

**READING BOROUGH COUNCIL  
INTERIM STRATEGIC DIRECTOR OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>28 September 2017</b>	<b>AGENDA ITEM:</b>	<b>6</b>
<b>TITLE:</b>	<b>INTERNAL AUDIT QUARTERLY PROGRESS REPORT</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 July 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 Audit & Governance 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

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### 4.1 Child sexual exploitation (CSE)

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- 4.1.1 Strategic partnerships in relation to children and young people who go missing and are at risk of sexual exploitation have been developed and the LSCB has been instrumental in establishing a comprehensive child sexual exploitation strategy and regular reports are received by the board. However, operational processes need to be improved to oversee and track these children and to (be able to) verify the completeness and accuracy of information gathered between different record sets, held by both the council and external agencies. Also more emphasis is needed to promote the MASH<sup>1</sup> Team as the single point contact for referrals with the community, especially with schools.
- 4.1.2 Social care cases are administered through the Mosaic<sup>2</sup> application which provides an integrated workflow for tracking and reporting each key stage of the process (pathway). Data is sourced through the collection of electronic and manual records; however, there remain concerns about the completeness and accuracy of records recorded on Mosaic. Due to Mosaic's limitations in identifying CSE cases, the team has established supplementary records outside of Mosaic to record and monitor cases. This gives cause for concern, especially if records are missed and not collated from one source. In addition, because these records are maintained from information processed through the Missing Risk Assessment Conference (SEMRAC), instead of the initial contact records, there is a risk the CSE register could be incomplete i.e. only contains 'known' cases processed through SEMRAC.
- 4.1.3 The service recognises that the child sexual exploitation screening tool is not consistently used, and information does not always reliably inform planning and assessments. We note there is a drive to encourage all staff to use the online Mosaic form, rather than a hard copy, which is scanned and uploaded to Mosaic. This will enable improved reporting directly from Mosaic and the number of risk indicator tools completed. In addition a condensed CSE risk assessment tool has been agreed in draft form and all social care practitioners are to be reminded that the screening tool needs to be completed in electronic form. This aspect will be feature in future case audits run by the directorate to ensure compliance.

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<sup>1</sup> Multi Agency Safeguarding Hub

<sup>2</sup> social care case management system

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4.2 Mosaic/Fusion end of year reconciliation

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- 4.2.1 In light of the findings from last year’s audit and the limited assurance opinion given, this was follow up audit to review the processes around identifying and accounting for accruals within Adults and Children’s social care and the year-end reconciliation process between the two systems.
- 4.2.2 The year-end reconciliation and accrual process is still not clearly documented which is of concern, particularly in light of turnover of key staff within the finance department. There is evidence of progress being made in finance in relation to Children’s Services, with reconciliation, accruals and prepayment processes reviewed and amended since last year’s audit. However, there is still no clear year end reconciliation between Mosaic and Oracle Fusion for adult social care. In a number of instances, Mosaic is not used to obtain year end accrual figures. A priority risk was that key individuals in Adults Services are not involved in the year end accruals process to ensure all relevant costs are identified and included and that there should also be a finance representative on the Funding Panel (Adults) and/or finance should have access to decisions taken at this forum.
- 4.2.3 No evidence was obtained that 2016/17 invoices received post year-end are matched to the year-end accruals for either Children’s or Adult Services. Despite significant differences between accruals and invoices received post year end relating to Adult Services financial year 2015/16 (£0.5m under-accrual), a thorough review of reasons behind this has not been conducted and therefore there is a significant risk that this could reoccur.
- 4.2.4 The review of the year end accruals and prepayments calculated identified a number of differences, many of which had arisen due to poor quality data within Mosaic. As a priority increased emphasis needs to be placed on the importance of ensuring that data held within Mosaic is of an appropriate quality. This includes ensuring that placements are reflected in a timely manner (purchase orders created, amended and closed), so that commitments are accurately reflected and discrepancies and missing invoices can be identified and addressed.

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4.3 HB Subsidy



4.3.1 The purpose of this audit was not to audit the subsidy claim, but to review measures being taken to ensure the accuracy and timely return of subsidy claims and assessments.

4.3.2 A number of positive measures have been put in place by the service, including training on specific areas such as overpayment, earned and self-employment income and Data Protection, in addition to quality checking and team meetings, where common issues are raised. This has led to an improvement in the accuracy of claims sampled as part of the quality reviewing process and is welcomed as positive by Internal Audit. However, at the time of our audit there was no indication from External Audit as to their initial findings on the 2016/17 subsidy claim audit.

4.3.3 Whilst action has been taken to try to reduce the reliance on contractors, they do still play a significant role in some areas such as quality checking and training. Whilst the initial process to appoint a resilience contractor followed the council's procurement process at the time, the subsequent extensions would now not reflect the new procurement process.

4.3.4 In order to deliver service delivery and resilience in the future the Council has recently agreed a strategy to advertise for and recruit an external partner to work alongside the in-house service to deliver the Benefits service using an alternative delivery model. This system change will be used as an opportunity to address some of the system weaknesses highlighted in this audit review.

