

**READING BOROUGH COUNCIL  
HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>19<sup>th</sup> April 2017</b>	<b>AGENDA ITEM:</b>	<b>4</b>
<b>TITLE:</b>	<b>INTERNAL AUDIT QUARTERLY PROGRESS REPORT AND ANNUAL SUMMARY OF INVESTIGATIONS FOR 2016/2017</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR STEVENS</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
<b>LEAD OFFICER:</b>	<b>PAUL HARRINGTON</b>	<b>TEL:</b>	<b>9372695</b>
<b>JOB TITLE:</b>	<b>CHIEF AUDITOR</b>	<b>E-MAIL:</b>	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

**1. EXECUTIVE SUMMARY**

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 January 2017.

1.2 The report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

**2. RECOMMENDED ACTION**

2.1 The Committee are requested to consider the report.

### 3. ASSURANCE FRAMEWORK

3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief 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 terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

Substantial	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the green section.	<p><b>Substantial assurance</b> can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with <b>low impact on residual risk exposure</b>.</p>
Reasonable	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the yellow section.	<p>We can give <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk exposure</b> until resolved.</p>
Limited	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the amber section.	<p><b>Limited assurance</b> can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with <b>moderate impact on residual risk exposure</b> until resolved.</p>
No assurance	 A semi-circular gauge with a color gradient from red on the left to green on the right. A needle points to the red section.	<p>There is <b>no assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with <b>high impact on residual risk exposure</b> until resolved.</p>

## 3.2 Grading of recommendations

3.2.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority	Current Risk
<b>High</b>	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.
<b>Medium</b>	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration

3.2.2 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.

3.2.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

## 4. HIGH LEVEL SUMMARY OF AUDIT FINDINGS

---

---

### 4.1 Bank and Cash Reconciliations



4.1.1 This audit primarily focused on the bank and cash reconciliations and is a snapshot as at January 2017.

4.1.2 At the time of our audit we reported that there was a need to improve the oversight of the key financial system reconciliations across the council so that in-year misbalances and technical issues can be identified and resolved on a timely basis. This would ensure responsibilities are understood and there is an agreed standardised approach to reconciliations, with corporate oversight to monitor the status. Reconciliation controls are fundamental to ensuring the Council maintains a sound system of internal control and therefore a centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed.

4.1.3 Detailed written procedures which are a prerequisite for describing the processes to be followed were found to be lacking in some areas.

4.1.4 Although we acknowledge that a lot of work is now being done to establish and review all control account reconciliations, at the time of our audit it was found the monthly cash reconciliations carried out for each feeder system were in various stages of completion. With regards to the bank reconciliation, the first attempt at a month-end reconciliation in this financial year was January 2017. The clearance of historic unreconciled items was also proving problematic at the time of the audit, although it is not believed that this would impact the Council's revenue position.

*Manager's response: the finance service is committed to bringing the bank account reconciliation up-to-date, to be completed on a monthly basis, with brought forward unreconciled items cleared from April 2017.*

---

---

### 4.2 NNDR



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 monthly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with collection and recovery performance monitored.

---

---

4.3 Subject Access Requests



4.3.1 Under the data Protection act 1998, individuals have a right to access information held about them by any organisation that processes personal data. This is known as the right of subject access.

4.3.2 Our audit reviewed how members of the public were able to access personal information held on them by the Council, with particular focus on access to social services records. During the audit it became clear that there were a number of systems across the Council that dealt with social care client information. Open social care records and closed social care records requests were undertaken by the relevant adult or children's services teams and Customer Relations Team<sup>1</sup>, whilst other requests received by the Legal Department were dealt with by the Information Officer (as well as other requests which did not relate to social services). It became evident that there was a lack of a consistent policy and procedure which could be applied to all areas of subject access. We recommended as a priority 1 measure that a standard policy for all subject access requests including requests for social care data should be adopted with one single route of enquiry.

*Managers Response: the different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Services. A new policy and procedure has been implemented, and senior managers in all directorates are being briefed on the new policy and procedure, who will also put forward key officers who would benefit from the training offered by Legal Services on the new policy and procedure.*

---

---

4.4 Council Tax Support



4.4.1 The aim of this audit was to ensure that the systems and processes for the assessment, calculation and payment of local council tax support are effective, by ensuring that the scheme has appropriate approval, applications are supported by forms, calculations are correct and substantiated by documentary evidence and that claims are processed in a timely manner.

4.4.2 The scheme currently in operation was approved by the Policy Committee after undergoing public consultation. Proposals for amendments to the scheme for 2017/18 have also undergone public consultation and were recommended for approval by Policy Committee and ratified by Council in January 2017.

---

<sup>1</sup> Recording, monitoring and preparing requests for access to 'closed' children's social care records is undertaken by the Customer Relations Team.

