

**READING BOROUGH COUNCIL
DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	24 January 2023		
TITLE:	INTERNAL AUDIT QUARTERLY UPDATE REPORT		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES & RESOURCES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
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1. PURPOSE OF REPORT

- 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 2022/2023 financial year.
- 1.2 The following document is appended:
Appendix 1 - Internal Audit & Investigations update report
Appendix 2 - Deputies and Appointees 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 finalised in the period between October and December 2022, with three receiving a positive opinion and one receiving a negative opinion. In addition, three grants were certified to confirm they had met the conditions of the grant determination.
- 3.3 **Substantial Assurance Opinion Reviews**
- 3.3.1 N/A

3.4 Reasonable Assurance Opinion Reviews

- 3.4.1 A review of the various **Salary Sacrifice Schemes** on offer to staff, confirmed that these are government approved schemes that are facilitated through a provider on behalf of the Council. Oversight and challenge were found to be satisfactory, supported by independent external advice. Payroll deductions could be substantiated and had been correctly made in accordance with the payment mandate.
- 3.4.2 Whilst there are areas where improvements could be made, we concluded that the **re3 waste PFI** is well controlled and managed. The Joint Waste Agreement provides clear formulae and processes for allocating and charging costs. We are satisfied that the control framework supporting the financial and operational records are complete and accurate and that the processes in place are sufficiently robust.
- 3.4.3 A follow up review of **Purchase Cards** revealed that good progress has been made in implementing historic internal audit recommendations, however two recommendations were reported as not implemented. However, given the positive progress a positive opinion can now be given.

3.5 Limited Assurance Opinion Reviews

- 3.5.1 An audit of the **Deputy's team** concluded that there was a poor control framework in relation to the transfer of clients' funds from private to RBC designated deputy and appointee bank accounts and a high volume of manual processes.

3.6 No Assurance Opinion Reviews

- 3.6.1 N/A

3.7 Consultancy work

- 3.7.1 The definition of Internal Audit outlines the scope of the Internal Audit function which is not limited to assurance but includes a consultancy activity. Internal Audit's purpose is to be the 'critical' friend by questioning process and controls within the outturn of these groups. With this in mind the Internal Audit function is currently involved in a number of boards/groups across the Council, including:
- SharePoint Strategy and Data Migration Group. - To ensure that only required information is migrated to SharePoint sites by identifying owners of information to be migrated to SharePoint and the structures within it.

- Office 365 realisation Project - involved in the promotion of Office 365 and cascading key messages and functionality. Being the conduit between the end user and project team.
- Information Governance Board – reviewing and providing advice on IT policies and information governance policies and procedures.
- Finance Transformation and Systems Board - attended by the Chief Auditor.
- Finance System design workshops - Internal audit have participated in the design workshops for the new finance system covering General Ledger, Accounts Payable, Purchase to Pay (these two have now merged) and Accounts Receivable.

3.8 Resources

- 3.8.1 Resources have remained stretched over the past few months and whilst long term sick leave has now ended, following the retirement of a member of staff and the phased return to work of another, there has been one vacancy in the team over the past 4 months.

3.9 Investigations

- 3.9.1 The Corporate Investigations Team (CIT) has referred several cases for financial reviews from 49 Council Tax Support investigations completed, where a discount was removed from the current account.
- 3.9.2 Since April 2022, we have received a total of 8 misuse referrals, all of which were investigated. 1 case was successfully prosecuted in April 2022, and 5 cases have been sent a formal warning letter and the remaining cases under ongoing investigation.
- 3.9.3 Officers have commenced investigation into several referrals of tenancy fraud, with 19 cases ongoing and since April 2022 and 3 properties having been returned. The team has also assisted in the return to stock of 2 Registered Social housing landlords' properties.
- 3.9.4 There is one ongoing direct payment investigation (Adults) currently in progress which is linked to potential money laundering offences. In a separate case CIT are working with RBC legal services to recover £16k in misused monies linked to an ongoing investigation into direct payment fraud.
- 3.9.5 CIT have been working with the Finance and Assessment Team (FAB) and Adult Social Care (ASC) in reviewing five direct payment cases to ensure monies are being spent in accordance with the care plans and £51k out of a potential £97.5k had been recouped. As a result, a further 20 clients' accounts were reviewed. CIT found that 14 out of 20 accounts reviewed were shown to have significant surplus balances above £3,000. 8 of the 14

accounts had surplus balances above £9,000 and 3 had surplus balances in excess of £14,000. ASC is looking to recoup approximately £133,730. It is important to note is that none of these cases were found to involve fraudulent activity.

3.10 National Fraud Initiative

- 3.10.1 The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.
- 3.10.2 Providing data is a mandatory requirement, required by law¹, with the following datasets required; payroll, pensions, trade creditors' payment history and trade creditors' standing data, housing (current tenants) and right to buy, housing waiting lists, housing benefits (provided by the DWP), council tax reduction scheme, council tax (required annually), electoral register (required annually), students eligible for a loan (provided by the SLC), transport passes and permits (including residents' parking, blue badges and concessionary travel) and licences - taxi driver.
- 3.10.3 As the key contact for the NFI, internal audit has been coordinating and monitoring the upload of data submissions, ensuring that the data formats guidance and data specifications are followed. All data was provided within the statutory timeframes.
- 3.10.4 Data matches will be available from the end of January 2023, when we will nominate appropriate users to investigate the matches, ensuring that outcomes from the investigation of matches are recorded on the web application promptly and accurately.
- 3.10.5 External auditors use the output from the exercise to help them assess the arrangements that audited bodies have in place to prevent and detect fraud.

7. CONTRIBUTION TO STRATEGIC AIMS

- 7.1 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.

¹ Under Part 6 of the Local Audit and Accountability Act 2014 (England), Part 2A of the Public Finance and Accountability (Scotland) Act 2000, Part 3A of the Public Audit (Wales) Act 2004, Articles 4A to 4G of the Audit and Accountability (Northern Ireland) Order 2003.

8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 N/A

9. LEGAL IMPLICATIONS

9.1.1 Legislation dictates the objectives and purpose of Internal Audit the requirement for an Internal Audit function is either explicit or implied in the relevant local government legislation.

9.1.2 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.

9.1.3 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”.

9. FINANCIAL IMPLICATIONS

9.1 N/A

10. BACKGROUND PAPERS

10.1 N/A