

Appendix 1

Internal Audit & Investigations

Quarterly Update Report Q4

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 4 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

| | | Recs | | | Assurance |
|-----|-----------------------------|------|---|---|-------------|
| 2.1 | Parks & Grounds Maintenance | 0 | 0 | 0 | Substantial |

2.1.1 In 2019/2020 we undertook a review of overtime payments for Parks and Ground Maintenance operatives. At the time of our audit we found the administration of the whole area was not clear with performance data and resource allocation all stored in separate data silos. This was the same for overtime and weekend working. At the time of our review the nature of the paperwork completed, for work done and the use of schedules, did not give a clear indication of how resources were being used.

2.1.2 We can confirm that measures have since been taken to address internal audit concerns and we are now satisfied that there are sufficient controls in place to substantiate the payment of overtime. Works are completed on a task and finish basis and any overtime is agreed and monitored by the Contracts Officer in conjunction with the Grounds Maintenance Supervisor responsible for authorising the overtime claimed directly through the Itrent self-service system, which replaced the manual time sheets in 2019.

2.1.3 Overtime, acting up and payments for standby and callout costs have reduced by 52% since 2019/20.

| | | Recs | | | Assurance |
|-----|-------------------------|------|---|---|------------|
| 2.2 | Climate Change Strategy | 0 | 5 | 0 | Reasonable |

2.2.1 Climate change was incorporated into the Council's internal audit plan by virtue of its entry in the Strategic Risk Register and this was the first audit examination of the subject as a discrete assignment. This review focused on ensuring that the Council's commitments within the Reading Climate Emergency Strategy, are properly supported by an appropriate governance structure.

2.2.2 Our audit concluded that whilst controls for ensuring a systematic approach for delivering and monitoring responsibilities contained in the Reading Climate Emergency Strategy are still in the stages of early development, we are satisfied that the Council recognises the wider complexities of reporting. It is important the Council builds a corporate monitoring framework to report upon its share of the responsibilities in the strategy so that it can substantiate its own delivery status, distinct to that of the Partnership.

- 2.2.3 The Climate Programme Board has been established to monitor the delivery of its share of commitments from the Reading Climate Emergency Strategy. An examination of the Reading Climate Emergency Strategy observed the actions to be taken were listed together with their target measures/milestones, target completion date and delivery partner information. This provided a good level of detail for monitoring purposes.
- 2.2.4 The strategy records that the Council is involved with 76 out of 127 actions (60%) showing both the level of its delivery involvement and the level of reliance which is placed (40%) within the partnership on other organisations which do not involve the council.
- 2.2.5 There is a robust mechanism in place to monitor progress against the headline target in the Strategy of 'net zero by 2030'. The strategic delivery of carbon emission reductions is independently measured and confirmed against national statistical datasets and reported upon annually by the Department for Business, Energy and Industrial Strategy (BEIS). The subject of whether targets are achievable is part of a wider national debate and their scientific confirmations.
- 2.2.6 It is important to note that because there is a 2-year reporting delay due to the complexities of data collection operations, the Head of Climate Strategy has highlighted the Partnership strategy does not set out interim milestone targets from the 2005 baseline, albeit it is recognised that Reading's carbon emission reduction needs to approximately double to be on track for 'net zero' by 2030. This means that in order to ensure there are no delivery delays, plans must be prepared against best estimations and therefore be flexible to consider any adjustments needed, following the verification of actual outcomes.
- 2.2.7 Whilst the Council's Corporate Plan for 2021/22 provided a good insight into the council's ambitions and plans for being carbon neutral and resilient, we found this was then not always consistently reflected within Council Service Plans. We were, however, informed that service plans for 2022/2023 will be more aligned with the business and financial planning cycle. Whether service plans are the right mechanism for this requires some evaluation, specifically whether or not the 76 strategic actions should be managed as a programme of works through the directorates, instead of pooling the contributions from services individually.