- 4.4.3 Policies and procedures are in place for amendment of the parameters on Academy and implementation of the current scheme.
- 4.4.4 In the majority of cases sampled, claims were processed within 5 days of receipt of all relevant information and applications were appropriately retained.
- 4.4.5 Quality checking is conducted on a 10% random sample of new Housing Benefit and Council Tax Subsidy claims, with overall accuracy and financial accuracy reported on a monthly and year to date basis.
- 4.4.6 Some minor errors in calculations were identified through our sample checks.

*Manager's response: Issues identified by audit during testing were investigated by the service and any required action has been or is in the process of being implemented.*

---



---

4.5	Childcare Operations	0	6	1	
-----	----------------------	---	---	---	---

---



---

- 4.5.1 The audit encompassed a review of safeguarding policies and procedures, along with controls over income and expenditure at the Kennet Day Nursery based in the Civic Offices, The Lodge at Southcote Children's Centre and Sure Start Whitley.
- 4.5.2 On the whole the audit identified a good level of control over these functions; however each centre is run independently and we concluded that efficiencies along with improved resilience could be achieved by harmonising processes across all Council managed childcare centres. Improvements could also be made in clearly evidencing compliance with child staff ratios and also in evidencing actions taken of unplanned child absences.

*Manager's response: All RBC childcare is to be reviewed within the new financial year with the view to consolidate the provision under one management within Early Help Services.*

---

---

4.6 Payroll



- 4.6.1 The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, and that payments made are accurate. In general, this was found to be the case, with effective controls in place to ensure that the pay run is accurate and payments and deductions are accurately applied to employee records.
- 4.6.2 Improvements have been made, following the introduction of the online recruitment process, which has been operational since June 2016. The new online system has built in authorisations and workflows, although there have been minor user problems since its launch. Subsequent recommendations were made to address these issues.
- 4.6.3 Payroll accuracy checks are performed from system/exception reports, and this process appears to be robust and complete. The process is shared between two senior staff providing some separation of duties in identifying potential anomalies and the checking and making of appropriate adjustments. This check ensures that any incorrect information is promptly updated and actioned on the employee's record; however these processes are not documented.
- 4.6.4 The payment of expenses including mileage claims is robust, with evidence to suggest appropriate checks are performed by the Payroll Team prior to processing.
- 4.6.5 The key part of the payroll process continues to be timely notification by the recruiting manager/budget holder of changes effecting pay and/or the establishment and staff submitting claims in a timely and legible fashion. This has led to overpayments for 12 staff in the current financial year totalling £14.2k from a total of more than 53,000 BACS salary payments across the year.

---

---

4.7 Health & Safety Review



- 4.7.1 The Health & Safety Executive states that 'protecting the health and safety of employees or members of the public who may be affected by its activities is an essential part of risk management and must be led by the board.'<sup>2</sup> Reading Borough Council reflects its commitment to these responsibilities in its Health and Safety Policy and its Safety Policy Statement as well as the systems, procedures and resources in place.

---

<sup>2</sup> Health & Safety Executive: Leading health and safety at work

- 4.7.2 These health and safety policies are in turn supported by a wealth of guidance material for staff and managers. Recommendations have been made to promote both the visibility and awareness of these all for staff.
- 4.7.3 Oversight for the delivery of health and safety is the responsibility of the Corporate Health & Safety Team. Based upon the information and evidence seen during the review it was evident there is good experience and expertise within the team that was well demonstrated during meetings of the directorate health & safety committees.
- 4.7.4 The directorate health & safety committees provide the link between the Corporate Health & Safety Committee and the service areas. Importantly it is these committees that are responsible for reviewing the audits undertaken by individual services. Based upon the meetings witnessed these were noted as being well structured and supported by good records. However it was also clear that there are differences in how the meetings are conducted and therefore recommendations have been made for best practice from these to be shared as well as establishing a common terms of reference for them.
- 4.7.5 All staff should have a defined level training given to them that is graded according to their position, role and responsibility. Previous reviews have highlighted that there have been weaknesses in the way that staff training on health and safety training has been recorded in the past and this has also been recognised by CMT who have determined that i-Trent<sup>3</sup> should be used as the principal record for this. Health and Safety training data analysed by the corporate Organisational and Development Workforce team showed many discrepancies in the accuracy and content of the information with no reliable record of the health and safety training delivered for all staff. Clearly for the Council to be able to meet (some of) the objectives set out in its policies then this is an issue that should be addressed and will mean an exercise needs to take place to review, correct and cleanse the data and then to ensure it is kept up to date thereafter.

