

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 2022/2023 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	Commercial Assets & Investments	0	4	2	Reasonable

- 2.1.1 The purpose of the audit was to review the adequacy of systems in place to identify, collect, record, and monitor rental income due on commercial properties and investments.
- 2.1.2 Appropriate rent and business rates accounts were in place with unique references for each letting for the properties reviewed. In most cases, timely amendments had been made to rent records to reflect changes in tenancy.
- 2.1.3 Information relating to properties was not held in a central location but split across several documents including the fixed asset register, rent roll and Terrier¹.
- 2.1.4 Where the Council had purchased properties part way through a rent period, rent had been invoiced from the start of the next quarter, although it was currently unclear whether pro-rated rent had been charged from the date of acquisition. Agreed rent-free periods and rent increases had been invoiced and paid.
- 2.1.5 For business rates, for the three in-borough properties, the tenants had been billed in a timely manner. Where there were changes to the rateable values or multipliers, business rates were recalculated, and revised invoices issued to tenants. All tenants were up to date with rate payments at the time of the audit.
- 2.1.6 Current leases containing key information were in place with all but one tenant. One lease expired in 2021 and the property in question had an unauthorised assignee in place. It was possible that a number of current tenants would be lost within the next year or so.
- 2.1.7 Generally, tenants were invoiced for rent due in agreement with tenancy agreements and in a timely manner, with rent also generally paid in a timely manner, other than for one tenant during covid; however, this had all now been paid. There was also an issue in some cases identifying and reallocating payments in suspense accounts to tenants' accounts in a timely manner.

¹ The Council's electronic records systems used to record land and property holdings.

2.1.8 There was no clear, documented reconciliation conducted between what was charged to the Council on the properties for service charges and insurance and what had been recharged to tenants. Internal audit was unable to verify in all cases that what had been paid by the Council, agreed with what had been recharged.

2.1.9 There was a lack of up-to-date documented policies and procedures in place, as well as a lack of regular declaration of Officer interests.

	Recs			Assurance
2.2	Housing Revenue Account (Follow up)			Substantial

2.2.1 The HRA is a ring-fenced account within the Council’s General Fund (GF), which reflects the statutory requirement to account separately for local authority housing provision. Items can only be included within the HRA if there is a statutory provision; similarly transfers between the HRA and GF can only occur in very specific cases. HRA budgets must be set annually in the January or February before the start of the financial year. A deficit cannot be budgeted for, and it is incumbent on the Council to take all reasonable steps to avoid a budget deficit.

2.2.2 The last audit undertaken in 2021 was given limited assurance and concluded that there were six key areas requiring management action. Two high-risk rated areas were the lack of a permanent HRA expertise to ensure that services are fully supported in their roles in relation to the HRA and the need for a common understanding of policies, procedures, and processes for the HRA 30-year model. This is essential to support budget setting and monitoring within finance and services, so that there is consistency both in-year and from year to year.

2.2.3 This audit follow-up review recognised that substantial progress has been made since the last audit, that previous gaps in control are being more effectively managed, which means that relevant risks for the Council are now being mitigated more robustly.

2.2.4 From the evidence obtained and reviewed, and following discussions with relevant officers, we are now confident that the HRA 30-year financial model, commissioned for 2021/22 onwards, provides clear alignment between service area plans, the agreed HRA Medium-Term Financial Plan, annual budget, and ongoing budget monitoring. Finance and Service Teams now take a more integrated approach to budget setting and monitoring to ensure there is consistency of understanding.

