

Appendix 1

Internal Audit & Investigations

Quarterly Update Report

APPENDIX 1

1.0 OVERVIEW

1.1 Purpose & Scope of Report

1.1.1 The purpose of this report is to provide an update on the progress made against the delivery of the Internal Audit Plan. This report provides details of audits completed in quarter 1, as well as those carried over and completed from the 2020/21 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	General Ledger	0	4	3	Reasonable

2.1.1 The General Ledger is the Council's main accounting system which operates via Oracle Fusion. There are also a number of feeder systems which interface with the General Ledger. The system is operated and monitored by the Finance Team, who have a wide remit including overseeing the budgeting process, the annual closedown of the accounts, publishing the financial statements and completion of a range of claims and returns.

2.1.2 Since our last audit, there had been a significant improvement in the journal process on Oracle Fusion, with journals now requiring authorisation by one of an agreed group of individuals prior to posting to the ledger. A number of key processes were also now documented and available on the intranet. However, we noted that journal control for intercompany accounting between RBC and Brighter Futures for Children (BFfC) was lacking, as reported previously to the Committee. We therefore proposed that it would be timely to carry out a review of the journal process to ensure consistent understanding and adoption of various procedures. In addition, there should be regular review of journals to help ensure best practice was being adhered to and any trends or irregularities identified, reported and addressed in a timely manner.

2.1.3 A review of the chart of accounts was well underway, with the number of cost and subjective codes being rationalised. Once completed, this needed to be reviewed on a regular basis to ensure the benefits of the review were not then negated over time. A process for agreeing the creation of new codes and the deletion of old codes needed to be confirmed, documented and made available to relevant staff in respect of this review.

		Recs			Assurance
2.2	NNDR and CTAX Administration	0	0	3	Substantial

2.2.1 Reading Borough Council, as the Billing Authority, collects Council Tax and Business Rates, from the residents and businesses within its area, into the Collection Fund on behalf of Central Government (Business Rates only), Royal Berkshire Fire & Rescue Service (Council Tax & Business Rates) and Thames Valley Police & Crime Commissioner (Council Tax only). The Council will transfer a fixed amount from the Collection Fund into its General Fund Budget annually that is equal to its Council Tax Requirement as set out in the Council Tax Setting Report that the Council approves at its annual budget setting meeting for that financial year.

2.2.2 Covid-19 has had an impact on the levels of collection of both Council Tax and Business Rates income in 2020/21 and to ease the immediate impact on 2021/22 budgets, Central Government had set out its intention to allow the phasing of 2020/21 Collection Fund deficits over a three-year period.

2.2.3 There were appropriate and detailed policy and procedures in place to support the effective management and recovery of revenues with respect to Council Tax and National non-domestic rates (NNDR).

2.2.4 There was detailed information in the form of monthly statements received from Capita identifying the collection of Council Tax and NNDR, the information also showed performance against target.

2.2.5 Whilst a program of reviews, following a risk-based approach, was in place to check that discounts and exemptions were correctly applied, we advised that this approach was formalised in order that any changes to the risk environment was formally recognised and that where reviews had not been performed, that these recommenced.

2.2.6 Relevant and accurate data was used as a part of the weekly property reconciliations between Business Rates and Valuation Office Listings. With respect to the Valuation Office Listings and Council Tax, it was evidenced that reports identifying individual properties had been requested and obtained from the Valuation Office Agency in order that a more detailed reconciliation could take place.

		Recs			Assurance
2.3	Commercialisation	0	3	2	Reasonable

2.3.1 As the Council develops proposals to deliver its budget over the coming years, it is considering the income generating opportunities presented by its frontline services. Environmental & Commercial Services have for several years sought to commercialise elements of their service provision, maximising the opportunities afforded to them by their general powers and charging legislation.

2.3.2 Income had long been a major element in funding Council services and fees and charges offered significant scope for authorities to improve their financial position. They could also use charging structures to control service demand and to deliver policy objectives in many service areas. In addition to being realistic about its charging aspirations, the Council needed to consider the impact of increased charges on residents, service users and businesses. Charging decisions were fettered by a complex series of statutes and regulations, as well as there being economic limitations (competition etc.) on how much new income may be generated from charges.