*Manager's response: A working group led by the Organisational Development Manager has been established to identify potential solutions to training data integrity. An options report highlighting activity and resources required will be presented to CMT.*

#### 4.8 School Audits

4.8.1 We have completed four school reviews this quarter as follows:

Moorlands Primary School	0	2	2	
The Ridgeway Primary School	0	3	2	
Cranbury College	0	1	1	
Micklands Primary School	0	2	2	

<sup>3</sup> HR/Payroll system

## 5. AUDIT REVIEWS 2016/2017

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 Title	Timing	Start Date	Draft Report	Final Report
MOSAIC (Finance Payments)	Q1	Mar 16	July 16	Aug 16
Creditors (Accounts Payable)	Q1	Dec 15	Apr 16	Aug 16
Nursing & Residential Care Packages	Q1	Mar 16	June 16	Oct 16
School Places Capital programme	Q1	Mar 16	May 16	Aug 16
Right to Buy	Q1	Apr-16	Jun 16	Aug 16
Leisure (Income Collection)	Q1	Apr 16	Jun 16	Jun 16
MOSAIC/Oracle End of year reconciliation	Q1	May 16	Aug 16	Sep 16
Overtime	Q1	Jun 16	Aug 16	Sep 16
Health & Safety Review	Q1	May 16	Sep 16	Feb 17
Information Governance & Data Protection	Q1	Jun 16	Sep 16	Oct 16
Electronic Document & Records Management	Q1	Apr 16	May 16	Jun 16
Troubled Families (Grant Sign Off)	Q2	-	-	Dec 16
LTP Capital Settlement (Grant Certification)	Q2	-	-	Sep 16
Bus Subsidy (Grant Certification)	Q2	-	-	Sep 16
Integrated Discharge Scheme	Q2	Aug 16	Nov 16	Dec 16
Access to Records	Q2	May-16	Nov 16	Jan 17
Use of cash vouchers & cash accounts	Q2	Jun-16	Sep 16	Nov 16
Waste Operations	Q2	July 16	Nov 16	Dec 16
Sec 106 contributions*	Q2	Jun 16	Aug 16	Sep 16
RBC childcare settings*	Q2	Sep 16	Dec 16	Mar 16
Pupil Premium Funding	Q3	Aug 16	Nov 16	Nov 16
Caversham Nursery School	Q3	Oct 16	Nov 16	Nov 16
Cranbury College	Q3	Nov 16	Dec 16	Jan 17
Manor Primary School	Q3	Oct 16	Nov 16	Nov 16
Corporate Buildings H&S	Q3	Mar 17		
Housing & Communal areas Buildings H&S	Q3			
Bed and Breakfast Placements	Q3	Nov 16		
Key financial system reconciliations	Q3	Nov 16	Feb 17	Mar 17
Financial Assessments of Adult Care (f/up)	Q3	To be done in Q1 2017/18		
Extra Care Housing	Q3	Oct 16	Oct 16	Oct 16
Looked After Children	Q3	To be done in Q2 2017/18		

Audit Title	Timing	Start Date	Draft Report	Final Report
Troubled Families (Grant Sign Off)	Q3	Dec 16	Dec 16	Dec 16
General Ledger	Q3	Dec 16	Mar 17	
Creditors (Accounts Payable)	Q3	Dec 16	Mar 17	
Payroll	Q3	Dec 16	Mar 17	Mar 17
NNDR	Q3	Nov 16	Jan 17	Feb 17
Council Tax Support	Q3	Sep 16	Jan 17	Mar 17
eTendering	Q4	Mar 17		
Entitlement & Assessment	Q4	Dec 16		
Micklands Primary School	Q4	Feb 17	Feb 17	Mar 17
Moorlands Primary School	Q4	Jan 17	Feb 17	Mar 17
The Hill Primary School	Q4	To be done in 2017/18		
The Ridgeway Primary School	Q4	Jan 17	Jan 17	Feb 17
Corporate Governance Overview	Q4	Jan 17		
Foster Care & Adoption Allowances (f/up)	Q4	To be done in 2017/18		

\*Audits added in-year following specific request

## 6. INVESTIGATIONS (annual summary of investigations for 2016/2017)

### 6.1 Benefit Investigations

6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case has been referred back to investigations team by the DWP, the total overpaid benefit for this case was **£12,000**.

6.1.2 The investigation officers are also now looking at referrals from Council Tax in relation to possible criminal offences under the Council Tax Support regulations. Investigations receive on average 25 -30 referrals per month from the service and at present have 6 ongoing investigations.

6.1.3 The Council Tax Support (CTS) overpayment figure as at March 2017 is **£19,468**, which includes two prosecutions. In this period 14 claimants investigated have been subject to Administration Penalties<sup>4</sup>, with the total fines imposed amounting to **£8,333**.

### 6.2 CTAX Single Person Discount (SPD) investigations

6.2.1 The work on SPD has been linked mainly to the CTS investigations and no real drive has been made into SPD casework. Since April 2016 we have investigated 18 SPD cases, 12 of which resulted in an overpayment charge totalling **£2,700**

<sup>4</sup> We offer an administrative penalty in circumstances where it is felt that it would be more suitable to dispose of the matter without criminal proceedings being initiated.