2.2.8 Climate change is identified as a strategic risk; however, consideration should be given to tracking and reporting carbon emission reduction and adaptation¹ risks separately e.g. the council may be adapting its services to reduce carbon emissions, but is it making the right adaptations to manage the consequences of climate change.

| | Recs | | | Assurance |
|-----|--------------------------------------|--|--|------------|
| 2.3 | Main Bank and feeder reconciliations | | | Reasonable |

2.3.1 One of the functions of the bank reconciliation process is to ensure sound financial control by providing accurate accounting records and financial statements which the Council uses to monitor and manage its spend, cash flow and treasury management. This is done by reconciling income and expenditure in all the Council’s bank accounts, as well as by reconciling records from feeder systems.

2.3.2 Bank reconciliations are a cornerstone of financial control and should be completed regularly to maintain prudent financial management, detect potential fraud, and to provide assurance on the design of adequacy of control systems over receipts and payments. Reconciliations between feeder systems and the main accounting system are part of this process.

2.3.3 The principal finding arising from this review was that the main bank reconciliation is now up to date, clear and well supported. Given the well documented issues, weaknesses and problems associated with not regularly and routinely achieving this fundamental control in the recent past, this should now give a tentative indication of a welcome improvement in financial control.

2.3.4 The appointment of a specific Reconciliations Officer position is central to sustaining this improvement in future, together with extending the role and function of this officer, with the potential ambition of transferring responsibility for completion / oversight of feeder system reconciliations.

2.3.5 Although the feeder systems reconciliations were largely up to date, the review noted (what other Internal Audit reviews have previously noted) that the templates used for these were often very different in structure and format and been inherited as practice for a number of years. Given this and that the evidence to support reported totals and balances was not easily traceable, these would benefit from being subject to similar critical review and improvement as for the main bank account reconciliation and the Payroll / Fusion reconciliation.

¹ Emissions of the greenhouse gases which are causing climate change (known as ‘climate mitigation’), and to prepare for the impacts (known as ‘climate adaptation’).

2.3.6 Although there was evidence that feeder system reconciliations were being authorised by managers, it was also not evident what process(es) those managers use to satisfy themselves as to their accuracy and validity before authorising these. It was also noted that there is a variety of practice about what happens to these reconciliations thereafter, in terms of being copied to Finance etc.

2.3.7 Given the absence of clear and up to date documented procedures generally for reconciliations, it is not straightforward to identify that there is an appropriate separation of duties across the different reconciliation processes, and this is something that should be reviewed, to give some assurance from a fraud risk perspective, but also to help in any review and oversight of reconciliations in the future, as well as assisting in the training of new staff. One area that should be specifically reviewed is the current access and ability of staff outside of Finance to make and process transactions on Civica².

| | | | | | |
|-----|-------------------------|------|---|---|-----------|
| | | Recs | | | Assurance |
| 2.4 | Intercompany Accounting | 2 | 4 | 1 | Limited |

2.4.1 In July 2020 we reported that the intercompany billing process was not operating as intended and there was confusion over roles and responsibilities between Reading Borough Council (RBC) and Brighter Futures for Children (BFfC). There were delays in payment and poor reconciliation controls to understand what had been paid, leading to a number of duplicate payments being processed. This follow up audit reviewed processes and controls within both the parent company, (RBC), and the subsidiary, (BFfC).

2.4.2 Whilst there is a service level agreement between RBC and BFfC, covering the overarching governance arrangements between the two organisations, operational procedures for intercompany accounting are lacking.

2.4.3 The ‘Contract’ requires there to be an appointed and appropriately qualified representative in post for each entity and each of such seniority to have the authority to make decisions and have the ability to delegate this responsibility to another person. A working structure is required to formalise roles and responsibilities that promote rigorous, cooperative, and professional working methods, with roles and responsibilities known to both entities. This need can be best highlighted when during the review, it was not possible to identify the responsible (RBC) person who maintains, monitors and reconciles grant receipts and payments. Furthermore, in year reconciliations had not happened and the 2020-21 grant position was only being finalised in February 2022.

