and track scoring over time to better inform those responsible for managing the risks. The analysis of 'red', 'amber' and 'green' would now be based on the extent of the gap between the current residual risk and the risk appetite, and, in order to focus attention on areas of greatest risk, the Register should include only the key current risks that had not been mitigated down to the risk appetite level. It was therefore proposed that where risks had been rated as green for two or more consecutive quarters they should be removed from the Register.

The SRR highlighted twelve risks, three of which were rated as 'red' as follows: delivering a sustainable Medium Term Financial Plan/ achieve a balanced budget; data management; and failure to implement a Council-wide response to Child Sexual Exploitation.

Resolved:

- (1) That the Corporate Risk Register be noted;
- (2) That a more detailed explanation of the rationale for rating Risks be included in future reports, as well as more historic data to show the movement in the 'RAG' status of risks over time.

## 27. DRAFT INTERNAL AUDIT PLAN FOR 2018/19

The Chief Auditor submitted a report setting out the work that Internal Audit planned to undertake during the financial year 2018/19. The Indicative Internal Audit Plan was attached as Appendix 1 to the report along with the Internal Audit Charter at Appendix 2. The Chief Auditor had the responsibility to produce an audit strategy of how the internal audit service would be delivered and how it linked to the organisational objectives of the Council.

The report explained that Internal Audit was responsible for forming opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. It stated that in the context of the Public Sector Internal Audit Standards, 'opinion' did not mean simply a view, comment, or

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2018

observation; it meant that Internal Audit would have done sufficient, evidenced work to form a supportable conclusion about the Council's activities they had examined.

In accordance with The Accounts and Audit Regulations 2015, the Council had to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes, with reference to public sector internal auditing standards and guidance. The Public Sector Internal Audit Standards required an Internal Audit Charter to be in place which would be reviewed periodically and presented annually to the Committee.

Resolved:

- (1) That the Internal Audit Plan for the period April 2018 to March 2019, which was attached to the report at Appendix 1, be approved;
- (2) That the indicative Internal Audit Charter 2018/19, which was attached the report at Appendix 2, be noted.

### 28. ANNUAL GOVERNANCE STATEMENT 2016/2017 - UPDATED ACTION PLAN

Further to Minute 19 of the meeting held on 21 November 2017, the Strategic Finance Director submitted a report setting out the updated action plan for the 2016/17 Annual Governance Statement (AGS), which was attached to the report at Appendix 1. The Council was required to prepare and publish an AGS each year as an accompaniment to the authority's financial statements. The Council was responsible for ensuring that its financial management was adequate and effective and that it had a sound system of internal control, which facilitated the effective exercise of the Council's functions, including arrangements for the management of risk. The AGS was a record of the overall effectiveness of governance arrangements within the Authority; it reflected the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrated how the key governance requirements had been met.

The action plan attached to the report set out the details of and commentary on 10 headline actions that had been identified, all of which had been or were in the process of being implemented.

Resolved: That the updated action plan associated with the annual governance statement for 2016/17 be noted.

### 29. ACCOUNTS 2016/17

Further to Minute 20 of the meeting held on 21 November 2017, Peter Lewis, Strategic Finance Director, submitted a report on the continuing work to sign off the accounts as a true and fair view of the Council's finances and the action being taken to remedy the current situation. Since the previous meeting, significant effort had been committed to addressing the deficiencies in the accounts and the report summarised the actions taken to date and those planned. In undertaking these actions, attention was also being paid to preparations for the completion of the 2017/18 accounts,

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2018

which had to be undertaken by 31 May 2018 with the audit completed by 31 July 2018.

While there remained strong commitment within the Finance Team to delivering improved accounts for audit, it was recognised that to move from the current situation to unqualified accounts within this accounting year would be challenging. The report stated that action had been undertaken to bolster significantly the resources dedicated to the task of improving the accounts. Other actions had also been initiated to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. A table in the report briefly set out the actions underway or planned at the current time.

The Committee noted that despite the work that had been carried out by the Finance Service, it had not been possible as yet to provide EY with outputs of sufficient quality to enable them to sign off the Accounts for 2016/17. Some of the issues identified pre-dated 2016/17 and would take time to resolve. It was noted that the issues identified so far had not significantly changed the 2016/17 outturn position for the Council.

The Committee also noted that the 'health check' of Fusion, the main financial ledger system, which was due to take place in January 2018 had not commenced. This was because the contractor engaged to undertake the review had not performed as required and had been replaced. The work was now expected to commence in March 2018.

**Resolved:** That the actions underway or planned to rectify the deficiencies in the 2016/17 accounts and ensure that they were not repeated in 2017/18, as described in the table below paragraph 3.3 of the report, be endorsed.

### **30. PREPARING FOR THE 2018/19 BUDGET - DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2018/19**

Alan Cross, Head of Finance, submitted a report to provide an opportunity to pre-scrutinise the current draft of the Annual Treasury Strategy & Investment Statement, as recommended by CIPFA. The current draft of the Annual Treasury Strategy & Investment Statement was appended to the report for consideration. The Treasury Strategy Statement would form part of the Council's overall budget proposals, presented as part of the Budget Report to Council on 28 February 2018. The early presentation of the Statement would enable councillor consideration ahead of the decisions that would need to be taken as part of the budget setting process in February 2018. The draft Treasury Strategy might be amended to ensure it was consistent with the remainder of the budget proposals, but it was not expected to change significantly for 2018/19.

