

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 3 of the 2021/2022 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

2.1	Payments to Care Providers	Recs			Assurance
		7	11	0	No Assurance

2.1.1 The Director of Finance requested Internal Audit to review the circumstances leading to an overpayment made to a social care provider. In addition to this, Internal Audit reviewed payments which had been made in advance to providers during the pandemic, including the reconciliation conducted between what had been paid and what was due in terms of services delivered. An analysis of payments on hold and unprocessed invoices was also included as part of the review.

Supplier overpayment

2.1.2 The overpayment was circa £1m and was triggered after inflationary increases were incorrectly applied. The rate entered in Mosaic for a week was the total owed to the service users over the period of backdating. This led to some significant payments for service users being generated, ranging from c£36k to c£245k, instead of being in the usual range of circa £2.7k to £11.2k, which in turn generated a total payment of £1,194,538 to the provider. It should be noted at this point that assurances have been provided by the Director of Finance that no financial loss has occurred, and the over payment has been recovered.

2.1.3 Our audit concluded that it was difficult to provide a complete picture of what occurred in the lead up to the overpayment, as there were often conflicting records, explanations and information surrounding how the overpayment arose to clearly support what had occurred.

2.1.4 At the time, there was no documented procedures of the end-to-end process for inflationary uplifts and a lack of a common understanding of roles and responsibilities and ownership of each step of the process and clarity over who could action requests for inflationary uplifts.

2.1.5 Rates were uplifted on Mosaic via a tool that although had limited access to it, had inadequate control / workflow process around it and hence, was not subject to independent review to check for accuracy, with changes made manually and therefore subject to increased risk of error. Whilst there is no evidence of fraud in this case, it has been flagged as a potential fraud risk. In addition, amendments were unable to be reviewed in real time, so issues could take several days to identify and then a further several days to correct.

- 2.1.6 The scheme of financial delegation for the service was out of date and no longer appropriate and the authorisation of percentage uplifts was not always clearly recorded or evidenced when uplifts were requested and actioned. Indeed, some uplifts had been actioned following a provider request. Information provided to action uplifts was not subject to proper or sufficient review/authorisation to ensure accuracy and was not always in a clear format, hence was open to misinterpretation.
- 2.1.7 Whilst it was recognised that this occurred at a time when services were under a significant amount of pressure due to Covid-19, numerous opportunities were missed to stop this payment.
- 2.1.8 No reasonableness check appeared to have been carried out to see whether the amounts were indeed within the magnitude of what would be expected. In fact, the over payment was only discovered when it was brought to the council's attention by the provider.

Payments made in advance

- 2.1.9 To assist Home Care, Extra Care and Supported Living providers during Covid-19, payments to providers were switched from payment in arrears to payment in advance between April - November 2020 inclusive, with the actual cost of services delivered in this period being offset against the prepayments made. This was following guidance from the Cabinet Office to put in place the most appropriate payment measures to support supplier cash flow, which could include payment in advance.
- 2.1.10 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. We note that significant work has since been and is continuing to be carried out to resolve this and this may well change once payment/invoice issues have been resolved.
- 2.1.11 There was an initial lack of clear communication with providers regarding the need for them to continue to invoice for services provided during the period covered by the prepayment, although this was subsequently clarified with them.
- 2.1.12 Legacy Accounts Payable (AP) email inboxes remained active but were not monitored and some providers were subsequently not receiving responses to communications sent to AP or signposted to correct inboxes.

- 2.1.13 Significant payment and remittance advice control weaknesses added to the confusion with providers, with a lack of clarity as to what payments received related to what. Whilst there was ongoing contact with providers, responses from some were still being awaited.
- 2.1.14 The payment reconciliation process for some providers had been prioritised for resolution by management, although it was noted that it was often more difficult and time consuming to resolve in respect of providers with large balances remaining on the prepayment, as these were more complex to reconcile and agree.

