

Appendix 1

Internal Audit & Investigations

Quarterly Update Report Q1

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 finalised in quarter one of the 2023/2024 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	Housing Repairs	Recs			Assurance
		2	8	4	Limited

- 2.1.1 The purpose of the audit was to review the processes for ensuring that responsive repair work was prioritised in order to meet national and local targets and make efficient use of resources. It also reviewed the systems in place for Housing Repairs around budget monitoring and to ensure that job costs were accurately recorded and accounted for. In addition, the system in place to record what materials were used on jobs was evaluated, along with the reconciliation of material charges to records of work performed.
- 2.1.2 Our review of Housing Repairs identified several areas with scope for improvement, with a lack of compliance and inconsistencies with various processes followed.
- 2.1.3 Several sub-contractor contracts had expired and were due for renewal. Regular updates and performance review meetings were not being held with all sub-contractors. There was also a lack of a live system for sub-contractors or out-of-hours jobs. Sub-contractor jobs were not completed or closed on the relevant systems until an invoice had been received. The out-of-hours process was carried out manually and then the relevant systems were updated retrospectively. Supporting evidence for these jobs was located in a team Outlook mailbox.
- 2.1.4 A number of open jobs were on status 25 (“stop the clock”), with some on this status for a considerable amount of time (up to half a year in several instances sampled), often awaiting parts. A significant number of both open and overdue jobs were held on status 55 (full completion) awaiting supervisor review and approval, again sometimes for several months. This then led to delays in invoicing of jobs, impacting the income and expenditure reflected in the finance system.
- 2.1.5 We found it difficult and time-consuming to obtain performance data, which then impacted the ability to carry out testing and identify issues. Data quality was poor, with over eight thousand open jobs on Total¹ as at mid-February 2023, more than half of which were overdue. Sufficient and/or appropriate detail was not being requested and/or recorded when tenants reported a job, which then made it difficult in some instances to determine whether a job was valid and its urgency.
- 2.1.6 A split had been introduced between the client and contractor sides (DLO). There did not always appear to be clarity between the two and a repetition of roles in some instances, for example, both the surveyors and the performance team (client side) carrying out performance monitoring of the contractor. Similarly, there was a lack of consistent understanding between the client and contractor in relation to the carding process (how many times a trade should attempt to gain entry to carry out a job before the job was closed).

¹ Field Service Management software

2.1.7 Ohms² declarations of interest were not always completed and had not been retained for housing repairs officers. There was a lack of common understanding between housing repairs and rents as to whose responsibility this was.

2.1.8 The full report is attached at Appendix 2.

		Recs			Assurance
2.2	Cyber Security	2	3	2	Limited

2.2.1 Cyberattacks have become increasingly sophisticated and dangerous in recent years, targeting computer information systems, computer networks, infrastructures, personal computer devices, or smartphones. The risk of a security breach has become an increasing reality for local councils in the UK, as seen with the cyberattack on Hackney Council, which has reportedly cost at least £12 million.

2.2.2 Cyber risk is categorised as a high (red) risk on the Council's Strategic Risk Register reflecting the council's assessment of its vulnerability to losses if it was to be subject to a cyber-attack or data breach.

2.2.3 The purpose of the audit was to assess preparedness for prevention of cyber-attacks on RBC and how ICT is equipped to identify, respond, detect, protect, from an incident. The audit used the government's own guidance on Cyber Essentials³ as part of the evaluation of RBC preparedness.

2.2.4 Our audit identified that there are weaknesses in respect of the internal configuration of the ICT estate. There are historical reasons that have contributed to this situation, including the change of external contractor and the impact of Covid on the need to carry out a major upgrade of Windows software and move user services such as Microsoft Office to the cloud. RBC has introduced many mitigations in respect of these risks and there are several actions ongoing, but the risk remains high due to internet-facing systems.

