

Appendix 1

Internal Audit & Investigations

Quarterly Update Report

APPENDIX 1

1.0 OVERVIEW

1.1 Purpose & Scope of Report

1.1.1 This report provides the Audit & Governance Committee with an update on those audits completed and finalised in quarter 4 of the 2020/2021 financial year.

1.2 Assurance Framework

1.2.1 Each Internal Audit report provides a clear audit assurance opinion. The opinion provides an 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 work undertaken in relation to the terms of reference agreed at the start of the audit; it is not a statement of fact. The audit assurance opinion framework is as follows:

Opinion	Explanation
No Assurance	“Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.”
Limited	“Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.”
Reasonable	“There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.”
Substantial	“A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.”

1.2.2 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. It is management’s responsibility to ensure that effective controls operate within their service areas. Follow up work is undertaken on audits providing **limited** or ‘no’ assurance to ensure that agreed recommendations have been implemented in a timely manner.

2.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS

		Recs			Assurance
2.1	Payroll	0	2	1	Substantial

- 2.1.1 In general, we concluded that the payroll system is well run and is functioning effectively, despite the strain that has been placed on Payroll staff to process furlough payments. The audit looked briefly at furlough payments and was satisfied that there were adequate systems in place, but it was felt that due to the complexity of the individual nature of the payments that were being made, a more detailed separate audit would be needed. This audit did not cover additional payments such as honoraria, overtime, acting up payments as these were covered in a separate audit which is detailed further on in this report.
- 2.1.2 Although the control regime is sound, we did recommend that there is a need for formally documented processes and procedures for payroll production, so that there are step-by-step instructions for how outcomes are to be achieved. The audit saw working guides and timetables, but these need to be turned into procedures clearly defining who is expected to complete the task and how they are expected to do it.
- 2.1.3 A significant change since the previous audit is that many changes, such as increment adjustments are now originated within iTrent by manager self-service, as opposed to using paper notifications. The audit examined these changes and did not find any issues in the sample reviewed, with the appropriate authorisations built into the workflow processes.
- 2.1.4 The process concerning starters and leavers has also changed significantly since the previous audit, as new employees are now set up against a designated establishment post and employing managers, in partnership with Human Resources, manage the recruitment process through iTrent. Although no significant issues were identified, the processes around leavers and change of circumstance carries a residual risk that overpayments could be created thorough lack of action arising from late notification or authorisation by managers. However, this risk would apply to any leaver process.
- 2.1.5 There is also an inherent risk around the processing of expense claims in that the process could be used to pay for goods or services that should be procured through the Accounts Payable system, leading to avoidance of procurement controls and the potential loss of oversight on goods and services being paid for. Although each authorising officer is ultimately accountable for authorising the transaction, payroll staff could benefit from documented guidance on what is and isn't acceptable as an expense claim in these respects.

		Recs			Assurance
2.2	Penalty Charge Notices (PCNs)	1	3	0	Limited

2.2.1 Although there are robust recording controls in place for monitoring the status of the recovery stages and unpaid Penalty Charge Notices (PCN) debt, these have been managed outside of the Council's Corporate Debt Policy because they have been classed as a penalty instead of a debt. Although PCNs are pursued for enforcement to the end of their life as per statutory process, if the charge cannot be collected following enforcement agent action it is removed from the system, so bypassing any write-off procedure.

2.2.2 The Council upgraded its PCN Notice processing system in 2018 under contract as the previous system (from Parking Gateway to 3sixty) was being phased out. The new system has the potential to improve the recording and monitoring of the statutory process for the issuing and recovery of PCNs, however these new processes have yet to be fully utilised. However, once implemented the new functionality will aid in the reduction of debt and the potential write off bad debt. The use of system exception reports will provide assurance on the integrity of those PCNs which have either been cancelled or written off as part of the statutory process.

2.2.3 It is not possible to provide assurance that financial totals on Oracle Fusion and the traffic management system (3sixty) balance as no complete system reconciliations had been carried out.

2.2.4 Reconciliation procedures need to be established to ensure the traffic management system and Oracle Fusion are balanced to ensure accurate budget reporting. Oracle Fusion only records PCN receipts and it is important to confirm the accounting and reporting requirements for debt and those balances to be written off.

2.2.5 Please refer to part 2 report on the agenda for further information.

		Recs			Assurance
2.3	Additional Payments (Follow up Review)	0	5	2	Reasonable

2.3.1 Additional payments cover a range of areas including acting up allowances, honoraria for undertaking a discrete project or piece of work over and above normal duties, overtime and market supplements.

2.3.2 Limited assurance was given following an audit of additional payments in 2018/2019. Principally, the 'limited assurance' was not derived from a lack of HR rules and procedures, but from a lack of adherence to them.