2.3.3 Our audit concluded that there was an appropriate governance structure in place for the oversight of commercialisation. A terms of reference clearly set out roles and responsibilities for the Commercialisation Programme Board (CPB) and also identified that each directorate would have a Directorate Commercialisation Board and that within each Department there would be Commercial Operations Teams. Whilst we were able to evidence the action logs and reporting to the Commercialisation Programme Board (CPB) it was not possible to do so for the sub committees. Cross Council engagement with the Commercialisation Programme Board (CPB) had also been raised as an area which requires improvement.

2.3.4 The Council had sought advice from Oxford City Council, the Association for Public Service Excellence (APSE) and the Barony Consulting Group in determining an appropriate operating model.

2.3.5 Where discussions were held with officers involved in billing processes, it was noted that there was an absence of key performance indicators with respect to the accuracy and timeliness of billing processes.

2.3.6 With respect to the application of appropriate cost models across workstreams, we were unable to establish the extent to which the program had been implemented, although it was possible to evidence elements of the work undertaken in the development of cost models, through review of documentation presented to the Commercialisation Programme Board (CPB).

2.3.7 It was also noted that and there were instances where estimated costs for staff time were used to inform cost models, as opposed to actual time. Thus, there was a possible risk that costs will not be fully recovered.

		Recs			Assurance
2.4	MOSAIC payment controls (Finance Module)	3	5	1	Limited

2.4.1 Mosaic is the Council's workflow-based case management system used to record and process social care data. Service users assessed needs and services are recorded, together with cost, and authorised on Mosaic. Once a provider has been agreed to deliver the service, a purchase order is generated, and invoices are matched against this. This then assists in the subsequent payment process.

- 2.4.2 Generally, supplier payments had been made in a timely manner. Payments were changed since the start of the pandemic in line with government guidelines and to support providers. However, it resulted in the introduction of some manual processes, which increased the risk of fraud. Of most concern, however, was the significant balance on supplier prepayments, which amounted to circa £2.8m at the start of March 2021. At the time of our audit (Feb 2021), it was unclear whether this related to services delivered but not yet invoiced, overpayments to providers, or a combination of the two. Discussion with the interim Adults Finance Strategic Business Partner identified that this was seen as a priority task to be resolved.
- 2.4.3 Service users' needs should be better identified, documented and signed off via the Assessment and Planning tool in a timely manner to ensure that the proposed services receive relevant scrutiny and meet the service users' needs. This was not always observed to be the case. Similarly, service requirements were not always entered onto Mosaic in a timely manner, although authorisation was observed to be timely.
- 2.4.4 Relevant information, such as service users' needs assessments, purchase orders and service start dates, were usually shared with planned suppliers.
- 2.4.5 Purchase orders were not always raised on Mosaic in a timely manner which meant that financial commitments were not accurately reflected. Whilst supplier invoices were received, input onto Mosaic and matched to the relevant purchase order, in the majority of cases they had not been attached to the relevant transaction in Oracle Fusion.
- 2.4.6 Invoices were included on the relevant payment cycle on Mosaic, certified and then transferred to Oracle Fusion. After details of the transfer were checked, invoices were either added to the relevant BACs run or offset against a prepayment.
- 2.4.7 Several recommendations from the previous Mosaic audit and associated follow up were still outstanding and needed to be addressed.

2.5 Emergency Active Travel Grant

- 2.5.1 The grant funding supports local transport authorities by producing cycling and walking facilities. The funding is in 2 tranches, with tranche 1, for £221,250 to support the installation of temporary projects for the COVID-19 pandemic and tranche 2, for £1,179,000 for the creation of longer-term projects.
- 2.5.2 The Chief Executive and Chief Internal Auditor of each of the recipient authorities were required to sign and return a declaration to the Department for Transport to confirm that the conditions attached to the grant determination have been complied with. This certification was for tranche 1 only, with tranche 2 certification to follow later.
- 2.5.3 We can confirm that expenditure claimed against this grant was in accordance with the determination notice, however recommendations were made to improve financial recording and reporting of both expenditure and grant receipts.

2.6 Travel Demand Management Grant

- 2.6.1 The purpose of the grant is for Local Authorities to understand the challenges and solutions to provide sufficient and safe transport for the return to education during the Covid-19 period.
- 2.6.2 The purpose of this audit was to provide assurance that the grant funds had been accounted for and used in accordance with the determination notices, which stipulated the grant may only be spent on travel demand activities with unallocated and/or underspends to be returned to the department of transport.
- 2.6.3 The council received two revenue travel demand grant payments mid-2020, totalling £175,000.
- 2.6.4 We were satisfied that the expenditure attributed to this grant was in accordance with spend criteria advised by the Department of Transport guidance and their determination notice, however we would highlight that the accounting arrangements for this grant need to be kept specific to the accounting coding structure established for the purpose intended, as unspent or allocated balances were required to be returned.