Payments on hold and unprocessed invoices

- 2.1.15 As at the end of September, 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. Although we understand that the situation is improving, capacity/workload and staffing issues in AP had contributed to being unable to keep on top of issues, including communications with providers, which had also impacted on other teams.
- 2.1.16 There had been a loss of regular, systemised communication between AP and the Personal Budget Support Team (PBST) in relation to mismatched and rejected invoices/invoice queries.
- 2.1.17 Common problems included differing invoice and commitment amounts or no commitment being on Mosaic, issues around the suspension and unsuspension of services and incorrect workflows. Some issues had arisen due to no or incorrect actions by social workers on Mosaic. This wasn't helped by the turnover of social workers and lack of appropriate training/support and documented procedures for new starters when working remotely.
- 2.1.18 The system was also unable to automatically generate remittance advices to suppliers for scheduled payments (these currently can only be generated manually).
- 2.1.19 A common theme arising from the audit was the quality of data, how it was being monitored and reported. Whilst it was noted that the service was looking to action improvements, including improving the quality of recording of information in Mosaic, there was currently no up to date performance framework in place to have oversight of this. Although the Performance Board was charged with oversight of quality, its purpose and function had changed, and it did not have an up to date Terms of Reference or a cycle of key agenda items. We experienced issues accessing and amending records on Mosaic and a general lack of clarity of knowledge within the service as to what information was available via reports.

		Recs			Assurance
2.2	Payments to Voluntary Sector Organisations	0	2	0	Limited

- 2.2.1 A situation arose where a provider of voluntary grant aided services was unable to get prompt payment for a number of invoices that had they submitted around July 2021. This left them with around £37k outstanding and considerable confusion as to why payment had not been made. The provider initially contacted the Deputy Chief Executive in July 2021 regarding the non-payment of March 2021 invoices, having previously contacted Adult Social Care (ASC) and the Accounts Payable (AP) team.
- 2.2.2 Those invoices were subsequently paid, and a request was made by the Deputy Chief Executive that processes be put in place to avoid any recurrence. In October, the provider contacted the Deputy Chief Executive again regarding a further bout of non-payment. Hence Internal Audit was asked to establish what had happened and what could be done to prevent a reoccurrence.
- 2.2.3 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.
- 2.2.4 There were two distinct issues with the July delays. One related to the payment of grant monies against purchase orders originally raised by the Public Health Team but due to a reorganisation had been reassigned to ASC. These invoices, which made up a large part of the £37k, were on hold awaiting certification by ASC who had been given responsibility for payment following the change in structure. A second tranche of invoices were for day care payments, some of these invoices had been incorrectly submitted due to misunderstandings about where to submit them, and some were caught up in general delays in processing by the AP Team due to volumes of work and staff illness.
- 2.2.5 There was no one single factor that caused the situation with the late payments; rather there was a coming together of a number of factors that created confusion and delay for all parties involved. The matters identified ran through both Adult Social Care Commissioning and Accounts Payable teams. The issues with late payment of invoices has been faced by other similar voluntary organisations in the past, but not with the same financial impact as experienced by this provider.

- 2.2.6 The situation has now been resolved with respect of receipting invoices for the grant monies and for the invoices for day care. Going forward the AP Team and the Commissioning Team will monitor the situation regarding outstanding invoices to prevent a reoccurrence. The support team for adult commissioning has now assumed full responsibility for administering the grant payments for the Narrowing the Gap grant funding and has receipted and made payment where appropriate. Other voluntary body invoices have also been processed and are up to date.
- 2.2.7 There have been communications with the provider and other voluntary organisations to make sure they understand how invoices need to be submitted. The situation regarding the future of Covid-19 relief payments for day care is due to end but the final date is not available at the time of audit.
- 2.2.8 Although we recognise that some of the issues have now been addressed, we are unable to give any assurance that this will not happen again. The process is over reliant on a number of key individuals and in their absence, especially over a prolonged period, there is limited resilience or a shared understanding of the process. The process is also reliant on a high degree of manual intervention.
- 2.2.9 Whilst only two recommendations were made, it should be noted that the recommendations following from the 'Payments to Care Providers' summarised in section 2.1 are also relevant to this audit, hence the limited opinion

	Recs			Assurance	
2.3	Staff (Grey Fleet) Vehicle Documentation	2	6	1	Limited

- 2.3.1 Under health and safety law, employers have a duty for on-the-road work activities. The Health and Safety at Work Act 1974 details that, as far as reasonably practicable, employers must ensure the health and safety of employees whilst they are at work and that others are not put at risk by work-related driving activities.
- 2.3.2 The last audit undertaken in 2020 flagged a number of areas of concern that needed appropriate consideration and action to ensure that the Council adequately responded to and addressed various potential and significant risks in this area. Information on grey fleet use and individual driving licences was being stored on two different systems: iTrent, the Council's HR and Payroll system and Fleetwave, the council's Fleet Management system and there was confusion about what information should be stored on which system, as well as duplication in cases of information being held on both systems. We also reported that existing checking and monitoring process(es) were time consuming for managers, particularly where managers have a number of direct reports.

