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Internal Audit Report 2018/2019

Syrian Refugee Resettlement Programme 18/19/01

*Hastings Borough
Council*

July 2018

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Distribution list

For action: Simon Finlay (Syrian Refugee Resettlement Programme Manager)

For information: Tom Davies (Chief Auditor)



Executive summary (1 of 3)

Report classification



Medium risk (9 points)

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	2	0	0
Operating effectiveness	0	0	1	0	0
Total	0	0	3	0	0



Executive summary (2 of 3)



Background

Hastings Borough Council (“the Council”) volunteered to take part in the Syrian Refugees Resettlement Programme (“the programme”) which is controlled by the Home Office. As part of this programme families are allocated to the Council and there is a Manager for the programme along with two caseworkers who are responsible for arranging suitable accommodations in time for their arrival. They are also responsible for managing the family requirements for education, health, employment and integration into the community. The team also supports the wider programme around East Sussex and therefore provide support to neighbouring councils (Lewes, Wealden, Eastbourne and Rother). The Council has nine families to date and will stop taking any further families once it reaches 100 people (around 20 families). The programme supports the refugees for five years and would therefore end after five years of the arrival of the last refugee family.

The starting point of the programme is to arrange suitable privately rented accommodation as the Council has taken a decision not to use social housing for the refugees in order to avoid adding to the pressure on existing waiting lists. Once the accommodation is secured the Home Office will allocate a family and the team would start making arrangements for furnishing the property, school places and GP registration, buying groceries, etc. As part of the programme each refugee receives £200 cash subsistence on arrival because it takes around two months for applicable benefits to start. This is just meant for food and toiletries. Other purchases, for example, bus passes are made by credit card by the Programme Manager.

The Council gets reimbursed by the Home Office for all expenditure as long as it is coded to a unique Home Office reference number for each refugee. There is an upper limit of £20,520 per adult refugee over 5 years. There is an additional funding of £4,500 for children between the ages of 5 – 18 and £2,250 for children between the ages of 3 – 4. This funding is paid to the schools/nursery for the additional support provided. For adults there is additional funding of £850 for English for Speaker of Other Languages (ESOL) courses. The timeframe of the main funding is below:

Timeframe	Year 1	Year 2	Year 3	Year 4	Year 5
Rate (£)	8,520	5,000	3,700	2,300	1,000

Due to the upgrade to the financial system in the new financial year, the financial accounting for the scheme is not up to date and therefore the period of our scope has been restricted to the start of the first arrival of refugees in October 2016 to 31st March 2018. Within the period of our scope six families consisting of 28 people arrived and a further three families consisting of 20 people arrived in April 2018.

Executive summary (3 of 3)



It was really encouraging to see the passion and motivation of the team in their roles and for the overall programme. We would like to thank them for all the support they provided during this review.

Summary of findings

We carried out our work per the agreed terms of reference in Appendix B. We also observed two refugee meetings with the case workers at the request of the Chief Auditor which were in addition to the agreed scope of the work. Overall, the programme is being managed effectively and the team have the required knowledge and experience to execute their roles. However, we have noted the following findings which need to be considered going forwards to improve the operation and management of the programme:

- **Financial monitoring:** there is limited granular financial performance monitoring of the programme to understand and review the financial outcomes (**medium risk**)
- **Transaction testing:** we have tested a sample of income and expenditure transactions and noted a number of issues related to weaknesses in systems and processes (**medium risk**)
- **Observations and findings from our meetings with the refugees:** we have made a few observations and recommendations from our meetings with the refugees which can be incorporated to improve the effectiveness of the programme (**medium risk**)

Executive summary (3 of 3)

1 *Financial monitoring – control design*

Medium

2 *Transaction testing – operating effectiveness*

Medium

3 *Observations and findings from our meetings with the refugees – control design*

Medium

Summary of findings by areas of scope:

Area of scope	Number of findings				Finding reference
	Critical	High	Medium	Low	
Cash storage and withdrawal arrangements					
Cash receiving processes			1		2
Controls over corporate credit card expenditure by support workers					
Compliance of spend with the Home Office funding instructions			1		3
Adequacy of record keeping to support expenditure made on the scheme			1		2
Budget monitoring			1		1
Review of the surplus accrued as part of the scheme			1		1
Review of contingency arrangements for the recovery of expenditure incurred as part of the scheme			1		3

