

**READING BOROUGH COUNCIL
DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25 JANUARY 2022		
TITLE:	INTERNAL AUDIT QUARTERLY UPDATE REPORT		
LEAD COUNCILLOR:	COUNCILLOR RUTH MCEWAN	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
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1. PURPOSE OF REPORT

- 1.1 This report summarises internal audit activity in respect of internal audit and investigations for the period 1 October to the 31 January 2022.
- 1.2 The following documents are appended:
- Appendix 1 - Internal Audit & Investigations Update Report
 - Appendix 2 - MOSAIC Payments to Care Providers - Internal Audit Report
 - Appendix 3 - Payments to Voluntary Sector Organisations - Internal Audit Report

2. RECOMMENDATIONS

- 2.1 **The Audit & Governance Committee is requested to consider the report.**

3. SUMMARY

- 3.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found Internal Audit will propose solutions to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.
- 3.2 A total of four audit reviews were completed in the period between October and December 2021.
- 3.3 One audit review received a positive opinion and three have received a negative assurance opinion. In addition to the audit reviews, grant certifications were provided to the relevant government departments for the Local Transport Plan Capital Grant and the Culture Recovery Fund Grant.

3.4 Substantial Assurance Opinion Reviews

3.4.1 N/A

3.5 Reasonable Assurance Opinion Reviews

3.5.1 A review of the **Housing Allocation Scheme** concluded that the allocations policy was clear and comprehensive. We did however highlight that safeguarding concerns reported could have been identified sooner.

3.6 Limited Assurance Opinion Reviews

3.6.1 Our audit of **Staff (Grey Fleet) Vehicle Documentation** recognised that progress has been made since our last review in 2020, such as the development of a new policy for grey fleet. However, there was a lack of consistency of data between iTrent and Fleetwave in relation to grey fleet checks conducted and of driver designations, with a lack of timely updating of iTrent and issues relating to information contained within iTrent reports.

3.6.2 Following a request by the Deputy Chief Executive to investigate the delayed payment to a **Voluntary & Community Sector Provider**, we reported there was reliance on a number of key individuals and a high degree of manual intervention, with limited resilience or a shared understanding of the process between the services.

3.6.3 Paying invoices to suppliers on time is a high priority as it can have a significant impact on the financial viability of smaller organisations as well as a have a significant reputational impact on the Council. The Voluntary & Community Sector (VCS) are key partners in enabling the Council to address inequalities within the Borough and maintaining productive working relationships is important.

3.6.4 Whilst some of the issues have already been addressed, further action is required, and we are currently unable to give any assurance that this will not happen again.

3.7 No Assurance Opinion Reviews

3.7.1 Following a request by the Director of Finance, to review the circumstances leading to an **overpayment made to a social care provider** we concluded that the overpayment of circa £1m was triggered after inflationary increases were incorrectly applied. We found a lack of a common understanding of roles and responsibilities and ownership of processes.

- 3.7.2 There was no adequate control / workflow process around the treatment of inflationary uplifts, with no independent review to check for accuracy, with changes made manually and therefore subject to increased risk of error and potential fraud, albeit no evidence of fraud was uncovered. In addition, amendments within Mosaic were unable to be reviewed in real time, so issues could take several days to identify and then a further several days to ensure they were corrected.
- 3.7.3 It should be noted at this point that assurances have been provided by the Director of Finance that no financial loss has occurred, and that all monies have been fully recovered.
- 3.7.4 Our audit also covered payments made in advance during the Covid-19 pandemic and payments on hold/unprocessed invoices.
- 3.7.5 At the time of our audit there was still a significant balance of £2.1m on the prepayments made to providers, with 62 providers identified as having a difference between what had been paid to them and what was owed to them, in relation to services delivered during the period. This part of the review flagged ongoing issues with payment and remittance advice control weakness and the use of legacy Accounts Payable (AP) email inboxes left unmonitored.
- 3.7.6 As at the end of September 2021, the AP Team had a backlog of invoices that amounted to a delay of two weeks. Also, approximately a total of £2.3m and just over 1,000 invoices were on hold/rejected.
- 3.7.7 A common theme arising from the audit was the quality of data, how it was being monitored and reported. There had also been a loss of regular, communication between AP and the Personal Budget Support Team (PBST) in relation to mismatched and rejected invoices/invoice queries.

3.8 Investigations

- 3.8.1 The Investigations team have been continuing to conduct sample checks to provide post-payment assurance on risk of error and/or fraud and over payment. Since April 2021, the Investigations team have verified 345 applications, based on risk.
- 3.8.2 Officers have commenced investigation into several referrals of tenancy fraud, with 15 cases ongoing and since April 2021 10 properties having been returned to stock to date.

3.8.3 Since April 2021, we have received a total of 9 blue badge misuse referrals, all of which were investigated. One case was successfully prosecuted in November 2021, 2 Blue Badges were seized and removed from circulation and 3 cases have been sent a formal warning letter and the remaining cases are ongoing.

3.8.4 There is one ongoing direct payment investigation (Adults) currently in progress, which is linked to potential money laundering offences.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 The Internal Audit Team aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 *N/A*

6. LEGAL IMPLICATIONS

6.1.1 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.

6.2 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.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 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”.

7. FINANCIAL IMPLICATIONS

7.1 *N/A*

8. BACKGROUND PAPERS

8.1 *N/A*