2.3.3 Our follow up was rescheduled to allow iTrent functionality to become embedded, and our recent review found that good progress has been made in implementing audit recommendations.

- 2.3.4 Whilst most additional payments (honorary, acting up and market supplements) contained an end date and had been found to be regularly reviewed, there still remained some market supplements, specifically within the Directorate of Economic Growth and Neighbourhood, that did not contain an end date, furthermore the values were noted as not always being consistent across the same job role.
- 2.3.5 We did experience difficulties in obtaining information from iTrent and the reports we were supplied, contained duplicate entries, doubling of payment values and omission of backpay, thus indicating that such reports are not frequently run.
- 2.3.6 We also recommended that the number of pay elements used should be reviewed and if possible rationalised to make accounting and reporting easier and less complex, as at the time of our audit there were in excess of 200 different additional pay elements.
- 2.3.7 The Council spent £1.82m in additional payments for the full financial year 2019-2020 including £741k paid in overtime payments. This is compared to £2.52m in 2017-18 (£1.19m of which being overtime payments).
- 2.3.8 A comparison for the period April to October for 2019-20 and 2020-21, shown in the table below, shows a further reduction of £219k or 19%, between the two periods. However, it is not clear how Covid-19 has impacted on additional payments in year, and if so to what extent.

Element	April - Oct 2019	April - Oct 2020	£ Change	% Change
Total additional payments	£1,086,918	£875,301	-£211,617	-19%
Temporary payments	£779,266	£579,335	-£199,931	-26%
Permanent payments	£307,651	£295,966	-£11,685	-4%
Contracted overtime	£30,269	£36,874	£6,605	22%
Non-contracted overtime	£433,553	£247,355	-£186,198	-43%
Non-contracted overtime hours	22,778	16,688	-£6,090	-27%

		Recs			Assurance
2.4	Housing Revenue Account (HRA) - Governance	2	5	0	Limited

- 2.4.1 The HRA is a ring-fenced account within the Council's General Fund (GF), which reflects the statutory requirement to account separately for local authority housing provision. Items can only be included within the HRA if there is a statutory provision; similarly transfers between the HRA and GF can only occur in very specific cases.
- 2.4.2 The purpose of the audit was to review the governance arrangements in place for monitoring the Council's HRA viability and not to review the technical accounting aspects of HRA recharges.
- 2.4.3 The audit flagged areas for improvement that need appropriate consideration and attention, decisions and implementation to be undertaken, to ensure that the Council is adequately responding to and addressing the various risks in this area.
- 2.4.4 The key area is the lack of a permanent HRA expertise to ensure that service teams are fully supported in their roles in relation to the HRA and ideally, this should not involve sole dependency on an external individual. However, it is accepted that recruitment has been difficult, and Finance have taken to developing inhouse expertise in this area.
- 2.4.5 It is also vital that there is a common understanding of policies, procedures and processes for the HRA 30-year model to support budget setting and monitoring within finance and service teams so that there is consistency both in-year and from year to year.
- 2.4.6 The 30-year business model produced for 2020/21 onwards was not appropriate to meet needs and resulted in a new model being commissioned for 2021/22 onwards. This does not represent value for money. However, now that there is a new 30-year HRA business model in place which is more "user-friendly", it needs to be viewed as a live document that is updated as and when changes arise, highlighting their (likely) impact.
- 2.4.7 There needs to be clear alignment between details in service areas plans, the HRA 30-year model, the agreed HRA Medium-Term Financial Plan, annual budget and ongoing budget monitoring. Finance and Service Teams need to take a more integrated approach to budget setting and monitoring to ensure there is consistency of understanding.
- 2.4.8 The full report is attached at Appendix 2.