The Committee noted that the Investment Strategy stated that borrowing would rise from £350m to £600m in the early years of the next decade and referred to the table setting out external borrowing and debt along with treasury and non-treasury investments. It was requested that, in order to be able to assess more accurately the exposure of the Council to the level of debt being held, it would be helpful to have

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2018

the corresponding information about the Council's asset holdings. The Committee was advised that the estimated value of Council assets was over £1bn as at 31 March 2017, and although some of the evaluations were notional, due to the assets not being 'disposable' for a capital receipt, such as the highways network, this information did put the Council's debt position into context.

Resolved:

- (1) That the draft Treasury Strategy & Investment Statement, prior to its inclusion in setting the 2018/19 budget, be noted;
- (2) That, in future, reports on the Investment Statement be expanded to include details of the Council's assets to enable the Committee to assess the level of exposure to debt repayments compared with the net worth of its assets.

### 31. BUDGET MONITORING REPORT

The Strategic Finance Director submitted a report on Budget Monitoring that had been considered by the Policy Committee at its meeting on 15 January 2018 (Minute 62 refers) and was presented for information. The Committee noted that, based on the position at the end of November 2017, it was projected that the revenue budget would be underspent by £0.9m as at the year end, with an unused contingency of £1.6m should there be no further unexpected pressures and savings shortfalls. However, there remained some serious concerns, in particular that the total of negative variances was £9.1m, and that this would have some impact on 2018/19 if not mitigated by ongoing savings.

Resolved: That the report be noted.

### 32. APPOINTMENT OF EXTERNAL AUDITORS

The Strategic Finance Director submitted a report asking the Committee to note the appointment of the external auditors under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.

Resolved: That, in accordance with regulation 13 of the Local Audit (Appointing Person) Regulations 2015, the appointment of Ernst & Young LLP to audit the accounts of Reading Borough Council for five years, from 2018/19 to 2022/23, be noted.

### 33. EXTERNAL AUDIT UPDATE

The Committee noted the ongoing work being undertaken to complete the Accounts for 2016/17 as referred to in Minute 29 above.

Resolved: That the position be noted.

(The meeting commenced at 6.30pm and closed at 7.54pm).

READING BOROUGH COUNCIL

DIRECTOR OF RESOURCES

TO:	AUDIT AND GOVERNANCE COMMITTEE		
DATE:	17 APRIL 2018	AGENDA ITEM:	4
TITLE:	ACCOUNTS 2016/17		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	JACKIE YATES	TEL:	
JOB TITLE:	DIRECTOR OF RESOURCES	E-MAIL:	<a href="mailto:Jackie.yates@reading.gov.uk">Jackie.yates@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

- 1.1 As previously reported to this Committee, the Council's 2016/17 Accounts should originally have been audited and signed off by the end of September 2017. However, due to issues arising during the audit process that was not possible. The Committee has subsequently received regular updates on the progress being made towards completing the audit. This report updates the Committee on progress since its last meeting in January 2018.
- 1.2 In part as a consequence of the issues outlined above Members will be aware that the Council agreed to undertake a fundamental review of its Finance function (Future Finance Function (FFF) review). This has progressed well since January. All staff put at risk by the review have been through the recruitment process and those that have been successful will transfer to their new roles from the 1<sup>st</sup> of May. An active recruitment process to fill the vacancies subsequently arising has begun and a number of key posts have already been filled, albeit not all appointees have as yet started due to notice arrangements.
- 1.3 An amended set of Accounts which rectified all known errors as at that point was presented to the Council's External Auditors Ernst & Young (EY) on the 20<sup>th</sup> of March.
- 1.4 The work of the Council's Finance Team has been reprioritised to provide an increased impetus to resolving all outstanding issues and facilitating EY concluding the 2016/17 audit in May 2018 subject to their internal peer review process.
- 1.5 Importantly; lessons are being learnt for the 17/18 process.



## 2. RECOMMENDED ACTION

- 2.1 To note the progress made in closing the 2016/17 accounts.

## 3. BACKGROUND AND PROCESS

- 3.1 A revised version of the Accounts (ver. 6) was submitted to the Council's External Auditors on the 20<sup>th</sup> of March. At that point 21 queries were outstanding. Of those, 10 queries have now been fully cleared and a further 6 returned to EY for their further review.
- 3.2 The 5 residual queries still being dealt with by the Council relate to:
- a) Collection Fund and treatment of NNDR appeals provisions;
  - b) HRA Disclosures;
  - c) Valuation Methodologies relating to Assets Held for Sale
  - d) Accruals Matching; and
  - e) Supplier invoices relating to Property, Plant and Equipment purchases made during 2016/17.
- 3.3 Since the 20<sup>th</sup> March EY have raised a further 21 queries of various complexity. These have arisen either as the result of their review of the information previously provided by the Council, or as a result of further progress in their work-plan.
- 3.4 Of these new queries, approximately 48% have been received in April. To date, 7 of the new queries have been fully closed and the rest are all being actively worked on.
- 3.5 A significant proportion of the queries outstanding include providing evidence for particularly large sample sizes relating to income, accruals, accounts payable and accounts receivable testing schedules. Priority is being given to this work and it is anticipated that all of this evidence will have been provided to EY by the time of this meeting.
- 3.6 There are two key issues which have arisen from EY's technical review and which Finance staff, the Council's Valuers and consultants are working to resolve, these relate to:
- a) Property Plant and Equipment valuation bases - It is anticipated that any required changes in this area will only impact on the Balance Sheet, potentially changing the classification of a small number of assets with corresponding changes confined to a reallocation between Unusable Reserves; and
  - b) The carrying value of the Council's PFI contracts - A conference call was held on 13 April between EY and the Council's advisors Arlingclose, to clarify the assumptions underpinning a proposed alternative accounting model. Further work is being undertaken as a result of this meeting and an agreement as to the accounting treatment and model to be used is

expected by 20 April. At the time of writing it is not entirely clear what the impact of any changes might be.