### 6.3 Fraud & Error Reduction Incentive Scheme

- 6.3.1 Investigation officers are working very closely with Housing Benefit teams on the Fraud & Error Reduction Incentive Scheme (FERIS). The scheme is a DWP initiative and provides financial incentives (approximately £6.5k per month) to local authorities who reduce fraud and error in their Housing Benefit cases. A schedule of planned visits (40 per month) on current Housing Benefit claimants are undertaken to ensure claimant details held are accurate and up-to-date.
- 6.3.2 Investigation officers will look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded.

### 6.4 Housing Tenancy

- 6.4.1 Since 1 April 2016 Investigation officers have assisted in the return to stock of 10 Council properties.
- 6.4.2 It is difficult to quantify the financial implications of these types of investigations, however the RBC agreed figure of £15,000 is considered to be the average cost for retaining a family in temporary accommodation. Using this figure (10 x £15,000) in the region of £150,000 could have been saved as a result of tenancy investigations.
- 6.4.3 If appropriate, we will seek to recover 'profits' made through illegal subletting. We are working alongside a Financial Investigator in connection to a previous Housing Tenancy fraud case in which the defendant was found guilty at trial in 2015. An application under the Proceeds of Crime Act (POCA) has progressed through initial stages and there is an application on file for hearing in April 2017 at Reading Crown Court. The application is in respect of the defendant had benefitted to the sum of £122,500. In addition to this, compensation amounts to £90,000. However this is a very complex case, the decisions on amounts and payments (if any) we will not know until the Court has considered all arguments.

### 6.5 Housing: Right To Buy (RTB)

- 6.5.2 Money laundering is a fraud risk for property transactions. Money is paid by a third party who has no obvious link with the transaction. Money launderers often use front buyers to enter into transactions on their behalf. The money for a deposit or even to pay a mortgage may have come from someone other than the customer and could very well be the proceeds of crime.
- 6.5.3 In order to reduce any such risk we work with Housing Officers to check RTB applications against council tax and other records where cash payments are being paid. We checked 22 (45 received in 2016/17) RTB applications during the year for validation and financial checks and as a result 3 applications were followed up for full disclosure of income sources.

## 6.6 Blue Badge investigations

6.6.2 In the period April 2016 through to March 2017, we have received a total of 25 referrals. As a result of this work 4 parking notices have been issued for minor Blue badge offences, 6 Blue Badges have been seized and removed from circulation and there have been 3 prosecutions for Blue Badge frauds. 1 blue badge was returned to rightful owner, 2 Blue Badges were cancelled, 1 Blue Badge application was found to be false. And warning letters were sent out to 8 Blue Badge holders.

6.6.3 It is difficult to quantify the cost associated with blue badge fraud, but there is a significant cost to the public purse. For example the offender may also avoid having to pay for a resident's parking permit and/or paying hourly on-street parking charges or congestion charges in cities such as London. In addition there is the inconvenience for genuinely disabled motorists and passengers.

## 6.7 ID Fraud

6.7.1 As previously reported to the committee an exercise was undertaken during 2016/17 to search benefit cases using predefined parameters in order to detect possible identity fraud. Following enquires and a detailed analysis of documents held, we detected nine cases of fraudulent identity being used in support of housing benefit claims. These cases were predominately Algerian nationals using false French documentation, mainly ID cards and resulted in an HB overpayment of £150,154. Housing Benefit payments were stopped immediately and the cases were referred to the DWP and National Crime Agency for investigation.

## 6.8 Section 106 Fraud

6.8.1 As previously reported to the committee the investigation officers undertook an investigation into missing sec 106 contributions, which led to the successful prosecution and conviction of a former member of staff, who fraudulently diverted Section 106 contributions for two developments, totalling £42,000, into his personal bank account.

6.8.2 The Court has agreed to an order under the Proceeds of Crime Act, which is being pursued by the Crown Prosecution Service.

## 6.9 Social Care Payments

6.9.1 This is not a new area of work for CIT however in the period April 2016 to March 2017 CIT have been actively investigating one case of alleged fraudulent use of Personal Budgets to the value in excess of £43,000.

## **7. CONTRIBUTION TO STRATEGIC AIMS**

7.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes contributing to the strategic aim of remaining financially sustainable.

## **8. COMMUNITY ENGAGEMENT AND INFORMATION**

8.1 N/A

## **9. LEGAL IMPLICATIONS**

9.1 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.

9.2 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.

9.3 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”.

9.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

## **10. FINANCIAL IMPLICATIONS**

10.1 N/A

## **11. BACKGROUND PAPERS**

11.1 N/A