

**READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES**

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| TO: | AUDIT & GOVERNANCE COMMITTEE | | |
| DATE: | 23 July 2019 | | |
| TITLE: | INTERNAL AUDIT QUARTERLY PROGRESS REPORT | | |
| LEAD COUNCILLOR: | COUNCILLOR EMBERSON | PORTFOLIO: | CORPORATE AND CONSUMER SERVICES |
| SERVICE: | FINANCE | WARDS: | N/A |
| LEAD OFFICER: | PAUL HARRINGTON | TEL: | 9372695 |
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1. PURPOSE OF THE REPORT

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2019.

1.2 The report:

- Provides assurance, commensurate with the control environment evidenced by audits conducted in the last quarter.
- Advises on significant issues where controls need to improve to effectively manage risks.
- Tracks progress on the response to audit reports and the implementation of agreed audit recommendations.
- Where limited opinions have been given, the full internal audit report is appended to this report.

2. RECOMMENDATION

2.1 The Audit & Governance Committee is requested to consider the report.

3. ASSURANCE FRAMEWORK

3.1 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 | Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives. |
| Limited | Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk. |
| Reasonable | Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified. |
| Substantial | A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified. |

3.2 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.

3.3 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.

4.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS

| | | Recs | | | Assurance |
|-----|----------|------|---|---|------------|
| 4.1 | Payroll: | 1 | 1 | 2 | Reasonable |

4.1.1 Overall the audit found that there is an adequate control framework in place governing the payroll system and that it is well administered and managed. A series of tests were carried out to assess whether the controls were operating efficiently and effectively as intended and no significant issues were identified.

4.1.2 One specific weakness was noted in relation to the reconciliation process between iTrent and Oracle Fusion, specifically the prompt posting of adjustments. This is an important gap in the overall Payroll control framework and hence a Priority 1 recommendation was made. In particular action needs to be taken to clarify the discrete roles of both the Finance and the Payroll teams to ensure that the reconciliation tasks are completed in a timely fashion and are evidenced fully and accurately. Moreover the documentation of the reconciliation process(es) is incomplete and needs to be brought up to date.

4.1.3 Sample testing showed that payments were properly evidenced, authorised and appropriately paid.

4.1.4 A suite of standard exception reports is available from the system and are used as part of the monthly process. A sample of reports were reviewed and found to have been regularly produced.

4.1.5 The results of sample testing suggest that there are issues with staff completing and submitting their expenses claims promptly as delays of up to 70 working days were identified.

| | | Recs | | | Assurance |
|-----|---------------------|------|---|---|-------------|
| 4.2 | Non Domestic Rates: | 0 | 0 | 5 | Substantial |

4.2.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and reconciled weekly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with system parameters updated and checked to ensure the billing arrangements are in accordance with government notifications.

4.2.2 Advisory recommendations were made to further enhance the control environment.

| | | | | | |
|-----|------------------------------|------|---|---|------------|
| | | Recs | | | Assurance |
| 4.3 | Section 106 Follow up audit: | 0 | 1 | 0 | Reasonable |

4.3.1 This audit sought to evaluate progress made since the last review in July 2017. We can report that the monitoring of section 106 obligations, along with governance procedures has improved and all historic audit recommendations have now been addressed. One further recommendation was made to ensure written procedures are kept up to date and reflect the process to be followed in the event of a repayment of an obligation to a developer and the frequency with which reconciliations must be performed.

| | | | | | |
|-----|--|------|---|---|------------|
| | | Recs | | | Assurance |
| 4.4 | Corporate Buildings H&S Statutory Compliance Regimes | 0 | 6 | 0 | Reasonable |

4.4.1 The Health and Safety at Work Act 1974 places legal duties on employers to protect employees through the provision of a safe working environment. Statutory compliance is a legal requirement and normally the responsibility lies with a nominated person or team within the compliant organisation. Regular maintenance plays a vital part in maintaining health and safety standards that are conducive to creating working environments that are safe and comfortable for employees and occupants. It can be challenging keeping up to date with the ever-evolving legislation as well as ensuring approved procedures, systems and equipment are kept compliant.

4.4.2 Whilst detailed policies and procedures are set out at corporate level, day to day responsibility for implementation is delegated to service managers in individual properties, who may not always appreciate the importance of ensuring regular checks and control measures are carried out and recorded.

4.4.3 Demonstrating that staff have understood and fulfilled their duties, is difficult to evidence. Therefore the Council is potentially faced with the situation and subsequent risk, of not knowing the level of compliance across its property portfolio.