- 3.7 Resolving all outstanding queries and finalising the 16/17 audit has now been prioritised above all other work within the Finance Team, as agreeing the position is essential to enable colleagues to move on with closing the 17/18 Accounts. To that end daily 'catch ups' have recently been instigated between the Council's Head of Finance, Chief Accountant and EY's on site lead to track the status and progress of all issues. Where necessary, previous consultants originally involved in closing the accounts are being brought back in to assist with query resolution and weekly meetings are being held including the Council's Director of Resources and Auditor, Maria Grindley.
- 3.8 It is hoped that this increased focus will enable EY to complete their audit by the end of April and sign off the accounts in May, subject to EY'S internal peer review process not raising any additional concerns.
- 3.9 In light of the position with the 16/17 accounts. Delivering the 2017/18 accounts by the end of May is an enormous challenge. However, in addition to the recent appointment to key posts, lessons are being learnt by the Team in terms of the controls which need to be in place, evidence requirements, best practice and quality assurance (QA), all of which stand us in good stead going forward. To assist in the Council's QA process for 17/18 Internal Audit will undertake sample checks of Journals, Creditors and Debtors listings on a similar basis to that undertaken by EY, so that any issues identified can be addressed prior to the audit.

#### 4. EQUALITY IMPACT ASSESSMENT

- 4.1 Not applicable.

#### 5. LEGAL IMPLICATIONS

- 5.1 None arising directly from this report

#### 6 FINANCIAL IMPLICATIONS

- 6.1 As set out in the body of the report

# Certification of claims and returns annual report 2016-17

Reading Borough Council

February 2018

Ernst & Young LLP



The Members of the Audit & Governance Committee  
Reading Borough Council  
Civic Offices  
Reading  
RG1 2LU

27 February 2018  
Ref: HBEN01/16-17

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Dear Members

## **Certification of claims and returns annual report 2016-17 Reading Borough Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Reading Borough Council's 2016-17 claims and returns.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to 2 returns outside the PSAA's regime.

### **Summary**

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £74,990,371. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).



We welcome the opportunity to discuss the contents of this report with you at the 17<sup>th</sup> April Audit & Governance Committee.

Yours faithfully

**Maria Grindley**  
Associate Partner  
Ernst & Young LLP  
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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£74,990,371
Amended/Not amended	Amended – subsidy reduced by £13,398
Qualification letter	Yes
Fee – 2016-17	£17,470*
Fee – 2015-16	£34,591

\*Further details of the fees can be found at section 3

Recommendations from 2015-16	Findings in 2016-17
<ol style="list-style-type: none"> <li>1. Undertake a sample (minimum of 5%) check of claims on a regular basis with greater emphasis on known problem areas.</li> <li>2. Report the outcome of the sample checking to management and members on a regular basis.</li> <li>3. Remind assessors of the errors identified as part of the Housing benefits work undertaken by EY and provide additional training and monitoring of work on a regular basis.</li> <li>4. Set improvement targets for bringing down the error rate and reducing the amount of subsidy lost.</li> </ol>	<p>Given the scale of the errors identified in 2016-17 we would recommend that these recommendations remain a key focus for the housing benefits team in 2017-18.</p>

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

### Cell 11 Non-HRA

Our initial testing did not identify any errors in respect of earned income.

However due to the errors from the prior year on earned income, the Local Authority went straight to 40+ extended testing on a combined sub-population of earned income. This was in

line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 13 cases failed from the extended population of earned income non-HRA cases with 6 cases resulting in overpayments.

We reported the value of the extrapolated error of £487 in our qualification letter to the DWP.

## **Cell 55 HRA**

### **Cell 55 - Earned Income:**

Our initial testing did not identify any errors in respect of earned income. However due to the errors from the prior year on earned income, the Local Authority went straight to 40+ extended testing on a combined sub-population of earned income. This was in line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 10 cases failed from the extended population of earned income HRA cases with 3 cases resulting in overpayments.

We reported the value of the extrapolated error of £2,794 in our qualification letter to the DWP.

### **Cell 55 - Occupational Pension:**

Testing of the initial sample identified:

- 1 case which failed due to errors in the occupational pension calculation which resulted in an overpayment.

Testing of an additional sample of 40 cases identified:

- 7 cases failed with 3 cases (total value £8,790.2) where the Authority had overpaid benefit as a result of incorrect calculation of occupational pension.

We reported the value of the extrapolated error of £482 in our qualification letter to the DWP.

### **Cell 55 – Start Dates:**

No errors were identified in our initial testing in respect of incorrect assessment of start dates. Due to errors identified in the prior year the Local Authority proceeded to 40+ extended testing on a combined sub-population of start dates. This was in line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 4 cases which failed with 3 cases (£3,392) where the Authority had overpaid benefit as a result of the incorrect start date.

We reported the value of the extrapolated error of £1,483 in our qualification letter to the DWP.