- 2.3.3 This review noted that whilst some progress had been made since the last audit, further improvements were still required. For example, there were delays in obtaining formal and final agreement to the grey fleet policy, which at the time of the audit had yet to be formally approved, launched and implemented.
- 2.3.4 There was still 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.
- 2.3.5 Alternative grey fleet checking options have been investigated but had not progressed due to cost and there not being a known standalone option. Therefore, iTrent will be utilised by managers to record grey fleet checks conducted going forward.
- 2.3.6 20% of mileage claims made since April 2021 at the time of audit review did not appear to have up to date checks in place. Human Resources have advised that in future there would be zero tolerance of non-compliance, leading to disciplinary action potentially being taken, which is reassuring to note.

	Recs			Assurance	
2.4	Housing Allocation Scheme	0	4	5	Reasonable

- 2.4.1 Local Authorities have a statutory duty under various legislation, including the 1996 Housing Act and 2011 Localism Act, to provide housing to those who are homeless, eligible for assistance and in priority need. Every Local Authority is required to have a set of rules for allocating housing, detailing their priorities and procedures and reflecting local needs. It also details who does and does not qualify for allocation of social housing, as well as having a right to have allocation decisions reviewed and be notified of the outcome of the review and reasons behind the decision.
- 2.4.2 The allocations policy was clear and comprehensive, and was based on appropriate sources, such as related legislation. However, it was proposed that changes be made to the existing allocation scheme, to simplify it and also to address changes brought about by the pandemic and Brexit. At the time of our audit, revised proposals were subject to a public consultation. Both full and summary Housing Allocation Scheme details were found to be available on the website, with various other documents, such as Statements of Practice saved on shared drives, although these could benefit from reviewing and updating to fully reflect current legislation and practice.

- 2.4.3 Whilst safeguarding concerns were being detected and reported, with appropriate action taken, instances were identified during our testing where potential safeguarding issues could, and possibly should, have been identified sooner.
- 2.4.4 Our testing also exposed some areas where there were incomplete audit trails to evidence that various checks had been undertaken and relevant information provided by applicants, although copies of application forms were subsequently located in nearly all instances.
- 2.4.5 Applications that failed qualification or did not provide the requested information within the required timeframe, were notified in writing of not being admitted onto the housing register, together with their right to request a review within 21 days.
- 2.4.6 The annual re-registration of applicants on the Housing Register did not appear to have taken place since 2019, or before, in the cases sampled. It was noted that this was a very time and labour-intensive process. A limited re-registration process had occurred within the last year for those applicants dating from pre-2018 where email addresses or mobile telephone numbers were known.
- 2.4.7 In the majority of cases sampled, where applicants had refused the offer of accommodation, they had been notified of this counting as a refusal. There was no evidence located of anyone having refused the maximum number of times to require their removal from the register.
- 2.4.8 Properties were advertised on the Council's website, with bids received, viewing arranged and offers made to those with the highest band in most cases. Change of circumstances had been actioned, an appropriate assessment of household made and appropriately-sized properties allocated.
- 2.4.9 It is recognised that 'case reviews' were conducted regularly, with outcomes considered at staff supervision meetings and the issues identified in these case reviews mirrored those found during the audit. This is good as it shows that the service is striving to improve and has a good grasp of matters.

2.5 Grant Signs offs

Local Transport Plan Capital Settlement (Grant Certification)

- 2.5.1 The Government provides capital funding towards local transport from several different grants. For Reading, the 2020-21 LTP grant allocation was for the Integrated Transport Block £1,580,000, Highways Maintenance Block - needs element £1,185,000 and Highways Maintenance Block - incentive element £247,000.
- 2.5.2 To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to Local Transport Capital Settlement had been complied with.

Culture Recovery Fund Grant

- 2.5.3 Reading Arts and Venues secured £989,374 of Culture Recovery Fund Grant which was made available by the Arts Council England to cultural organisations that were financially sustainable before Covid-19, with the intention for them to be either fully or partially reopened by March 2021 or operating on a sustainable, cost efficient basis, so they could reopen later in the year.
- 2.5.4 As part of the grant condition a statement of income and expenditure was required that had been certified by a qualified accountant. A qualified accountant from within the internal audit function could perform this certification for Local Authorities. The 'actuals' were verified against the standard income and expenditure statement and separate checks were undertaken to ensure there was no double accounting in terms of furlough grants. Once figures had been verified the statement was appropriately signed and submitted.