- 2.2.5 There is now sufficient HRA expertise in both Finance and the Housing and Communities function in the Directorate of Environment and Neighbourhood Services (DEGNS). To ensure that service teams were fully supported in their roles in relation to the HRA, the Finance team now have a permanent Strategic Business Partner in place with the required experience. Whilst the Business Development Manager, HRA role in DEGNS is provided by a consultant, he is on a minimum 12-month contract and part of his brief is to recruit or help develop a permanent replacement during this period.
- 2.2.6 We have received evidence from the Financial Planning & Strategic Manager (FP&S) and the Capital & Treasury Lead (C&T) in Finance, regarding a transfer of four sites from the General Fund to the HRA for consideration of the development of new Council housing. All four of these assets have been transferred to the HRA Fixed asset balance sheet codes on Oracle. This was achieved during the 2021 - 2022 closure process.
- 2.2.7 There is a new 30-year HRA business model in place which is more “user-friendly”, it is viewed as a live document that is updated as and when changes arise, highlighting their (likely) impact. There is clear alignment between details in service area plans, the HRA 30-year model, the agreed HRA Medium-Term Financial Plan, annual budget, and ongoing budget monitoring.
- 2.2.8 From the evidence obtained and reviewed, as well as discussions with senior management in the DEGNS directorate, we are confident that the reviews of areas (such as service charges and cleaning services), with a view to obtaining improved value for money, have started in 2022 - 2023. The first draft report is being considered by the Assistant Director in DEGNS, and a plan of further reviews is in place for 2023.
- 2.2.9 There is a common understanding regarding agreed budget, and overhead allocation between finance and service teams. Reports are comprehensive, user friendly, automated where possible, and have clear line of sight between the agreed budget and that shown on budget monitoring reports. In addition, regular reconciliations are conducted between reports and service plans to ensure that they are aligned.

	Recs			Assurance	
2.3	Direct Payments	1	7	0	Limited

- 2.3.1 The purpose of a direct payment is to provide eligible people with the flexibility and freedom to decide how their care needs should be met. The rules for qualifying, establishing, and monitoring direct payments are set out under the Care and Support (Direct Payments) Regulations 2014.
- 2.3.2 Regulations require local authorities to ensure that the direct payment resource is appropriate to needs and that it is used to meet the care and support needs set out in the plan and have systems in place to proportionally monitor direct payment usage to ensure effective use of public money.
- 2.3.3 The council pays and monitors 'direct payments' for approximately 266 people costing £6.6m per year. Resource allocation funds are paid either using the pre-payment card method, a managed bank account in conjunction with the social services, or directly via the client's bank account.
- 2.3.4 Our audit review identified some weaknesses in the direct payment process, such as payment account setups not being authorised and checked, along with delays in the monitoring of user accounts. On this basis, we issued a 'limited assurance' opinion.
- 2.3.5 It was found to be possible to set up and make direct payments without Eligibility Risk and Review Group (ERRG) authorisation, and without a signed direct payment agreement with the service user.
- 2.3.6 Client accounts are reviewed on a risk basis, but around 47% of accounts were either due or overdue at the time of the audit. Furthermore, the outcome of the risk assessment is not recorded to substantiate the reason individual accounts are selected, and neither is a summary of the review itself.
- 2.3.7 Although our testing found some inflationary uplifts have not been applied to the direct payment since 2017, we found a high number of occurrences where funds have been recuperated, which highlights the difficulties in ensuring the payment allocations remain appropriate to needs e.g., surplus balances are being recovered at a rate of circa £200k per year over the last five years. In addition, during 2022/23 the Corporate Investigation Team identified surplus balances of £229k from a sample of 25 accounts (see paragraph 3.7 below).
- 2.3.8 Responsible staff are not requested to declare if they have a conflict of interest with a direct payment claimant on a case-by-case basis, which would provide a higher level of due diligence and help mitigate the risk of fraud.
- 2.3.9 We were pleased to find there had been a strengthening in the separation of duties between setting up and monitoring accounts, but there were some poor procedural practices and compliance issues in the completion of system documentation that should be improved to strengthen this further and to provide an audit trail.