2.2.5 At the time of the audit, there was not a clear remediation strategy⁴ to systematically highlight the risks, on a RAG basis or similar methodology, which linked them to a timetable of achievable improvements in respect of environmental and technical improvements, alongside acknowledging legacy issues that will mean a residual risk will remain in some areas. The lack of a clear remediation strategy meant that at the time of our audit, the roadmap to address the risks identified did not have clearly assigned priorities, timelines, and resources, including budgets to systematically address those risks and that compliance to the current government Cyber Essentials benchmark may not be achieved.

² Housing Management System

³ Government assessment certification scheme

⁴ It should be noted that between the issuing of the draft report and receiving the management response, a remediation strategy was formulated. The actions that underpin this strategy have not been audited.

- 2.2.6 IT Health Check testing has revealed that the authority is relatively well prepared externally in its outward profile on the internet. However, internally, the authority could be vulnerable to exploitation should the external perimeter be breached or should an internal event arise from a bad actor⁵. The awareness of these issues has resulted in some actions to combat the situation, but at the time of our audit, not all these actions were in place.
- 2.2.7 The importance of training staff both in cyber security good behaviour and in awareness of the ICT Policies is therefore important, as failure of staff to observe good behaviour and policy guidance could result in compromise, either through ransomware or through an external actor gaining access to internal systems, which our audit identified are not as secure as they need to be. The move of users to Microsoft Office 365 and other cloud applications (software as a service) means that the perimeter is not as critical as it was, and that external testing is the most important.
- 2.2.8 User training for cyber security has improved considerably, but at the time of the audit it was not at a state where it can be said that all staff have been trained, have completed regular refresher training or that they have read and understood the ICT policies. This is being managed by the Information Governance (IG) Board. Policies are being agreed with the board and ICT Security to manage this situation but there is no agreement, as yet, on penalties for noncompliance.
- 2.2.9 Please refer to part 2 report on the agenda for further information.

	Recs			Assurance	
2.3	Accounts Payable	0	1	2	Substantial

- 2.3.1 RBC has a centralised Accounts Payable (AP) function as part of the Oracle Fusion⁶ financial system which is overseen by a team in Finance. The AP function is classified as a 'key' financial system by the Council's external auditors and therefore is subject to an annual internal audit review.
- 2.3.2 The review used data and matches supplied as part of the National Fraud Initiative⁷ (NFI) to identify potential duplicate payments and VAT issues, as well as raw data extracted from Oracle Financials. It did not constitute a full system review but offers interim assurance on the current AP system prior to the implementation of a new financial system later on in the financial year.
- 2.3.3 Whilst the audit found that the Accounts Payable system was working satisfactorily, there are pressures particularly around how suppliers are set up and the time taken. The issues are experienced within the AP setup but are generated across the authority as a whole (both RBC and BfC).

⁵ Also known as a malicious actor, this is any person or organisation that intentionally causes harm in the digital sphere. They exploit weaknesses in computers, networks, and systems to carry out disruptive attacks on individuals or organisations.

⁶ Council's financial management system

⁷ The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. It is operated by the Cabinet Office under its statutory data matching powers set out in the Local Audit and Accountability Act 2014 (the 2014 Act).

- 2.3.4 The implementation of secure setup and amendment of suppliers as a separate function has significantly reduced risk around fraudulent payment but has also resulted in delays in setting up suppliers due to increasing demand, which suggests that there is still work to be done on the strategic side of procurement by the authority to reduce short-term surges in requests for new suppliers.
- 2.3.5 The audit noted that invoice processing was satisfactory (around 96% within 60 days or 92% within 31 days) but relatively the number of late payments, whilst statistically small, still amounts to around 3,000 invoices. Examination of some late payment data showed that the wrong invoice dates had been entered on Oracle Fusion. There did not appear to be one explanation that covered all the invoices paid late.
- 2.3.6 The audit noted that statistics are kept on performance, but that these are not widely circulated within the organisation. It may help demonstrate how issues like delays in receipting of invoices impact the processing of payments if figures were more widely available to processing departments.