Current year findings (1 of 3)

Financial monitoring – control design

1

Rating

Medium

Finding and root cause

As required by the Funding Instructions there is a specific cost centre for the programme which is reviewed at a very high level against budget quarterly by the Assistant Director, Housing & Built Environment. The Programme Manager also submits an update every other month to the Assistant Director, Housing & Built Environment giving details of current activity and the key successes and challenges for the programme in East Sussex, however, this does not include financial performance. Lastly, there is an evaluation data spreadsheet submitted to the Home Office every six months with updates on progress with English language courses, employment, etc of the refugees. More granular financial monitoring is not undertaken and we noted the following issues:

- At the end of 2017/18 there was a £29k deficit on the scheme against the reported position of income of £334k with a £21k surplus. This was due to the income accrual for 17-18 being overstated by £50k. As at the end of 2016/17 there was a reported surplus of £36k. The deficit was due to 20 refugees arriving in April 2018 and therefore substantial costs relating to these arrivals (void costs for rent, furnishing, etc) would have been incurred in 2017/18 and will not be claimed until their arrival in 2018/19. Closer financial monitoring may well have identified this discrepancy earlier.
- There are no financial planning contingency arrangements for the recovery of additional expenditure incurred which may not be funded by the programme. This is covered further in finding three.
- The detailed update to the Assistant Director, Housing & Built Environment by the Programme Manager does not include the financial aspects of the programme. The Assistant Director, Housing & Built Environment performs a quarterly review of the programme’s cost centre, but this is very high level comparison against the budget which is not updated to reflect the number of refugees. Furthermore, there was no evidence available to confirm these reviews have taken place.
- The quarterly review of the scheme cost centre is very high level and comparison is made with the budget which is not updated to reflect the actual number of refugees.

Current year findings (1 of 3)

Financial monitoring – control design

1

Rating

Medium

Implications

If the financial performance of the programme is not being adequately monitored through robust reporting of management information, significant deviations in performance will not be identified which may result in non-compliance with the funding instructions leading to adverse reputational and financial implications for the Council. The scheme may not be achieving financial objectives

Action plan

The Council will design and implement revised financial procedures for monthly financial performance monitoring of the programme. This will be reviewed at an appropriate level for the detail provided and measured against budget and desired financial outcomes. Evidence of these arrangements will be retained.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-01

Management response

The Syrian Refugee Programme Manager will liaise with Finance and Audit to design and implement revised financial monitoring processes. The monitoring reports will be detailed and the income and expenditure aligned with timing of the transactions. This will feed into the performance report that is submitted to the Assistant Director, Housing & Built Environment every other month.

Current year findings (2 of 3)

Transaction testing – operating effectiveness

2

Rating

Medium

Finding and root cause

The programme financial information on the ledger is not up to date due to the upgrade in the financial system in the new year. Therefore, we have performed testing over a sample of income and expenditure transactions related to the programme from 1st October 2016 to 31st March 2018. We noted the following issues.

Income testing, out of a total five transactions tested we noted:

- The Home Office portal has no audit trail to confirm when a claim was submitted (in order to recognise revenue correctly) and the date of the claims in the Programme Accountant spreadsheet did not match the actual date of the claim made by Programme Manager.
- An exception of £50k in the accrued income for 2017/18. This meant the income and therefore the surplus for the year was overstated by this amount. This happened as the amount accrued on the ledger was based on the claim dates in the programme accountant spreadsheet which were in 2017/18 financial year. However, this data was different to when the claim was actually made, which was in June 2018 by the programme manager. The actual date of the claim was in line with the Home Office funding instructions but the timeframe is not consistent in the programme manager and accountant’s data .