### **Cell 55 – Child Care Costs:**

Testing of the initial sample identified:

- 1 case which failed due to incorrect determination of Child Care Costs but with no impact on subsidy. Due to the fact that the error could have resulted in an overstatement, the authority performed 40+ extended testing on a sub-population of cell 55 cases with child care costs. This is line with DWP methodology.

Testing of an additional sample of 40 cases identified:

- 12 cases that failed with 6 cases (total value £27,937.95) where the Authority had overpaid benefit as a result of incorrect Child Care Costs.

We reported the value of the extrapolated error of £6,758 in our qualification letter to the DWP.



## **Cell 94 Rent Allowances**

### **Cell 94 - Earnings**

Testing of the initial sample identified:

- 2 cases which failed due to the incorrect assessment of earned income. Both of these errors resulted in overpayments.

In line with DWP guidance we completed extended testing on a sub-population of Rent Allowance cases with earnings. Testing of an additional sample of 40 cases identified:

- 13 cases which failed with 2 cases (total value £16,949.64) where the Authority had overpaid benefit as a result of incorrect calculation of weekly earnings.

We reported the value of the extrapolated error of £20,422 in our qualification letter.

### **Cell 94 – Start Dates**

Testing of the initial sample identified:

- 1 case which failed due to incorrect start date which resulted in an overpayment.

Due to errors from the prior year on start dates, the Local Authority went straight to 40+ on a combined sub-population of start dates. This was in line with DWP guidance.

Testing of an additional sample of 40 cases identified:

- 4 cases which failed with 1 case (total value £1,097.73) where the Authority had overpaid benefit as a result of incorrect start date.

We reported the value of the extrapolated error of £2,912 in our qualification letter.

### **Cell 94 – Self-Employed Income**

Our initial testing did not identify any errors in respect of Self Employed income. Due to errors from the prior year on Self Employed income, the Local Authority went straight to 40+ on a combined sub-population of Self Employed income.

Testing of an additional sample of 40 cases identified:

- 18 cases which failed with 3 cases (total value £25,638.72) where the Authority had overpaid benefit as a result of incorrect calculation of weekly Self Employed income.

We reported the value of the extrapolated error of £4,732 in our qualification letter.

### **Cell 102 – Rent Charges**

Testing of the initial sample identified:

- 1 case which failed due to incorrect assessment of rent which resulted in an overpayment.

Testing of an additional sample of 40 cases identified:

- 3 cases failed (total value £14,014.23) where the Authority had overpaid benefit as a result of incorrect calculation of weekly rent.

We reported the value of the extrapolated error of £21,112 in our qualification letter.

### **Cell 102 – Service Charges**

No errors were identified in the initial testing relating to Service Charges. However due to errors from the initial testing on service charges in prior years, the Authority went to 40+ extended

testing on a combined sub-population of service charges. Testing of an additional sample of 40 cases identified:

- 4 cases which failed (total value £6,074.20) where the Authority had overpaid benefits as a result of the incorrect calculation of weekly service charges.

We reported the value of the extrapolated error of £439 in our qualification letter.

### **Cross Cutting Classification errors**

We also identified a number of cross cutting classification errors which had no impact on subsidy.

## 2. Other assurance work

During 2016-17 we also acted as reporting accountants in relation to the following schemes:

- ▶ Teachers pensions
- ▶ Housing pooling return

This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure Members have a full understanding of the various returns on which we provide some form of assurance.

As at the date of this report we had certified the Teachers pensions claim. We did not identify any significant issues from this work that need to be brought to the attention of Members.

We are still completing the work on the Housing pooling return and will provide a verbal update to the Audit Committee at the next meeting.

### 3. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	£17,470	£12,458	£34,591*
Teachers pensions	£10,000	£10,000	N/A**
Housing pooling return	£6,000	£6,000	N/A**

\* The 2015-16 Housing benefits subsidy claim fee is made up of a scale fee of £20,187 and a scale fee variation of £14,404. The 2016-17 actual fee is made up of a scale fee of £12,458 and a scale fee variation of £5,012.

\*\* We did not undertake the certification work in 2015-16 in respect of Teachers Pensions or the Housing Pooling Return.

## 4. Looking forward

### 2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 housing benefits subsidy claim is £34,591. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:  
<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

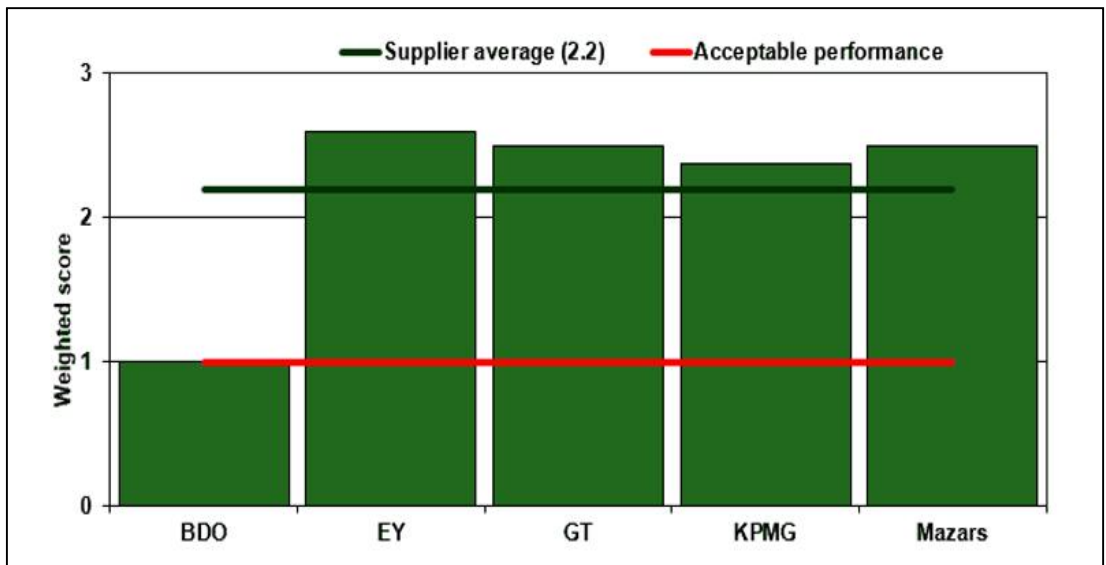
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Finance before seeking any such variation.