		Recs			Assurance
2.4	Budget Setting/Monitoring	0	1	1	Substantial

- 2.4.1 The budget setting and monitoring processes are a fundamental part of the Council's financial governance framework. The purpose of this audit was to evaluate the controls in place to enable the Budget Setting and Monitoring process to meet its strategic, financial, and legal requirements.
- 2.4.2 We concluded that budgets are based on realistic projections regarding pay, inflation, corporate priorities and known cost pressures and realistic costs were reflected, considering over/under-spending in previous years. Three to five-year financial forecasts are prepared, key risks identified in advance, and service priorities are reflected in the distribution of resources. In addition, forecasts and revisions are reviewed and approved, and scenario planning regarding variables is conducted initially and as the scenario changes e.g., for inflationary pressures.
- 2.4.3 Budget performance information is in a format that is understandable to those it is provided to, updated and available in a timely manner, with key points/issues highlighted and supported by appropriate narrative. Furthermore, budget monitoring reports include details of forecast capital expenditure and funding for the financial year, as well as forecast levels of general fund and HRA revenue balances. These are supported with any significant issues identified that may impact on revenue and capital budgets in the medium term, a risk assessment of the overall budget, and an update on treasury management and investment positions.

		Recs			Assurance
2.5	General Ledger	0	6	1	Reasonable

- 2.5.1 The General Ledger (GL) represents the Council's main accounting system which currently operates via Oracle Fusion. A number of feeder systems interface with the General Ledger. At the time of this audit (Quarter 4 2022/23), a project was underway to prepare for the implementation of a new financial system, Advanced e5.
- 2.5.2 At the start of this audit, the e5 system had a planned go-live date of 1st April 2023. However, this date has been extended and the system project is ongoing, including the mapping of the new chart of accounts and the extensive testing required (including User Acceptance Testing) prior to go-live, which is now anticipated during autumn 2023.
- 2.5.3 This audit review sought to provide assurances concerning several key functions where significant issues have been raised in recent years, primarily around the management of a) journals and b) holding/suspense accounts.
- 2.5.4 Several significant improvements since the previous GL audit were identified for the year 2022/23 (i.e., to period 11). Evidence was provided to illustrate that previous recommendations have been addressed in practice, particularly around the management and processing of journals. The Chief Accountant and the Finance Business Partner seconded to the new system project team have also introduced control features since April 2022 to manage Holding/Control Accounts, key reconciliations, and critical information to assist with the development of the new financial system Chart of Accounts.
- 2.5.5 Audit sample testing showed considerable improvements to journal processing in terms of i) clear segregation of duties and appropriate approval/authorisation of journals; ii) the provision of clear descriptions and supporting documentation to journals which had been a weak area previously; iii) timely processing of journals during 2022/23; iv) a continuing reduction in the number of journals processed compared with previous years.
- 2.5.6 An additional sample reviewed specifically from the BFfC Ledger/Group showed some exceptions in terms of the supporting documents for journals, where supporting information comprised sensitive case data and a clear audit trail was not available. However, discussions with BFfC Finance and evidence supplied confirmed a proactive approach to providing a consistent method of identifying the file paths containing the required information for all cases.
- 2.5.7 Whilst there remains a large number of account codes in the system (71,190 total codes in the system, with 1,063 Holding codes and 1,623 Balance Sheet codes as at March 2023), the mapping project to review and streamline these codes in order to prepare the revised Chart of Accounts for the new e5 system is in progress.

2.5.8 Two key control documents have been maintained throughout the year and were up to date at the time of audit, these being: a) the Trial Balance Checker which lists all codes currently in the system in their respective categories (this has been in place for around four years) and b) the Finance Dashboard which is a new initiative commencing April 2022; this identifies all required reconciliations and tracks their progress through RAG status for each monthly accounting period across the year. The Dashboard has been presented to the Finance Transformation Board and to Finance Leadership Team. The Dashboard remains a work in progress to some extent, as the aim is to capture a range of performance management data for financial services; however, details of reconciliations were up to date to Period 11 (end of February 2023).