2.7 Compliance & Enforcement Surge Grant

- 2.7.1 The purpose of this audit was to provide assurance that grant funds had been accounted for and used in accordance with the determination conditions.
- 2.7.2 The Council received £86,789 for the purpose of supporting any compliance, enforcement or measures to control the spread of Covid-19 across individuals, business and in the community was made available to the Council.
- 2.7.3 To the best of our knowledge and belief, and having carried out appropriate investigations and checks, it was our opinion that the conditions attached to the COVID 19 Local Authority Enforcement and Compliance Grant Determination had been complied with.

2.8 Community Testing Grant

- 2.8.1 The aim of the grant was to enable Local Authorities to carry out community testing for asymptomatic Covid-19 cases, which during the period of national restrictions focused on those individuals permitted to leave their home for essential reasons (i.e. work) and who were unable to access tests through other routes.
- 2.8.2 The scheme was initially prioritised based on tier levels but was then extended to encompass all authorities up until the end of March 2021; this had since been extended until at least the end of June 2021.
- 2.8.3 The grant was due to be paid in three tranches with the first payment calculated as £2.10 per test (15% of £14) for the number of tests detailed in the Local Authority's proposal, the second payment being £4.20 per test (30% of £14) for the proposed number of tests and the third payment being a "true up" payment of the difference between the costs incurred and estimated costs based on the submitted proposal, up to a maximum of £14 per test. The Council was allocated £144,900 for the first payment and £289,800 for the second one.
- 2.8.4 Responsibility for sourcing goods and services was split between the Department of Health and Social Care (DHSC) and the Local Authority in accordance with principles set out in the grant determination. Where goods were sourced in relation to testing, they should be acquired centrally where possible either via in stock goods or using central commercial contracts. There were also a set of measures to be considered before any additional expenditure was incurred to ensure value for money.
- 2.8.5 Although all expenditure had been spent within the scope of the determination, we did make some advisory suggestions to improve record keeping.

Appendix 1

Audit reviews carried over from 2020/2021

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Feeder system interface and reconciliation	x				Feb-21						
Commercialisation	x				Mar-21	Jun-21		0	3	2	
MOSAIC payment controls (Finance Module)	x				Aug-20	May-21		3	5	1	
Budgetary Control	x				Jan-21	Jun-21		0	5	2	
NNDR and CTAX Administration	x				Mar-21	Jun-21		0	0	3	

Audit reviews for 2021/2022

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Emergency Active Travel Grant	x				Apr 21	May-21	Jun-21	0	3	0	N/A
Travel Demand Management Grant	x				Apr-21	Jun-21	Jun-21	0	2	0	N/A
Compliance & Enforcement Surge Grant	x				May-21	May-21	May-21	0	0	0	N/A
Parks & Grounds Maintenance	x										
Facilities Management	x				Apr-21	Jun-21		2	6	1	
Housing Allocation Scheme	x				May-21						
Business Grants (Post Payment) Assurance	x				Jun-21						
NHS Test and Trace Grant Determination	x				Jun-21	Jun-21					N/A
Community Testing Funding Grant	x				May-21	Jun-21	Jun-21	1	4	0	N/A
Furlough Administration		x			Jun-21						

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Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Corporate Governance Review	x				Apr-21	Jun-21		0	0	0	
Low Carbon project (Grant)*		x			Jun-21						
Local Transport Plan Capital Settlement (Grant Certification)		x									
Bus Subsidy Grant		x									
Housing Benefit		x			Jun-21						
Freedom of Information (Follow up Review)		x									
Accounts Receivable		x									
Contract Management (Adults)		x									
Accounts Payable			x								
Climate Change Strategy			x								
Green Homes BEIS Grant			x								
Staff (Grey Fleet) Vehicle Documentation - (Follow up Audit)				x							
Waste Operations				x							
Records Management & Document Retention Policy (Follow up review)				x							
Treasury Management				x							
Transitions from children's social care to adults				x							
Transparency Code Compliance (Follow up)				x							