	Recs			Assurance	
2.5	Accounts Receivable	3	8	0	Limited

- 2.5.1 Sundry Debts are often referred to as miscellaneous invoices and may be issued for several reasons, and in respect of a wide and varying range of services. This review focused on sundry and adult social care debt and did not incorporate other areas of debt, including CTAX, NNDR, Housing Rents, Transport PCN's etc.
- 2.5.2 The Accounts Receivable Team in Resources is responsible for the higher-level management and control of the Accounts Receivable (Sundry Debtors) system, with service areas responsible for requisitioning the invoice and supporting the Accounts Receivable Team in the debt recovery process.
- 2.5.3 The total value of sundry debt, including Adult Social Care was just over £20m, as at the end of December 2020. It should be noted that £7.3m was recent debt, under 30 days old and the total debt can be reduced to £9.7m outstanding, if large sums due (£10.4m) from other local authorities, NHS trusts and RBC owned companies are disregarded.
- 2.5.4 Over the past few years we have expressed concerns with the level of sundry debt (including Adult Care debt) and the associated controls followed to raise, monitor and collect debt. In part, some of the concerns have evolved from the lack of system functionality of the debtors module on Academy¹ and the absence of consistency, priority or direction of debt collection.
- 2.5.5 Whilst there has been some progress in implementing audit recommendations, and work is being progressed through the Finance Transformation workstream, much of this was still work in progress at the time of our audit.
- 2.5.6 A revised Debt Recover Policy was agreed at Policy Committee in December 2020, providing much needed direction, however, this has yet to be embedded throughout the Council. Process weaknesses remain, such as incomplete information being supplied to the Accounts Receivable Team from services to inform the debt recovery process and large quantities of invoices still being raised for small values. There is confusion around responsibilities in the recovery process, particularly within adult social care where many service departments are involved, and many systems are used to record actions.
- 2.5.7 One common theme that emerges every year is the level of detail on invoices is sometimes inadequate, which in turn generates queries by the debtor, which then results in the Accounts Receivable staff having to act as intermediaries. These are important issues that if addressed, could improve collection performance.

¹ revenues and benefits system

- 2.5.8 Whilst regular debt reporting is happening at an operational level, there is still a lack of strategic oversight of the Council's debt position. However, the resurrection of the Corporate Debt Group to lead on this is a positive step.
- 2.5.9 The centralisation of invoices, whereby sundry debt is transferred to the Councils Financial system (Oracle Fusion) could improve the efficiency and effectiveness of income collection and recovery.

The full report is attached at Appendix 3.

		Recs			Assurance
2.6	Accounts Payable	0	3	3	Reasonable

- 2.6.1 We are pleased to report that significant progress has been made on implementing outstanding audit recommendations, which have been highlighted in previous audit reports. Although there are still some matters that require attention, these are, in most cases, relatively minor actions to achieve rather than a lack of action.
- 2.6.2 There is now very nearly a complete set of procedures for the AP function, with just a small number of minor outstanding issues remaining to be resolved.
- 2.6.3 We acknowledge the significant work and resource committed to addressing issues with the supplier database and as a result there are processes and a staff resource within procurement to set up suppliers and deal with change of circumstances. Thus, promoting a greater separation of duties between supplier set up and payment. There is a need to address the risks arising from the creation of certain supplier types that could be considered to be outside the normal business process, which putting pressure on the supplier creation process.
- 2.6.4 For the period April to December 2020, the vast majority of payments took place within 30 days, however there are still a small number of invoices that are being processed a significant time after their due payment dates. These however are for utilities, social care or to other local authorities.
- 2.6.5 Another area of positive progress is the reduction in the number of payments on hold, which had declined significantly since the last audit took place. In addition, considerable effort has also been made to reduce the number of suppliers and introduce procedures to restrict the number of existing suppliers. Regular reviews of suppliers and those who have been inactive are closed are carried out.

Audit reviews scheduled for 2020/2021

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Contract Management	X				Jan-20	Feb-20	Jun-21	0	4	0	Limited
Car Parks (off street)	X				May-20	Dec-20	Feb-21	0	3	0	Reasonable
Investment Properties	X				Jun-20	Cancelled					
Intercompany accounting	X				Mar-20	Jun-20	Jul-20	2	3	1	Limited
LTF - Blue Badge Scheme - (Grant Certification)	X				Mar-20	May-20	May-20	0	0	0	Substantial
Rent Guarantee Scheme	X				May-20	Jun-20	Aug-20	0	5	1	Reasonable
Staff Vehicle Documentation (Grey Fleet)	X				May-20	Aug-20	Oct-20	4	6	1	Limited
New Directions (ESFA funded adult education budget)	X				May-20	Aug-20	Aug-20	0	5	1	Reasonable
Records Management & Document Retention Policy	X				Jul-20	Dec-20	Jan-21	2	3	3	Limited
Transparency Code Compliance	X				Jun-20	Aug-20	Oct-20	0	4	1	Limited
Additional Payments		X			Sep-20	Jan-21	Jan-21	0	5	2	Reasonable
ADEPT's Live Lab trials Capital Funding		X			Sep-20	Sep-20	Sep-20	0	0	0	Substantial
Local Transport Plan Capital Settlement (Grant Certification)		X			Sep-20	Sep-20	Sep-20	0	0	0	Substantial
Bus Subsidy Grant		X			Aug-20	Sep-20	Sep-20	0	0	0	Substantial
Licensing		X			Jun-20	Sep-20	Dec-20	0	3	9	Reasonable
Stores Contract		X			May-20	Jul-20	Aug-20	0	4	1	Reasonable
Feeder system interface and reconciliation*		X			Jan-21						
Budgetary Control		X			Jan-21	Carried over to Q1 2021/2022					
MOSAIC payment controls (Finance Module)		X			Nov-20	Mar-21		4	5	3	Limited
PCN**			X		Nov-20	Dec-20	Feb-21	1	3	2	Limited
CIL 15% local projects**			X		Oct-20	Nov-20	Dec-20	1	4	2	Limited