4.4.4 A governance structure is in place, overseen by the Corporate Risk Group (CRG), which was established to oversee property maintenance and statutory health & safety compliance. However, membership needs to be strengthened, as attendance on the group is sometimes poor and it lacks the appropriate profile within the organisation. Neither are there any terms of reference for the group or a process to illustrate how non-compliance issues are escalated.

4.4.5 There is a need for all records on condition surveys and statutory compliance inspections to be held in one place, as records are currently held on a number of different systems, in different formats and are not always readily accessible for audits and reports. There is also a need to clarify responsibility for buildings leased by RBC to ensure that statutory building compliance regimes are properly covered.

4.4.6 Health and Safety carry out independent audits on a priority (risk) basis to substantiate and determine the level of statutory compliance inspections across the Council's property estate. Health and Safety recorded 152 properties, of which RBC is responsible for ensuring compliance with statutory health and safety legislation. 59 properties (39%) were inspected for compliance in 2018/2019. We are satisfied that Health and Safety have a standard audit programme to measure and report upon compliance. The Health & Safety team's audit plan records the council's compliance responsibility, risk, date and scope of inspection and findings.

4.5 Journal Testing

4.5.1 At the beginning of the financial year a two part review of a sample of journals was carried out, focussing on the first six months of financial year 2017-18 and the year end sundry debtors and creditors journals for financial year 2018-19.

4.5.2 We selected a sample of 36 journals which were processed in the first six months of the 2017-18 financial year and found 11 (30%) to be satisfactory with respect to evidence to support the journal. However, with respect to evidence of separation of duties between creation and approval the majority had been approved by the creator. Thus no independent authorisation had been taken place. Although, this was not necessarily surprising, as we have reported that the journal control deficiencies identified in 2016/2017, extend through the first six months of 2017/2018, at a minimum. There was no particular spread by area or individual in respect of the journal creation which would indicate that the result was an indication that across the board for this period evidence for journal creation was poor. On a crude projection of how many journals would not pass based on the sample (where one journal would be representative for all those type of journals posted) it would show the following:

- Fail 299 - 44%
- Partial 85 - 13%
- Succeed 293 - 43%

4.5.3 On a positive note, transaction samples reviewed for journals that featured accruals for 2018-19 year end, did not reveal any errors. This supports our testing of Journals processed in 2018/2019, where we have reported considerable improvement in control.

5.0 AUDIT REVIEWS 2019/2020

5.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit reviews carried over from 2018/2019

| Audit Title | Timing | | | | Start Date | Draft Report | Final Report | Res | | | Assurance |
|--|--------|----|----|----|------------|--------------|--------------|-----|----|----|-------------|
| | Q1 | Q2 | Q3 | Q4 | | | | P1 | P2 | P3 | |
| Entitlement & Assessment | ● | | | | Jan-19 | Jul-19 | | | | | |
| Section 106 Agreements (follow up) | ● | | | | Mar-19 | Apr-19 | May-19 | 0 | 1 | 0 | Reasonable |
| Business Rates | ● | | | | Feb-19 | Apr-19 | May-19 | 0 | 0 | 5 | Substantial |
| Payroll | ● | | | | Feb-19 | Jun-19 | Jun-19 | 1 | 1 | 2 | Reasonable |
| Corporate Buildings H&S Statutory Compliance Regimes | ● | | | | Feb-19 | May-19 | Jul-19 | 0 | 6 | 6 | Reasonable |

Audit reviews scheduled for 2019/2020

| Audit Title | Timing | | | | Start Date | Draft Report | Final Report | Res | | | Assurance |
|---|--------|----|----|----|------------|--------------|--------------|-----|----|----|-----------|
| | Q1 | Q2 | Q3 | Q4 | | | | P1 | P2 | P3 | |
| Car Parks (off street) | ● | | | | | | | | | | |
| VAT* | ● | | | | Jun-19 | | | | | | |
| Eligibility, Risk and Review Group | ● | | | | Jun-19 | | | | | | |
| Parks* | ● | | | | Jun-19 | | | | | | |
| General Ledger (journal testing Debtors/Creditors)* | ● | | | | Apr-19 | Jun-19 | Jun-19 | 0 | 0 | 0 | n/a |
| Food Hygiene Inspections | ● | | | | May-19 | | | | | | |
| Cemeteries & Crematorium | ● | | | | May-19 | Jun-19 | | | | | |
| Pre-employment verification (DBS) | ● | | | | Jun-19 | | | | | | |
| Freedom of Information* | ● | | | | Jun-19 | Jul-19 | | | | | |
| Care & Support Charges | ● | | | | May-19 | | | | | | |