² Cash receipting system

- 2.4.4 The working structure should include an appropriate line of communication between the two parties, where queries and issues can be raised. Attendance at this forum should be by sufficiently senior individuals with the authority (or else is formally delegated) to make decisions on behalf of the organisation they represent. Whilst regular meetings are held, there is no terms of reference or documented purpose or governance document to guide this function.
- 2.4.5 Intercompany transfer payments for the contract, service level agreement payments and delegated schools grant funding are being paid and received monthly; however, BFFC had not regularly requested RBC to transfer over any of the £1.15m of grant funding that has been received in the Council's accounts. Likewise, quarterly recharges to BFFC for statutory posts have not been transferred either. There is also some miscoding in the grants and DSG funding cost centres and £84k of cash receipting is also showing.
- 2.4.6 Those transfer payments that have happened, have been well supported. Whilst the Accounts Payable Team performs manual checks, there is a risk of duplicate payments being made as the financial system does not have the functionality to identify a duplicate intercompany transaction. This validates the need for quality authorisation and prompt payment processes.
- 2.4.7 Without appropriate and effective governing policies, documented and tested procedures, timely transactions, and periodic reconciliations, it is likely the year-end process will be impacted and continue to drift.

| | Recs | | | Assurance | |
|-----|------------------------------------|---|---|-----------|------------|
| 2.5 | Transition from children to adults | 0 | 2 | 3 | Reasonable |

- 2.5.1 Under the Care Act 2014 the Local Authority should ensure that no gap occurs in the provision of services when a young person reaches the age of 18, unless an assessment is undertaken and concludes that the young person does not qualify for adult social care. The transition process should begin around 13-14 years of age for young people with an Education, Health, and Care package (EHCP) and for those leaving care this must happen from 15 years old and should be an ongoing process.
- 2.5.2 The purpose of this audit was to provide assurance that there is a comprehensive control framework throughout the whole transitioning process, through the Children and Adult Social care stage(s).

- 2.5.3 There was an independent external assessment in 2020 of the process for preparing for adulthood, which provided the basis to develop project plans and actions plan for the Joint Transitioning Strategy and the SEND Strategy. Membership of these groups/boards is governed by terms of reference and membership includes representatives from both children's social care (CSC) and adults social care (ASC).
- 2.5.4 Strategic responsibility for the transitioning process for preparing young people for adulthood has been equally allocated to the SEND Service Manager and the Adults Services Locality Manager. The Preparing for Adulthood Policy, co-authored by CSC and ASC, documents this shared responsibility, encouraging a professional, collaborative, working relationship which is led from the top. This is an important requirement to ensure that both services are aware of those young people that may have needs when they reach adulthood. Having this knowledge from the Preparing for Adulthood Panel, and the subsequent manual process in place to share that knowledge, is the only way that ASC can be currently informed, as they do not have access to CSC Mosaic accounts. We advised that this arrangement is reviewed to ensure it remains appropriate.
- 2.5.5 Standard documentation encourages workers to consider what young people need to do to maximise their independence going into adulthood, with the process expected to commence at the age of 14. The existing procedure of management overview and sign off should allow for that independent assessment for appropriateness of the recommended service.
- 2.5.6 The Children and Young People Disability Team (CYPDT) has been created to bring together all those services working for young people with disabilities. There has been a programme of non-mandatory briefings within the team that highlights the changes in the service, including the preparing for adulthood process.
- 2.5.7 Those cases sample tested were found to have appropriately involved at least the young person, where mental capacity allowed, the parent/guardian and social care worker, and all contained goals for maximising independence.
- 2.5.8 It is our opinion that the governance structure is one of collaboration, and compliance with the structure should provide a well-informed transition process involving both CSC and ASC with little risk of unknown costs at transition.

- 2.5.9 A Mosaic system report is being tested that will identify all 14- to 25-year-olds with an Education, Health and Care Plan (EHCP). This group of young people include those that will most likely need services provided by ASC in the future. Setting the report criteria to include 25-year-olds, will ensure those that come into Reading's CSC at a later age are also identified, although this is not a usual circumstance.
- 2.5.10 A total of 28 young people under 18 years of age have been identified as the cohort needing to have commenced their transition process (from CSC to ASC) and whilst case notes and workflows suggest transitioning has been commencing at around 16 years of age, there is a back-log, which the service is aware of.
- 2.5.11 Those cases where transitioning to ASC has been agreed, are being monitored termly and Adult Social Care Finance are being informed manually of current costs which are then used to forecast future ASC budgets and commissioning needs. It has only been recently that the Preparing for Adulthood Panel decision has been easily accessible and searchable within the work history on Mosaic, with historic decisions being updated. However, the Eligibility, Risk and Review Group decision is not searchable at all on the work history in Mosaic. For easy access and reference these key milestone decisions should be easily accessible.
- 2.5.12 Some incomplete work steps on Mosaic were found that should have been completed in order to progress the agreed transition from CSC into ASC. There needs to be a control introduced that identifies and then progresses these incomplete steps, which should be easily identifiable.