### 2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we were also appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

EY | Assurance | Tax | Transactions | Advisory

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# Briefing Note

To: AUDIT & GOVERNANCE COMMITTEE

Date: 17 APRIL 2018

From: KIRSTY ANDERSON

Ref:

## 1.0 Purpose

1.1 Further to the report to September's Audit and Government Committee, this briefing note provides an update on the on-going work the service are undertaking to mitigate against further loss of Housing Benefit Subsidy by the Council and addresses the recommendations included in the External Auditors Annual Certification Report which appears elsewhere on the Agenda.

## 2.0 Summary

2.1 As members are aware, loss of Housing Benefit Subsidy arises due to overpayments of Housing Benefit arising from either Local Authority Error, or Administrative delay.

2.3 A "Local Authority Error Overpayment" is caused by a mistake of fact or law (whether an act or an omission) by the Council.

2.4 "Administrative Delay" overpayments are caused by a delay in the Council processing a notified 'change in circumstance', where the Council is in receipt of all the information necessary to make a decision and adjust a claimant's benefit, but fails to do so in time for the next benefit payment date.

2.5 Subsidy losses in prior years and reported previously, were as follows:

- £659,793 in 2014/15
- £525,062 in 2015/16

2.6 The loss reported for 2016/17 and included in the Annual Certification Report is £223,876. This is a significant reduction on previous years and represents 0.29% of the total value of the claim (£74,990,371).

2.8 In order to continue to mitigate future losses and prevent errors and delay in processing the following measures have been introduced within the Team:

- An external provider has been engaged to carry out 10% quality check sampling (10%) of all assessments (more than twice the national guidance of 4%). Performance is monitored and discussed with individual assessors in their performance meetings. As a direct result of this approach we have put additional training in place where necessary for individuals and subsequently taken the

decision to dismiss 2 members of staff who subsequently continued to fail to meet the required quality standard.

- A Subsidy expert has been appointed to provide targeted and intensive training to support staff. Refresher and new training is provided on a monthly basis to ensure the Team are aware of any new legislative requirements and that issues identified through the quality checks are addressed quickly and cases corrected. This expert also supports the Housing Benefit Subsidy Officer in the correcting and identification of invalid claims, as well as providing additional capacity to the Team when completing the workbooks for auditors both internally and externally. As a result of this work monthly Subsidy reports are now provided to senior management in order for our position to be monitored in year.
- A range of new procedures for Earned Income, Self Employed, and Universal Credit amongst others have been introduced to ensure a consistent approach is being taken by all staff and to ensure quality. These policies are drawn from best practice guidance from organisations such as DWP, CIPFA, IRRV and EY.
- We continue to embed our Risk Based Verification Policy to prevent fraud and error entering our system at the point of a new claim.
- We have been working with the DWP and invited their Performance Delivery Team to review our approach to identifying and recovering overpayments. This has enabled us to access additional funding internally, to recruit two additional overpayment officers into the Team. This has seen a significant increase to our performance on recovery of Housing Benefit debt. A report will be issued shortly from the DWP recognising our improvement and the success of this joint working.
- We have been accepted on to a range of working pilots with the DWP including the verification of earnings and pensions through HMRC, as well as access to Debt Recovery Database. This will ensure we verify actual earnings and pension figures via HMRC leading to less calculation errors on income by our Team.
- We continue to benchmark our approach to processing with other neighbouring authorities to ensure quality and performance. We have procured a further 12 month contract with our Resilience Partner to mitigate delays in processing 'changes of circumstance', so that we reduce our loss in 'administration delay'. This is critical as we continue to see large volumes of changes coming into the Team due to the nature of the caseload being over 60% of working age and a significant proportion in work, effecting higher than average changes in the cycle of their claim. This approach also supports the increasing difficulty we are having in recruiting benefit assessment staff due to the continuing roll out of Universal Credit which is seeing staff across the industry leaving for other vocations which is an issue now for most Local Authorities

### 3.0 Conclusions/Recommendations

- 3.1 The calculation of Benefit is complex particularly for claimants who are moving in and out of work or between jobs. The workload of the team has also increased with the roll out of Universal Credit and the need to respond to numerous DWP



notifications per claimant arising from systems issues their end. However, as demonstrated above, the focused approach to performance management and training as well as the other initiatives has reaped benefits in terms of lower Subsidy loss. The Team will continue to embed this good practice going forward to minimise loss.

#### 4.0 Further information

- Kirsty Anderson Income & Assessment Manager,  
72144 Kirsty.anderson@reading.gov.uk

# READING BOROUGH COUNCIL

## INTERIM STRATEGIC DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	17 April 2018	AGENDA ITEM:	6
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:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

### 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 January 2018.

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 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.