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4.4 Council Wide Savings - Governance



4.4.1 Pressure to find new savings has been a continual feature of the council's budget build programme for a number years (total savings of over £70m having been agreed since the beginning of the decade) and given the fragile financial position of the Council, a structured programme of change to ensure sustainable budget proposals can be developed was required.

4.4.2 The purpose of our review was to ensure there is a robust governance framework going forward, for developing and monitoring the savings programme.

4.4.3 Directorates are responsible for developing and implementing the savings programme, which is now overseen by the Corporate Programme Delivery Group. A Delivery Unit has been established to coordinate the corporate monitoring of the savings programme and an Interim Programme Manager (IPM) has been appointed to help provide professional oversight of the project.

- 4.4.4 There is a structured monitoring and reporting process underpinning the governance arrangements, together with a reporting guide clarifying the 'reporting contacts' for each directorate together with the necessary compliance verification checks and feedback actions required each month.
- 4.4.5 It is recognised corporately that this work has been critical to ensuring the financial sustainability of the Council. The progress of this change programme has been and will continue to be reported to Policy Committee and Audit and Governance, so that progress can be monitored effectively, including oversight by the External Auditor.
- 4.4.6 Given this, we are satisfied that the procedures for developing and monitoring the implementation of the savings programme have been strengthened to both promote greater transparency and stronger scrutiny of the financial viability of savings and that there are arrangements in place to continually appraise this.

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4.4 Bus Subsidy Grant



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- 4.4.1 This audit focused on providing assurance that the conditions of the grant determination had been complied with. Expenditure was reviewed against the relevant conditions set down for the grant and was certified to the Department for Transport as having been spent appropriately.
  - 4.4.2 The council was paid £74,192 by the Department for Transport under the grant determination notice (31/2783), under a determination to be used only for the purposes of supporting bus services (including community transport services run under a section 19 permit), or for the provision of infrastructure supporting such services in that authority's, or a neighbouring authority's area.
  - 4.4.3 We can confirm 82% (£60,700) off the grant totalling £74,192 for 2016/17 was spent in accordance with the determination notice for the purposes of supporting the bus service and the balance has been carried forward to support the 'Greenwave bus route' in 2017/18 as there are no conditions to restrict this

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4.5 Local Transport Capital Grant 2016/17



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4.5.1 This audit focused on providing assurance that the conditions of the grant determination had been complied with. Expenditure was reviewed against the relevant conditions set down for the grant and was certified to the Department for Transport as having been spent appropriately.

4.5.2 The Local Transport Capital Block Funding (integrated Transport and Highways Maintenance) Specific Grant was settled in 2015/16 to be paid over a 5 year period under Determination Notice 31/2530. In 2016/17 as part of this arrangement, the council received £1,350,000 by formula allocation and an incentive grant of £74,000.

4.5.3 Having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance) Specific Grant Determination 2015/16 No 31/2530 have been complied with.

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4.6 Pot Hole Action Fund Grant 16/17



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4.6.1 This audit focused on providing assurance that the conditions of the grant determination had been complied with. Expenditure was reviewed against the relevant conditions set down for the grant and was certified to the Department for Transport as having been spent appropriately.

4.6.2 The Pothole Action Fund grant paid to local authorities under determination can only be used for the purposes that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003. In 2016/17 as part of this arrangement, the council received a grant of £60,000.

4.6.3 There are satisfactory controls in place to account for the use of the Pothole Action Fund grant and to substantiate the number of repairs completed. Controls are being introduced to improve the audit trails between the payments records on Fusion for materials and those required as recorded on the repair works register which is used to monitor the completion of works.

## 5. AUDIT REVIEWS 2017/2018

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
eTendering system (C/Forward)	Q1	Mar-17	May-17	Jun-17
MOSAIC / Oracle Fusion end of year reconciliation (follow up)	Q1	May-17	Sep-17	Sep 17
Child Exploitation & Missing Children	Q1	Apr-17	Jun 17	Sep 17
Financial Assessments for Adult Care	Q1	Apr-17		
Public Health Grant	Q1	May 17	Sep 17	
Corporate Buildings H&S Statutory Compliance Regimes (c/forward)	Q1	Apr 17*		
Sec 106 Agreements (follow up)	Q1	May 17	Jun 17	Jun 17
Corporate Governance Overview	Q1	Apr-17	Jun-17	Jun 17
Safeguarding (Adults)	Q1	Jul 17	Aug-17	Sep-17
Direct Payments/Personal Budgets**	Q1	Jun-17	Sep 17	
Information Governance & Data Protection (follow up)	Q2			
Payroll	Q2	Sep 17		
Local Transport Plan Capital Settlement (Grant Certification)	Q2	Jul 17	Jul 17	Jul 17
Bank & Cash Rec	Q2	Sep 17		
MASH (Multi-Agency Safeguarding Hub)	Q2	Sep-17		
Pothole action fund	Q2	Jun-17	Jul 17	Jul 17
NHS CHC	Q2			
EDRM (follow up)	Q2	Sep 17		
Deputyship and Appointeeship	Q2	Oct-17		
Children's Services Improvement Plan	Q2	Sep 17		
Emmer Green Primary School	Q2			
Council Wide Savings	Q2	Jul 17	Sep 17	Sep 17
Bus Subsidy Grant	Q2	Jun 17	Jul 17	Jul 17
Business Rates	Q2	Sep 17		

\* Currently delayed until the summer.