Key: Substantial Assurance Reasonable Assurance Limited Assurance No Assurance

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	
Commercialisation	x				Mar-21	Jun-21	Jun-21	0	3	2	
MOSAIC payment controls (Finance Module)	x				Aug-20	May-21	Jun-21	3	5	1	
Budgetary Control	x				Jan-21	Jun-21	Aug-21	0	5	3	
NNDR and CTAX Administration	x				Mar-21	Jun-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
Facilities Management	x				Apr-21	Jun-21	Jul-21	2	6	1	
Housing Allocation Scheme	x				May-21	Aug-21	Nov-21	0	5	5	
Business Grants (Post Payment) Assurance	x				Jun-21	Jul-21	Aug-21	0	0	0	
NHS Test and Trace Grant Determination	x				Grant return now not due until 2022/2023						
Community Testing Funding Grant	x				May-21	Jun-21	Jun-21	1	4	0	N/A
Corporate Governance Review	x				Apr-21	Jun-21	Sep-21	0	0	0	
Housing Benefit		x			Jun-21	Aug-21	Sep-21	0	1	1	

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Local Transport Plan Capital Settlement (Grant Certification)		x			Sep-21	Oct-21	Oct-21	0	0	0	N/A
Bus Subsidy Grant		x			Sep-21	Oct-21	Oct-21	0	0	0	N/A
Freedom of Information (Follow up Review)		x									
Accounts Receivable		x			Dec-21						
Contract Management (Adults)		x			Jun-21	Aug-21	Sep-21	2	2	0	
Culture Recovery Fund Grant (NEW)		x			Jun-21	July-21	July-21	0	0	0	N/A
Payments to Adult Social Care Providers (NEW)			x		Sep-21	Dec-21	Jan-22	7	11	0	
Payments to voluntary sector providers (NEW)			x		Nov-21	Dec-21	Jan-22	0	2	0	
Parks & Grounds Maintenance			x		Dec-21						
Bank and feeder system reconciliation (NEW)			x		Nov-21	Dec-21		0	7	3	
Furlough Administration			x		Nov-21						
Client Contributions (Adult Care)			x		Dec-21						
Accounts Payable			x								
Climate Change Strategy			x		Aug-21	Dec-21		0	5	0	
Green Homes BEIS Grant			x		Oct-21	Oct-21	Oct-21	0	0	0	N/A
Staff (Grey Fleet) Vehicle Documentation - (Follow up Audit)				x	Aug-21	Sep-21	Nov-21	4	3	0	
Waste Operations				x							
Records Management & Document Retention Policy (Follow up)				x							
Treasury Management				x							
Transitions from children's social care to adults				x							
Transparency Code Compliance (Follow up)				x							
Green Homes BEIS Grant				x							

4.0 INVESTIGATIONS (APRIL 2021 - DECEMBER 2021)

4.1 Grant Funding Schemes Assurance work

4.1.1 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. Using government fraud prevention tools, which interface with other departments and agencies, they validated claims and facts for various business grants paid out as a result of the pandemic. This work continued from April to July this year, with no suspicions of fraud identified during this period. Since April 2021, the Investigations team have verified 345 applications, based on risk.

4.2 Council Tax Support Investigations

4.2.1 The Investigations team have recovered a record total of £2,397.95 from Council Tax investigations completed, where a discount was removed from the current account.

4.3 Housing Tenancy Investigations

4.3.1 Since 1st April 2021, officers have commenced investigation into several referrals of tenancy fraud, with 15 cases ongoing and 10 properties having been returned to stock to date. All these cases were tenancy related investigations. There was 1 case under the Right to Buy (RTB) scheme. In addition to the notional savings, the RTB case secured a 12-month rental income, equivalent to £5,799.86, plus the RTB discount saving of £93,000.

4.3.2 The notional saving achieved on the properties returned to RBC stock is £842,000, adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report.

4.3.3 The Investigations team have also undertaken joint working with one of Reading's Registered Social landlords (RSL). Investigators helped the RSL to recover one property following a lengthy investigation.

4.4 Social Care Fraud & Investigations

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

4.4.2 Officers also investigated a referral from the NHS regarding a possible overcharging for care at a large residential home in the area. Although we found no evidence of fraud, record keeping with respect to the care hours provided was poor.

4.5 Disabled Persons Parking Badges (Blue Badges)

4.5.1 Since April 2021, we have received a total of 9 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.

Other Investigations

4.5.2 Over this period, we've also assisted a neighbouring Local Authority on two ongoing investigations linked to possible tenancy frauds, as well as tenancy checks on two school admissions.

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