2.5.9 A number of recommendations and considerations were made in preparation for the new financial system.

	Recs			Assurance	
2.6	Client Contributions Follow up	0	0	0	Reasonable

2.6.1 A review of Adult Social Care Client Contributions in 2021/2022 highlighted delays in updating service users' financial circumstances and in carrying out annual reviews. At the time of the audit a total of 10 recommendations including one priority 1 recommendation were made.

2.6.2 Our follow-up review has recognised that good progress has been made in implementing the audit recommendations and although some are still work in progress, we are now able to provide a reasonable assurance opinion. No further recommendations have been made.

	Recs			Assurance	
2.7	Inflationary Uplifts (Follow up)	0	0	0	Reasonable

2.7.1 Following a request by the Director of Finance to review the circumstances leading to an overpayment made to a social care provider in the 2021/2022 financial year, we concluded that the overpayment of circa £1m was triggered after inflationary increases were incorrectly applied. At the time of our audit, we found a lack of a common understanding of roles and responsibilities and ownership of processes. This resulted in a 'No Assurance' opinion being given.

2.7.2 There has been positive progress in implementing the recommendations, coordinated by the Head of Commissioning and Transformation Programme Team utilising the expertise and skills of the Project Management Office, for mapping existing processes, and involving all teams with responsibilities in the uplift process itself. This has ensured that all areas with responsibility have had the opportunity to input into the process and to highlight any potential weaknesses or subsequent impact on their teams, where further change has been identified. This level of involvement has served to support and solidify the process change.

2.7.3 A SharePoint site is used to hold documentation relating to the uplift process, although actual provider letters requesting an uplift were not located.

2.7.4 The governance processes and authorisation of the recommended uplift, and the potential impact of different options was well documented and presented appropriately, and these were held centrally on the SharePoint site.

- 2.7.5 A significant number of uplifts are unable to be actioned automatically (25%), some of which were due to the legacy set up method. This has been highlighted and an action was identified in the 6-month implementation project review meeting, to investigate the reasons behind all uplifts that require a manual process.
- 2.7.6 Another action identified in the 6-month implementation project and substantiated in audit findings is the need to schedule the implementation process in a timely manner, as testing found some uplifts did not take place until September and required back dating to April.
- 2.7.7 Given that recommendations have either been implemented or are work in progress and no further recommendations have been made in respect of this review, we are able to provide a positive assurance opinion on the control environment.

2.8 Grant Certifications

2.8.1 Homelessness Prevention and Winter Top-Up Grants

2.8.2 The Homelessness Prevention and Winter Top-Up grants have been used to provide emergency accommodation and all expenditure incurred was appropriate. The total of the two grants amounts to £1,803,722, with £1,556,206 attributable to the main grant and £247,516 to the winter top-up.

2.8.3 Rough Sleeping Prevention grant

2.8.4 Expenditure has been incurred in accordance with the grant determination, with £703,800 declared as spend against a total grant of £843,300. At the time of our certification, an underspend of £139,500 was being reported

2.8.5 Rough Sleeping Additional Pressures grant certification

2.8.6 The amounts declared on the grant certification form agree to transaction reports and appeared to relate to rough sleeping additional pressures. We identified a few non-material discrepancies but can confirm that all expenditure incurred was in accordance with the grant determination.