\*\* added following a request by the Interim Director of Finance and external auditor.

Audit Title	Timing	Start Date	Draft Report	Final Report
Redlands Primary School	Q3			
St Michaels Primary School	Q3			
Commercial property acquisitions and management	Q3			
The Ridgeway Primary School	Q3			
Blagdon Nursery School	Q3	Dec 17		
Homes for Reading	Q3	Oct 17		
Whitley Park Primary School	Q3	Nov-17		
The Hill Primary School	Q3			
Corporate Governance Overview	Q3			
General Ledger	Q3			
Geoffrey Field Junior School	Q3	Nov 17		
Oxford Road Community School	Q3			
Arts & Theatres income collection	Q3			
Sundry Debtors	Q3			
Foster care (inc follow up)	Q4	Jul 17		
Creditors (Accounts Payable)	Q4			
Network Infrastructure Security	Q4			
Right to Buy (follow up)	Q4			
Troubled Families Grant Sign Off	Q4			
Entitlement & Assessment	Q4			
Access to records (follow up)	Q4			

## 6. INVESTIGATIONS (April 2017 - September 2017)

### 6.1 Benefit Investigations

6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case for a (now) former employee was referred back to investigations team by the DWP. The total overpaid benefit for this case was £12,000. The defendant was found guilty of two fraud Act charges and received a suspended sentence and was also ordered to complete 200 hours of unpaid work within 12 months.

### 6.2 Council Tax Support

6.2.1 Due mainly resources and other priorities, over the past 6 months we have not undertaken any new work on Council Tax Support. However, we are engaged with the service on a project to data match Person Discounts (SPD) data sets with credit agencies. There are currently 22,035 households claiming single person discounts and a cost of approximately £8.2m

### 6.3 Housing tenancy investigations

6.3.1 Since 1 April 2017 Investigation officers have investigated 24 referrals of alleged housing tenancy fraud, and have assisted in the return to stock of 7 Council properties.

6.3.2 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 (7 x £15,000) in the region of £105,000 could have been saved as a result of tenancy investigation.

6.3.3 Ongoing criminal investigations are taking place in 4 of the 7 investigations and Legal Services are drafting charges under The Prevention of Social Housing Fraud Act 2013 and Fraud Act 2006.

6.3.4 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 September 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.

## 6.4 Right to buy (RTB)

6.4.1 In April 2012 the Government introduced new measures to reinvigorate the right to buy scheme. Tenants are now entitled to significantly higher discounts when purchasing their socially rented property, now at a maximum of £78,800 which has resulted in a recent increase in the number of RTB applications. Unfortunately the new measures have also led to a rise, nationally, in the number of fraudulent applications and the Council has to be ever more vigilant against this potentially criminal practice. Right to buy fraud happens when the tenant applies for a discount to purchase their council home and they:

- Give us false information
- Have unlawfully applied for the discount where the property has been subject to tenancy fraud such as sub-letting
- Have entered into an agreement with a third party to buy the property on their behalf for a cash incentive

6.4.2 We are working with Housing Officers to check all applications against Council tax and other records and will investigate any applications that look suspicious. Improper applications can result in eviction and criminal prosecution. Since 1 April 2017 we have checked 17 RTB applications for Housing. Following these checks one application was refused.

6.4.3 The notional savings have been calculated as **£84,800** - £78,800 (full RTB discount) plus a 12 month rental income of £6,000 for this property.

## 6.4 Social Care Fraud & Investigations

6.4.1 We have one ongoing case with respect to direct payments<sup>3</sup>, whereby monies paid by RBC have not been used in accordance with the care plan. Following months of complex investigation we have gathered evidence which indicates that over **£60,000** has been misappropriated and not been used for which the monies were intended. As a result a full file has been sent to RBC legal for consideration of Fraud Act Charges.

6.4.2 The second case involved allegations that care workers employed by a care agency, which provides domiciliary care and support to service users, had been falsifying time sheets, and subsequently claimed for work which was not undertaken.

6.4.3 Following investigation two employees of the agency were arrested for suspected offences under the Fraud Act 2006. It was then found that both individuals had obtained employment using false identification, to allow them to work in the UK. The overcharge amounted to just over **£1,500**.

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<sup>3</sup> Direct payments are payments for people who have been assessed as needing help from social services, and who would like to arrange and pay for their own care and support services instead of receiving them directly from the Local Authority.

## 6.5 Internal Investigations

- 6.5.1 A Social Worker was found to have been falsifying medical returns to enable extended leave of absence. On completion of the investigation the individual tendered their resignation.
- 6.5.2 Two other investigations involving Council staff are in progress and will be reported back to the committee in due course.

## 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 2011, 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”.
- 8.1 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.

## 9. FINANCIAL IMPLICATIONS

- 9.1 N/A

## 10. BACKGROUND PAPERS

- 10.1 N/A