## 3.2 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

3.2.2 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

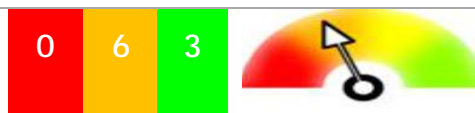
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### 4.1 Accounts Receivable

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4.1.1 The Income & Assessment team in Corporate Support Services is responsible for the higher level management and control of the Accounts Payable system<sup>1</sup>, with service areas responsible themselves for identifying and raising debtor accounts and then monitor and wherever necessary follow up unpaid invoices.

4.1.2 Staff in the central team are working diligently to follow up unpaid invoices and recover payment from debtors, however as with previous years, there is no apparent consistency, priority or direction as to their work, and in particular the order that accounts are worked on.

4.1.3 Last year, we made a number of recommendations to improve control weaknesses, such as the need to introduce standard procedures for the monitoring and chasing of debt.

4.1.4 To address audit concerns a project was established to centralise the raising of invoices, however this had not been sufficiently progressed at the time of the audit, therefore transactions conducted during 2017/18 were subject to the same shortcomings. Of the ten recommendations made in 2016/17, only one recommendation has been implemented.

4.1.5 The centralisation of invoices is planned to be in place by the end of May 2018, whereby services will forward details of potential invoices to Income & Recovery for the team to then raise centrally. This could have several potential advantages for the Council and could improve the efficiency and effectiveness of income collection and recovery.

4.1.6 We raised an additional recommendation to ensure the excel workbook used by the Income and Recovery Team for reviewing unmatched receipts is reconciled against Academy<sup>2</sup> and Civica<sup>3</sup> to ensure its completeness.

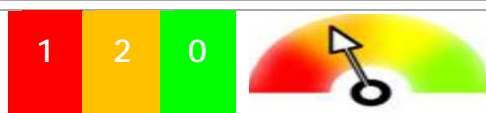
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### 4.2 Accounts Payable

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4.2.1 This year's audit followed up the agreed action plan to remedy issues identified in the previous financial year. Although a significant amount of work has taken place to address our concerns, many of the actions identified are still work in progress and can only be successful if other areas of the authority outside the AP section deliver.

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<sup>1</sup> This audit focused on the debtors function within Academy system and did not review other income collection systems in operation across the Council.

<sup>2</sup> The Council's Sundry Debtors system is a module with the Revenues and benefits system (Academy)

<sup>3</sup> Cash receipting system

4.2.2 A summary of the current position is as follows:

- Data Input is not consistent in respect of goods and services
- Supplier set up not yet subject to a comprehensive accreditation process (although database has been cleansed)
- Purchase to Pay compliance has yet to be achieved
- Goods receipting compliance has yet to be achieved
- Supplier Portal is still in its early testing mode and working partially and when functional may address issues around data input
- Full procedure manual yet to be put in place (although job descriptions and a measure of staff training have been completed)
- Volume of low value transactions is being addressed but yet to show results

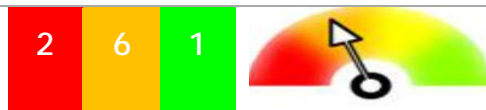
4.2.3 There are still a high number of open purchase orders on the AP system dating back to the implementation of Oracle Fusion that need to be properly closed off by the users.

4.2.4 A number of operational and procedural issues around maintaining a proper audit trail for payments were identified.

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4.3 Foster Care Recruitment



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4.3.1 The Fostering and Adoption Services are currently going through a period of change, which includes involvement in the set-up of a Regional Adoption Agency. The directorate is working to enhance the supply of in-house foster carers and to reduce the reliance on the much more costly Independent Foster Agencies.

4.3.2 The aim of this audit was to review the effectiveness of the foster care recruitment process, assessment and training of applicants, placement and payment processes.

4.3.3 There is a lack of procedures in place for day to day operations, and some documents which evidence the recruitment and assessment process were often found to be incomplete and on occasions not available. Therefore in some cases it was difficult to retrospectively demonstrate that the correct procedures had been followed. In half the cases sampled, there was no clear evidence found that in house placements were considered before external ones.

- 4.3.4 It is essential that enquiries from prospective foster carers are followed up in a timely manner to ensure that all appropriate people are assessed for eligibility as in house carers. Initial enquiries should be followed up within 24 hours and an information pack and letter sent within 2 days. Enquirers meeting initial requirements should be seen within 10 days of their initial point of contact. Our enquiries identified that in 44% of cases in our sample; enquiries had not been followed up within the day timeframe target, had not been sent the information pack within 2 days or had an initial visit within 10 days.
- 4.3.5 The majority of independent foster agency (IFA) placements are made subject to a regional framework agreement and all samples tested were found to be subject to this agreement.
- 4.3.6 Purchase orders were not always opened, amended and closed in a timely basis for placements and often new orders were left open despite children nearing the end of foster placements.
- 4.3.7 A number of issues were identified when testing people in receipt of both foster carer and special guardianship order payments. These included one instance of an ongoing, unregulated placement, continued payment past a child's 18<sup>th</sup> birthday, lack of amendment of rates and changes in placement type in a timely manner and miscoding of costs between fostering, adoption and special guardianship.
- 4.3.8 Evidence was also found during testing that in house foster carers were declining placements despite being paid a fee which should mean that they were available to take placements.

