

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
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1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in 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	 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:

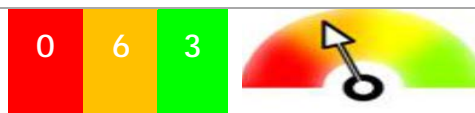
Priority	Current Risk
High	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.
Medium	Minor weakness in control design or limited non-compliance with established 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 Accounts Receivable



4.1.1 The Income & Assessment team in Corporate Support Services is responsible for the higher level management and control of the Accounts Payable system¹, 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.

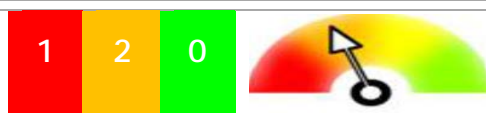
4.1.3 Last year, we made a number of recommendations to improve control weaknesses, such as the need to introduce standard procedures for the monitoring and chasing of debt.

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 Academy² and Civica³ to ensure its completeness.

4.2 Accounts Payable



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.

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

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

³ Cash receipting system

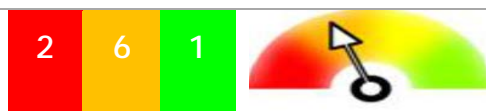
4.2.2 A summary of the current position is as follows:

- 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.

4.3 Foster Care Recruitment



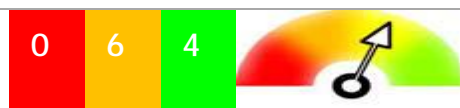
4.3.1 The Fostering and Adoption Services are currently going through a period of change, which includes involvement in the set-up of a Regional Adoption Agency. The directorate is working to enhance the supply of in-house foster carers and to reduce the reliance on the much more costly Independent Foster 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 18th 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.

4.4 Financial Deputyship



- 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.

4.5 Culture Services Income	<div style="display: inline-block; width: 20px; height: 20px; background-color: red; color: white; text-align: center; line-height: 20px; margin-right: 5px;">0</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: orange; color: white; text-align: center; line-height: 20px; margin-right: 5px;">2</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: green; color: white; text-align: center; line-height: 20px;">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; text-align: center; line-height: 20px; margin-right: 5px;">0</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: orange; color: white; text-align: center; line-height: 20px; margin-right: 5px;">7</div> <div style="display: inline-block; width: 20px; height: 20px; background-color: green; color: white; text-align: center; line-height: 20px;">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 Payment⁴ 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.

⁴ 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