2.4 Grant Certifications

Adult Weight Management grant

- 2.4.1 We provided reasonable assurance that the eligible expenditure incurred in the Grant Period, was in accordance with the definitions and conditions of the grant. Expenditure appeared to relate to service delivered between 1/4/22-31/12/22 (as per the extended deadline by the Office for Improvement and Disparities) and for delivery of Tier 2 Adult Weight Management Service. However, it should be noted that whilst the services appear to have been delivered within the extended grant period, we were not invoiced for the services until January 2023 and the invoices had not been processed on Fusion / paid (at the time of review).

Key: No Assurance: ■ Limited Assurance: ■ Reasonable Assurance: ■ Substantial Assurance: ■

Audit reviews carried over from 2021/2022

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Client Contributions (Adult care)	●				Feb-22	May-22	Jun-22	1	5	6	
Freedom of Information (Follow-up Review)	●				Jun-22	Jul-22	Aug-22	-	-	-	
Transparency Code Compliance (follow-up)	●				Jun-22	Jul-22	Aug-22	-	-	-	

Audit reviews for 2022/2023

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Green Homes BEIS Grant	●				Nov-22	Nov-22	Nov-22	0	0	0	n/a
Waste Operations	●				Apr-22	Jun-22	Jun-22	0	2	0	
Rent Accounting	●				Apr-22	Jun-22	Aug-22	0	6	4	
Deferred Payments	●				Apr-22	Jun-22	Aug-22	1	8	0	
NHS Test and Trace Grant Determination	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Contain Outbreak Management Fund Grant*	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Practical Support Payment (PSP) grant*	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Rough Sleepers Initiative Grant*	●				Jun-22	Jun-22	Jun-22	0	0	0	n/a
Salary Sacrifice schemes	●				Jul-22	Oct-22	Oct-22	0	2	4	

Key: No Assurance: ■ Limited Assurance: ■ Reasonable Assurance: ■ Substantial Assurance: ■

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Deputyship and Appointeeship	●				Jul-22	Sep-22	Nov-22	5	3	3	■
Crime & Reduction Grant*					Aug-22	Aug-22	Aug-22	0	0	0	n/a
Local Transport Plan Capital Settlement (Grant Certification)		●			Sep-22	Oct-22	Oct-22	0	0	0	n/a
Waste PFI contract		●			Jun-22	Sep-22	Nov-22	0	5	1	■
Cyber Security		●			Aug-22	Jan-23					
Audit Committee Review		●			Dec-22	Jan-23	Mar-23	0	0	0	n/a
Budget Setting/Monitoring		●			Feb-23	Mar-23		0	1	1	■
Bus subsidy grant (covid) - certification*					Nov-22	Nov-22	Nov-22	0	0	0	n/a
Housing Revenue Account (Follow up) *					Nov-22	Jan-23	Jan-23	0	0	0	■
Purchasing Cards*					Sep-22	Dec-22	Jan-23	0	2	0	■
Inflationary Uplifts (follow-up)			●		Nov-22						
Housing Repairs (responsive & planned maintenance)			●		Nov-22	Mar-22					
Housing PFI			●		Cancelled due to imminent external review						
Records Management & Document Retention Policy (follow-up)			●		Postponed to 2023/2024						
BACS Security and controls over Faster Payments			●		Nov-22						
Furlough Administration			●		Mar-23						
Direct Payments			●		Oct-22	Dec-22	Feb-23	2	6	3	■

* Audits added during the year

Key: ■ No Assurance ■ Limited Assurance ■ Reasonable Assurance ■ Substantial Assurance

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Adult Care Provider Payments (follow-up)			●		Jan-23	Mar-23					
Adult Weight Management grant*					Feb-23	Feb-23	Feb-23	0	0	0	n/a
General Ledger				●	Jan-23	Mar-23		0	7	1	
Accounts Payable				●	Mar-23	Apr-23					
Commercial Assets & Investments				●	Sep-22	Jan-23	Mar-23	0	4	2	
Intercompany accounting (Follow-Up Review)				●	Postponed to Q1 2023/2024						
Terminations (leavers and movers) processes				●	Mar-23	Mar-23					
Adults Contract Management (follow-up review)				●	Postponed due to service pressures						
Client Contributions Adult Care (Follow Up)				●	Feb-23	Apr-23					
Adult Social Care Debt				●	Mar-23						