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

Audit reviews carried over from 2022/2023

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Housing Repairs	●				Nov-22	Mar-23	Apr-23	2	8	4	
Cyber Security	●				Aug-22	Dec-22	May-23	2	3	2	
Accounts Payable	●				Mar-23	May-23	Jun-23	0	1	2	
General Ledger	●				Jan-23	Mar-23	Apr-23	0	6	1	
Client Contributions Follow up	●				Feb-23	Apr-23	Jun-23	0	0	0	
Inflationary Uplifts (Follow up)	●				Jan-23	May-23	May-23	0	0	0	
Leavers and movers' processes	●				Jan-23	Apr-23					
Adult Social Care Debt	●				Feb-23	Jun-23					
Provider Payments (Adults)	●				Jan-23	May-23					

Audit reviews for 2023/2024

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Fuel system	●				May-23	Jun-23					
Commercial Assets & Investments	●				Jun-23						
Intercompany accounting (Follow Up Review)	●				Jul-23						
S117 of the Mental Health Act	●				Jun-23						
Rough Sleeping Accommodation Program Grant Determination RSAP 1 &2	●				Apr-23	Apr-23	Apr-23	0	0	0	n/a
Homelessness Prevent Grant including top up	●				Apr-23	Apr-23	Apr-23	0	0	0	n/a
Rough Sleeping Initiative Grant additional pressures cert	●				Apr-23	Apr-23	Apr-23	0	0	0	n/a
Iken billing process	●				Jun-23						

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	
Local Transport Plan Capital Settlement (Grant Certification)		●									
Local Authority Bus Subsidy Grant (BSOG)		●									
Coroners Service		●									
Bank & Cash Rec inc control account reconciliations		●									
CTAX		●			Apr-23	Jun-23					
Procurement end-to-end process		●									
Payroll (inc HR/Itrent processes)		●									
Public Health Grant		●									
Supported Living Placements		●									
Continuing Health Care (CHC)		●									
Employee gifts and hospitality & declarations of interests		●			Jun-23						
Reading Museums - Reading Foundation of Art		●									
Sec 106 Agreements			●								
Data Security/Information Governance			●								
New Finance System migration			●								
Accounts Payable			●								
Digital Technology and Change - Project Management			●								
Caseload management (inc ASC Front Door)			●								
Learning & Devt, Physical Dev and Mental Health Placements			●								
Community Infrastructure Levy				●							
Homelessness				●							
Accounts Receivable				●							
Deputyship and Appointeeship (Follow up Review)				●							
Scheme of Delegation				●							

3.0 INVESTIGATIONS (APRIL 2023 – JUNE 2023)

3.1 Council Tax Support Investigations

- 3.1.1 Nineteen Council Tax Support investigations have commenced to date, with the discount removed in eleven cases resulting in estimated savings of **£3,237**.
- 3.1.2 The team have been supporting Council Tax by investigating forty-eight cases of suspected SPD fraud with **£3,604** recovered to date

3.2 Housing Tenancy Investigations

- 3.2.1 Since 1st April 2023, officers have completed investigations in to twelve referrals of alleged tenancy fraud. A total of two properties have been returned to stock to date. All these cases were tenancy-related investigations. There are another thirteen ongoing investigations.
- 3.2.2 The notional saving achieved on the properties returned to RBC stock is **£186,000** adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report.
- 3.2.3 The team has also looked at and verified six Right to Buy applications of which four have been referred back to the applicant for further information to be supplied by the applicants.
- 3.2.4 The team also undertakes assurance verification on new homeless applications. During the first quarter of the 2023/2024 financial year, the team has reviewed thirty-one cases. There are twelve cases awaiting Council Tax to review the SPD, and to date, a total of **£1k** has been recorded as direct SPD savings.

3.3 Disabled Persons Parking (Blue) Badges

- 3.3.1 Since April 2023 the team has received a total of 20 Blue Badge referrals of blue badge misuse. We've been working with officers from Bracknell Forest Council (BFC) and twelve of these investigations were for BFC. We have closed fifteen investigations of which nine received warning letters, six blue badges were seized and destroyed, and two cases are with our legal colleagues pending charges.

3.6. National Fraud Initiative

- 3.6.1 In December Central Government uplifted specific datasets from Reading as part of the National fraud initiative. Since February 2023, when the matches were released for review, a total of 668 cases have been investigated which have resulted in an estimated saving of **£41,211.68**.