2.6 Grant Signs offs

Culture Recovery Fund Grant

- 2.6.1 Reading Arts and Venues secured £487,000 from the second round of Culture Recovery Fund Grant, which was made available by the Arts Council England to support organisations as they transition back to a viable sustainable operating model during April- June 2021. The funding period for this grant was extended to the end of December 2021.
- 2.6.2 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.

2.7 Travel Demand Management Grant Funding: Final Survey February 2022

- 2.7.1 All Local Transport Authorities who have received a Travel Demand Management (TDM) grant and/or a Travel Demand Management Top Up grant were required to complete a formal survey for the Department for Transport (DfT). The survey confirms how we have spent our TDM grant and TDM Top Up grant income, as well as providing a general evaluation on the impact of the grant. The survey is in line with the requirement in the Terms and Conditions that local authorities are required to provide the DfT with a full breakdown of how the funds were used.
- 2.7.2 RBC received two TDM grants, an initial grant of £150,000 and a top up grant of £25,000.
- 2.7.3 Following appropriate checks and investigations we were able to confirm that the conditions attached to the grant determination had been complied with and information supplied in the survey was accurate.

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 | |
| 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 |

| Audit Title | Timing | | | | Start Date | Draft Report | Final Report | Res | | | Assurance |
|--|--------|----|----|----|-------------------------|--------------|--------------|-----|----|----|-----------|
| | Q1 | Q2 | Q3 | Q4 | | | | P1 | P2 | P3 | |
| Freedom of Information (Follow up Review) | | x | | | Mar-22 | | | | | | |
| Accounts Receivable | | x | | | Dec-21 | Mar-22 | | | | | |
| 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 | Jan-22 | Jan-22 | 0 | 0 | 0 | |
| Bank and feeder system reconciliation (NEW) | | | x | | Nov-21 | Dec-21 | Mar-22 | 0 | 7 | 3 | |
| Furlough Administration | | | x | | Rescheduled for 2022/23 | | | | | | |
| Client Contributions (Adult Care) | | | x | | Dec-21 | Mar-22 | | 0 | 9 | 6 | |
| Accounts Payable | | | x | | | | | | | | |
| Climate Change Strategy | | | x | | Aug-21 | Dec-21 | Feb-22 | 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 | Rescheduled for 2022/23 | | | | | | |
| Treasury Management | | | | x | Feb-22 | | | | | | |
| Transitions from children's social care to adults | | | | x | Dec-21 | Feb-22 | | 0 | 2 | 3 | |
| Transparency Code Compliance (Follow up) | | | | x | Mar-22 | | | | | | |
| Travel Demand Management Grant - Survey (NEW) | | | | x | Mar-22 | Mar-22 | Mar-22 | 0 | 0 | 0 | N/A |
| Green Homes BEIS Grant | | | | x | Rescheduled for 2022/23 | | | | | | |

4.0 INVESTIGATIONS (APRIL 2021 - MARCH 2022)

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. Since April 2021, the Investigations team have verified 539 applications, based on risk. with no suspicion(s) of fraud identified during this period.

4.2 Council Tax Support Investigations

4.2.1 The Investigations team have recovered a record total of £2,370.49 from 9 Council 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 11 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 £1,023,000 adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report.

4.3.3 CIT also undertake assurance verification looking at new homeless applications for the period. The investigations team reviewed 168 cases and recorded £9,249.44 Council Tax which had been discounted in error, these monies have been re credited to the system.

4.3.4 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 2020, work on Civil enforcement was suspended. The service has recently re-engaged. Since April 2021, we have received a total of 11 misuse referrals, all of which were investigated. One case was successfully prosecuted in November 2021, 3 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.