* Audits added during the year

3.0 INVESTIGATIONS (APRIL 2022 - MARCH 2023)

3.1 Council Tax Support Investigations

3.1.1 The Corporate Investigations Team (CIT) has been involved in 35 Council Tax Support investigations. From these investigations: 18 cases have been completed, where a discount was removed from the current account. CIT has 9 ongoing investigations linked to Council Tax support. Total recorded Council tax savings are **£ 11,885.05**

3.2 Housing Tenancy Investigations

3.2.1 Since 1st April 2022, CIT officers have commenced an investigation into several referrals of tenancy fraud with currently 15 cases ongoing. There has been a total of 8 properties returned to stock to date. All these cases were tenancy-related investigations. The team has also assisted in the return to stock of 2 Registered Social housing landlords' (RSL) properties. CIT has 1 ongoing investigation with an RSL and is hopeful this property will be returned to stock very soon.

3.2.2 The notional saving achieved on the properties returned to RBC stock is **£744,000** adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report, with a further potential notional saving of **£186,000** if RSL properties are included.

3.2.3 CIT has also looked at 23 Right to buy applications. From these checks, 6 applications have been withdrawn. Thus, securing for RBC a rental income of **£38,640.18** for the year, and preventing **£523,200.00** in discounts from being applied under the scheme.

3.2.4 CIT also undertakes assurance verification by looking at new homeless applications. For the period, the team has reviewed 144 cases. There are 14 cases awaiting Council Tax to review the SPD, and to date, a total of **£5,833.00** has been recorded as direct SPD savings.

3.3 Disabled Persons Parking (Blue) Badges

3.3.1 Since April 2022 the team have received a total of five Blue Badge referrals of blue badge misuse. We've closed all five investigations of which three received warning letters, one blue badge was seized and destroyed, and one case is with legal colleagues pending charges.

3.4 Social Care Fraud

- 3.4.1 CIT has been working alongside the Council`s social care finance teams. The purpose of this work was to undertake a financial overview of all direct payment cases. The main purpose of this review was to establish where clients had used the direct payments scheme and that any monies spent were in accordance with their care agreements. This was to ensure that all clients had received the care that ASC had confirmed was required and that all services had received payment for that care. Initially, CIT took a sample of 5 test cases. The total balance of the five accounts was circa £100,000. CIT informed the ASC finance team, who in turn is in the process of recovering these monies.
- 3.4.2 As a result, the team was asked to review a further 20 clients` accounts. From these, it was found that 14 out of 20 accounts reviewed, were shown to have significant surplus balances above £3,000. 8 accounts had surplus balances above £9,000 and 3 had surplus balances of more than £14,000. As such, ASC is looking to recover approximately **£133,730**. It was agreed that CIT would apply the same principles and review Children who are in receipt of direct payments. CIT found that of the 15 cases reviewed 8 clients had more than the 8-week balance allowed in their account, and the Personal Budget Team should look to recover this, which currently stands at **£19,391.20**. 1 account remains outstanding.
- 3.4.3 What is important to note is that none of these cases were found to involve fraudulent activity.

3.5 Covid Business Grant Investigations

- 3.5.1 The investigations team has recently achieved a successful prosecution, in respect of a fraudulent Covid Business Grant Claim, with the defendant admitted to fraud by false representation and made to pay compensation of **£10,000** to RBC. The defendant was also handed a community order to undertake 100 hours of unpaid work.

3.6 National Fraud Initiative

- 3.6.1 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.

- 3.6.2 Providing data is a mandatory requirement, required by law², 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.
- 3.6.3 In December Central Government uplifted specific datasets from Reading as part of the National fraud incentive. Since February 2023, when the matches were released for review, a total of 524 cases have been investigated which have resulted in an estimated saving of **£41,000**.

² 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.