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4.4 Financial Deputyship 

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- 4.4.1 The Deputy's Office manages the finances of social care clients who are unable to do so for themselves either as a Deputy or an Appointee. The service is not a statutory one; however it is recognised as good practice and that demand for other services could increase were this service not to be provided.
- 4.4.2 The Deputy's Office has undergone a period of significant change in the last few years, both in terms of personnel and looking to move to a model whereby it is a cost neutral service to the authority. Work is currently being conducted on producing up to date procedures for the day-to-day operation of the team. However, various risk management processes are in place and are clearly documented.
- 4.4.3 There is still a large amount of cash being handled by the team. This was also a key finding arising from the last audit in 2013 so little progress has been made on this since then. However investigation of moving to Direct Payments to clients is now underway.

- 4.4.4 Client accounts are reconciled on a monthly basis since the introduction of the new case management system; however not all accounts are fully reconciled up to the date of introduction of the new system.
- 4.4.5 A significant amount of work has been carried out by the team in relation to personal property held on behalf of clients, in consultation with the Legal Team. However further work is required in relation to the central DORA account and to ensure that there is a clearly documented process in place for holding clients' property. The safe code also needs to be changed on a regular basis and when staff leave.
- 4.4.6 Former members of staff still have access to various systems and are bank account signatories. This needs to be reviewed on a regular basis and when staff leave to ensure all access is appropriate and restricted to current staff.

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4.5	Culture Services Income	<div style="display: inline-block; width: 20px; height: 20px; background-color: red; color: white; border: 1px solid black; margin-right: 5px;">0</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: orange; color: white; border: 1px solid black; margin-right: 5px;">2</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: green; color: white; border: 1px solid black;">1</div>	
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- 4.5.1 Cultural Services provide a number of high quality activities across a number of venues including the Hexagon, Reading Museum, South Street and the Town Hall. This review was focused on evaluating controls covering the identification and recording of income and business plan(s) to both deliver and assess the abilities of generating further income.
- 4.5.2 The Arts & Culture services areas are well-run and established areas of the Council and the staff members who contributed to this audit showed a high level of commitment to their operational areas and were keen to improve processes and procedures. Notwithstanding the above, we have made recommendations to improve administrative and control issues identified in the course of this audit and while none are considered to be significant issues they still require resolving.
- 4.5.3 There are various methods for customers to make enquiries and bookings and a new online application has been recently implemented across the Theatres, Town Hall & Museum to take bookings; however it is only used to take payments at the theatres. The service is aware that systems to support box office functions to administer bookings and income collection require standardisation. This will complement the approach across service and strengthen management information between each business unit.

#### 4.6 School Audits

4.6.1 We have completed one school reviews this quarter as follows:

Blagdon Nursery School	<div style="display: inline-block; width: 20px; height: 20px; background-color: red; color: white; border: 1px solid black; margin-right: 5px;">0</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: orange; color: white; border: 1px solid black; margin-right: 5px;">7</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: green; color: white; border: 1px solid black;">3</div>	
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4.6.2 There are no significant issues to report.



## 5 FOLLOW UP REVIEWS

5.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 - 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). The following areas have been revisited to establish progress on implementing internal audit recommendations.

### 5.2 Subject Access Requests

5.2.1 Under the Data Protection Act, individuals have a right to access information concerning themselves, including those relating to their childhood. Contained within the legislation are the disclosures rules and exemptions to disclose. A review of subject access requests last year found no coordination between the various teams to ensure that a consistent approach is taken to handling and responding to requests received. Our audit contained eight recommendations, three of which were considered high priority.

5.2.2 Our follow review confirmed all Priority 1 and 2 agreed actions have been implemented, with the exception of one priority one recommendation, which is still work in progress.

### 5.3 Information Governance & Data Protection

5.3.1 The previous review and this follow up was conducted on the basis that there was a data leak and examined what questions would be asked by the Information Commissioners Office (based on experience of the same by a neighbouring authority). On that basis the conclusion is that the authority would struggle to provide sufficient evidence at a corporate policy and procedure level that would meet their expectations. A parallel for the corporate activity expected would be health and safety where the focus is on evidence that staff are trained and that risk assessments have been carried out.

5.3.2 Although substantial work driven by the GDPR agenda, there remains key pieces of work to put in place:

- Evidence of senior management planning and direction including receiving formal update reports and minuted action to address issues presented
- Identification of individuals who are Information Asset Owners and that are properly trained and are part of a formal reporting framework
- Privacy Impact Assessments are part of corporate structure whenever new ICT systems or modifications to existing systems are considered
- All contracts need reviewing to ensure Data Protection legislation has been considered and responsibilities for collecting, processing, transporting etc are clearly delineated.

- Regular data reviews take place that examine need of retention; accuracy of data and whether collection and processing has the necessary consents in place. This would include assurance that these activities are taking place within a defined corporate structure that ensures compliance with data protection legislation
- Any risks surrounding data processing in individual areas of council activity are identified and including on the relevant risk registers

## 6 AUDIT REVIEWS 2017/2018

6.1 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	To be rescheduled for 18/19		
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	Mar 18	Apr 18
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	Mar 18	
Financial Deputyship	Q2	Nov-17	Jan 18	Feb 18
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