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Housing Revenue Account (Governance review)			X		Jan 21	Mar 21	Apr-21	2	5	0	Limited
Accounts Payable*			X		Feb-21	Mar-21	Apr-21	0	3	3	Reasonable
Purchasing cards			X		Aug-20	Oct-20	Dec-20	0	12	3	Limited
Collection Fund			X		Mar-21						
Payroll (inc HR/Itrent processes)			X		Nov-20	Feb-20		0	2	1	Substantial
Adults Short Stay Placements & Respite Care			X		Cancelled due to work pressures of service						
Out of area contracts (placements)			X		Cancelled due to work pressures of service						
Commercialisation				X	Mar-21						
Contract Management (Adults)				X	Carried over to 2021/2022						
Sundry Debtors				X	Feb-21	Mar-21		3	8	0	Limited
General Ledger				X	Feb-21	Mar-21		0	3	3	Reasonable
Governance Review				X	Carried over to Q1 2021/2022						

* Delayed or possibly delayed due to Finance Transformation project

** Added to plan following specific request

4.0 INVESTIGATIONS (APRIL 2020 - MARCH 2021)

The Covid-19 pandemic, sick leave and vacancies have impacted on the Corporate Investigations team considerably over the past 12 months, with only two officers in post for a considerable time throughout the year.

4.1 Small Business Grant Fund - Spotlight Checks

4.1.1 In a response to the COVID-19 pandemic, under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system were eligible for a payment of £10,000 in line with the eligibility criteria. Where the Council has reason to believe that the information that they hold about the ratepayer is inaccurate, they may withhold or recover the grant and take reasonable steps to identify the correct ratepayer.

4.1.2 The investigations team used government fraud prevention tools, which interface with other departments and agencies so that data can be validated to substantiate claims or facts. Since November the investigations team have verified 805 applications, based on risk.

4.1.3 In one case all the monies, **£10,000** were returned once we had contacted the applicant and asked them to attend a formal interview. Two further cases are currently being considered by Legal for potential fraud offences.

4.2 Grant Funding Schemes Assurance work

4.2.1 The Department for Business, Energy and Industrial Strategy has produced a fraud risk assessment, setting out the inherent risks for each of the business grants currently being delivered, the Small Business Grant Fund (SBGF), the Retail, Hospitality and Leisure Grant Fund (RHLGF) and the Local Authority Discretionary Grants Fund (LADGF).

4.2.2 The investigations team will be conducting sample checks to provide post-payment assurance on risk of error and/or fraud and over payment. This work maybe supported by the Internal Audit team, depending on resource availability.

4.3 Council Tax Support Investigations

4.3.1 The investigations team have recovered a record total of £23,082 from Council Tax investigations completed, where a discount was removed from the current account.

4.4 Single Person Discount (SPD)

4.4.1 Following a second data matching exercise, matching over 22,000 address records against tracing and occupier databases, investigations officers commenced work in January 2021 with the Council Tax team to review the matches. To date approximately **£46,000** has been identified for CTAX recovery.

4.5 Housing Tenancy Investigations

4.5.1 Since 1st April 2020 officers have commenced investigation into several referrals of tenancy fraud. There are eleven cases still ongoing. Nine properties have been returned to stock to date. Six of these cases were tenancy related investigations and three are under the Right to Buy (RTB) scheme. In addition to the notional savings, the RTB case secured a 12-month rental income, equivalent to **£17,911.88**, plus a RTB discount saving of **£252,600** per property.

4.5.2 The notional saving achieved is **£837,000.00**, adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report.

4.6 Social Care Fraud & Investigations

5.6.1 The team have been working with Brighter Future for Children on two complex investigations. Both are now with BFfC and await legal updates.

5.6.2 Also there are two ongoing direct payment investigations (Adults) which commenced in August linked to potential money laundering offences and this case is still ongoing.

4.7 Disabled Persons Parking Badges (Blue Badges)

4.7.1 Since April 2020 work on civil enforcement was suspended. We currently have a total of 10 cases with Legal awaiting charging decisions. Several outstanding cases have been resolved since October 2020: Four persons received official Cautions. Two people received warning letters and two cases were successfully prosecuted.