*new addition to the audit plan

| Audit Title | Timing | | | | Start Date | Draft Report | Final Report | Res | | | Assurance |
|---|--------|----|----|----|------------|--------------|--------------|-----|----|----|-----------|
| | Q1 | Q2 | Q3 | Q4 | | | | P1 | P2 | P3 | |
| Rent Accounting | | ● | | | | | | | | | |
| Oracle Fusion Cost Centre Manager Data Analysis | | ● | | | | | | | | | |
| Cash collection - web payments | | ● | | | | | | | | | |
| Secure communications | | ● | | | | | | | | | |
| Purchasing cards | | ● | | | | | | | | | |
| Travel and Subsistence (inc mileage) | | ● | | | | | | | | | |
| Learning & Development and Mental Health Placements | | ● | | | | | | | | | |
| Special Education Needs and Disabilities | | ● | | | | | | | | | |
| Local Transport Plan Capital Settlement (Grant Certification) | | ● | | | | | | | | | |
| Bus Subsidy Grant | | ● | | | | | | | | | |
| General Ledger (Journal Testing) | | ● | | | | | | | | | |
| Contract Management | | ● | | | | | | | | | |
| Residents Parking (follow up) | | | ● | | | | | | | | |
| Bank & Cash Rec inc control account reconciliations | | | ● | | | | | | | | |
| Accounts Payable | | | ● | | | | | | | | |
| Reading Buses | | | ● | | | | | | | | |
| Payment Controls in Children's Social Work | | | ● | | | | | | | | |
| Investment Properties | | | ● | | | | | | | | |
| Continuing Health Care (CHC)- Follow up review | | | ● | | | | | | | | |
| Additional Payments (Follow Up) | | | ● | | | | | | | | |
| Delayed Transfer of Care - Follow up review | | | | ● | | | | | | | |
| CT Support | | | | ● | | | | | | | |
| Data Storage (follow up) | | | | ● | | | | | | | |
| Sundry Debtors | | | | ● | | | | | | | |
| Business Rates | | | | ● | | | | | | | |
| Client Contributions Adult Care & Deferred Income | | | | ● | | | | | | | |
| Commissioning & Contract Management (Adults) | | | | ● | | | | | | | |
| General Ledger (Journal Testing) | | | | ● | | | | | | | |
| Commercialisation | | | | ● | | | | | | | |

6.0 INVESTIGATIONS (APRIL - JUNE 19)

6.1 Housing Benefit and Council Tax Support Investigations

6.1.1 The team have been developing a joint working process for benefit related investigations with central Government investigators at the Department for Work and Pensions (DWP). The process went live in May 2019. To date five joint investigations are in progress, all related to potential Council Tax fraud. No outcomes in the area have been recorded to date.

6.2 Single Person Discount

6.2.1 Following a second data matching exercise, matching over 22,000 address records against tracing and occupier databases, investigations officers are working with Council Tax to review the matches. To date £25,000 has been identified for CTAX recovery.

6.3 Housing Tenancy Investigations

6.3.1 Since 1st April 2019 there have been 21 cases of alleged tenancy fraud, 18 cases are still ongoing. Two properties have been returned to stock to date. The notional saving is £186,000. Using the notional savings multiplier used by the Cabinet Office in their National Fraud Initiative report.

6.4 Right To Buy (RTB)

6.4.1 Since 1 April 2019 the team have been asked to check 19 RTB applications and as a result of investigations, two applications did not proceed any further and one application was refused. The property transaction in both instances would have been the maximum of £80,900. We have added to this the income from rent on both properties, which if sold would have been a loss to RBC the joint income was £11,871

6.5 Internal Investigations

6.5.1 No referrals have been received in quarter 1.

6.6 Social Care Fraud & Investigations

6.6.1 The team are working with BfFC on a complex referral which was received in May 2019. The investigation is ongoing.

6.7 Disabled Persons Parking Badges (Blue Badges)

6.7.1 Since the 1st April 2019 the team have received 9 referrals with regards to the potential misuse of a Blue Badge. Of these, 2 cases are currently with RBC criminal lawyers pending charges re the misuse of a Blue Badges, 2 cases have been dealt with by way of formal letter re continued use of the Blue Badge and 5 cases are subject to ongoing investigations.

7. CONTRIBUTION TO STRATEGIC AIMS

7.1 Audit Services 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.

8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 N/A

9. LEGAL IMPLICATIONS

9.1.1 Legislation dictates the objectives and purpose of the internal audit service 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".

10. FINANCIAL IMPLICATIONS

10.1 N/A

11. BACKGROUND PAPERS

11.1 N/A