Audit Title	Timing	Start Date	Draft Report	Final Report
Bus Subsidy Grant	Q2	Jun 17	Jul 17	Jul 17
Business Rates	Q2	Sep 17	Oct 17	Nov 17
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	Cancelled - Assurance to be taken from Council's external auditor		
Blagdon Nursery School	Q3	Mar 18	Mar 18	Apr 18
Homes for Reading	Q3	Oct 17	Nov 17	Dec 17
Whitley Park Primary School	Q3	To be rescheduled for 18/19		
The Hill Primary School	Q3	To be rescheduled for 18/19		
Corporate Governance Overview	Q3	Dec 17		
General Ledger	Q3	Mar 18	Apr 18	
Geoffrey Field Junior School	Q3	Nov 17	Dec 18	Dec 18
Oxford Road Community School	Q3	Oct 17	Nov 17	Nov 17
Arts & Theatres income collection	Q3	Dec 17	Mar 18	Apr 18
Sundry Debtors	Q3	Oct 17	Jan 18	Feb 18
Foster care (inc follow up)	Q4	Jul 17	Dec 17	Mar 18
Creditors (Accounts Payable)	Q4	Jan 18	Mar 18	Apr 18
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	Mar 18	Mar 18

\* Currently delayed until Q4

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

## 7 INVESTIGATIONS (April 2017 - March 2018)

### 7.1 Housing Benefit and Council Tax Support Investigations

7.1.1 For the period the total residual Housing Benefit overpayment figures for cases prosecuted (one case) was £12,169. The total overpaid Council Tax support was £4,772. The cases attracted a penalty value of £2,386.

### 7.2 Housing tenancy investigations

7.2.1 Since 1 April 2017 Investigation officers have investigated 34 cases of alleged housing/tenancy fraud, and have assisted in the return to stock of seventeen Council properties and one property for a Social Landlord within Reading.

7.2.2 At present we have fifteen ongoing tenancy investigations, with four cases with RBC legal awaiting court outcomes.

7.2.3 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 (18 x £15,000), to date notional savings of £270,000 have been made as a result of tenancy investigations.

### 7.3 Succession / Accession tenancy applications

7.3.1 Under Current guidelines any lawful RBC tenant can pass on their tenancy under accession rights to a family member providing the qualifying criteria are met. Succession normally applies when a Family member applies to take over the tenancy following the Death of the tenant; likewise certain criteria must be met before this process can be approved.

7.3.2 The team work alongside the Council`s Housing Service to help verify occupancies, with the objective of preventing Tenancy Fraud from getting into the Social Housing system by actively working with housing staff to run a set of enhanced verification checks prior to any agreement. Since April 2017 we have worked on thirteen referrals. In two cases we established that the application was unfound and that the transfer of tenancy should not progress. As a result both the properties will be returned to RBC stock and are included within the overall figures above.

## 7.4 Right to buy (RTB)

7.4.1 In April 2012 the Government introduced new measures to reinvigorate the right to buy scheme. Tenants are now entitled to significantly higher discounts when purchasing their socially rented property, now at a maximum of £78,800 which has resulted in a recent increase in the number of RTB applications. Unfortunately the new measures have also lead to a rise, nationally, in the number of fraudulent applications and the Council has to be ever more vigilant against this potentially criminal practice. Right to buy fraud happens when the tenant applies for a discount to purchase their council home and they:

- Give us false information
- Have unlawfully applied for the discount where the property has been subject to tenancy fraud such as sub-letting
- Have entered into an agreement with a third party to buy the property on their behalf for a cash incentive

7.4.2 There are organisations and individuals that offer tenants money to apply to buy the home on their behalf. Money laundering is also a risk for property transactions. Money is paid by a third party who has no obvious link with the transaction. Money launderers often use front buyers to enter into transactions on their behalf. The money for a deposit or even to pay a mortgage may have come from someone other than the customer and could very well be the proceeds of crime.

7.4.3 We are working with Housing Officers to check all applications against Council tax and other records and will investigate any applications that look suspicious. Improper applications can result in eviction and criminal prosecution. Since 1 April 2017 we have checked 34 RTB applications for Housing, with three applications refused as a result of our investigations.

7.4.4 We have used the following the full RTB discounts which would apply to RBC stock which is currently £78,800. Plus 12 months rental income, which would have been lost, had the RTB progressed to completion. Recorded RTB saving as at February 2018 were £ 255,879.00

## 7.5 Social Care Fraud & Investigations

7.5.1 The team have been involved in a complex investigation relating to allegations of Direct Payment<sup>4</sup> Fraud. As a result of a long investigation over almost 10 months, fraud charges are to be brought against a direct payment client, suspected of Fraud and False Accounting. We estimate the fraud is likely to be over £68,000.

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<sup>4</sup> 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 Council.

7.5.2 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.

## 7.6 Internal Investigations

7.6.1 A member of staff was investigated whilst employed within Parking Services. The individual had been abusing her position to remove parking charges incurred by the individual and family members over the past 3 years. She admitted to 17 charges of fraud at Reading Magistrates' Court and was sentenced to 17 weeks in prison, suspended for 12 months.

7.6.2 Following authorised surveillance at one of the Council's leisure establishments, a member of staff was arrested on the suspicion of theft of cash. The individual was interviewed under caution by Council officers at Loddon Valley Police Station and has since left employment. Criminal charges have now been laid by the Council.

## 8. CONTRIBUTION TO STRATEGIC AIMS

8.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes contributing to the strategic aim of remaining financially sustainable.

## 9. COMMUNITY ENGAGEMENT AND INFORMATION

9.1 N/A

## 10. LEGAL IMPLICATIONS

10.1 Legislation dictates the objectives and purpose of the Internal Audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

10.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

10.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

10.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

11. FINANCIAL IMPLICATIONS

11.1 N/A

12. BACKGROUND PAPERS

12.1 N/A