Expenditure testing, out of a total of 25 transactions tested we noted:

- One instance of signed receipts for cash received for £700 instead of £1,000 for a family of five.
- Three way match hasn't been enforced by the system and in four cases expenditure transactions have been paid based on the approved purchase order values with no invoice provided.
- In two cases for invoices of £3k and £9.8k for interpreting services by a freelancer, the invoice was broken down between the cost of face to face interpreting, phone interpreting and travel time and ticket costs, however it did not give details of the specific date and time of the services and the clients involved. In one further case, an invoice for £6.3k, back up was retained but the back up was for each individual service and wasn't reconciled back to the invoice value. Therefore, the invoice value is not being reconciled back to any independent record maintained by the team to ensure it is reasonable.

Current year findings (2 of 3)

Transaction testing – operating effectiveness

2

Rating

Medium

Finding and root cause

- Two items (£7.8k and £12k) related to recharges based on 5% of the Housing Budget Holder salary costs in 16/17 and 17/18 rather than the actual salaries of the staff who spent time on the programme. Using actual salaries of staff would be a better reflection of the true cost of the programme, especially for financial monitoring purposes.
- Three purchase orders for cash withdrawals, for a total amount of £480 didn't specify that the cash withdrawal was for the programme.

Implications

If income and expenditure is not meticulously accounted for and documented in line with both the Council's procedures and the Home Office requirements then monies could be spent inappropriately and not be recoverable. Income needs to be accounted for in the correct period in order that the true financial position of the programme is understood and accounts are not misstated.

Action plan

- | | |
|--|--|
| <ul style="list-style-type: none"> • Three way match between the purchase order, invoice and goods received note should be enforced by the system before any payments are made. | <p><i>Responsible person/title:</i></p> <p>.....</p> <p>Simon Finlay (Programme Manager)</p> |
| <ul style="list-style-type: none"> • Evidence supporting income and expenditure transactions should be obtained and retained in accordance with Funding Requirements. | <p><i>Target date:</i></p> <p>.....</p> <p>31 October 2018</p> |
| <ul style="list-style-type: none"> • The date of the income claims should be consistent within the Programme Manager and Accountant's data and revenue should be recognised on the ledger based on the actual date of the claim. | <p><i>Reference number:</i></p> <p>.....</p> <p>18/19/01-02</p> |
| <ul style="list-style-type: none"> • Evidence of the submission of income claim should be retained as there is no audit trail available on the Home Office portal The Funding Instructions do state that "late returns may result in the funding being delayed or refused" so it is important that this audit trail is retained to evidence when claims were submitted. | |

Current year findings (2 of 3)

Transaction testing – operating effectiveness

2

Rating

Medium

Action plan

Management response

The Syrian Refugee Programme Manager will draw up local documented procedures for the financial administration of the scheme. Internal Audit will periodically review compliance with the procedures to ensure that the management audit trails are effective and operating.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-02

Current year findings (3 of 3)

Observations and findings from our meetings with the refugees – control design

3

Rating

Medium

Finding and root cause

We observed two refugee meetings with case workers. One were first arrivals in October 2016 which was held at the Council and the other with a family who arrived in December 2017, which was held at their home. It was encouraging to see that the staff are really passionate about the work they do and the feedback from the refugees regarding the support provided was very positive. During these meetings we noted the following comments.

The adult men were keen to work, however, at present the language barrier was preventing this. All were attending ESOL courses and had improved their language skills, however, they still need an interpreter for communication. All had existing professions and would benefit from relevant training and work experience in those areas. In July 2018 the adult men commenced the “Concept Training”, which is a language and integration skills training programme and is expected to improve language skills required in a work environment.

However, the families are impacted by the benefit cap on housing benefit and for one there is now a rent shortfall of £413 per month which is now paid from the programme budget. Taking this as an average across the nine families, this could add up to £45k additional funding per year from the programme budget to meet rent shortfalls due to reductions in housing benefit. This situation could be improved by adult employment.

Due to this an assessment of the financial sustainability of the programme should be undertaken taking into account the cuts in housing benefits. The assessment should consider that some refugees will gain employment and others for various reasons for e.g. health, language, etc may not be able to work by the end of the programme. The Council should ensure this assessment clearly demonstrates the impact of benefit changes on the financial sustainability of the scheme.

Further focus on skills based training should also be considered, for example, partnerships with local employers, or apprenticeships to help the adult refugees find suitable work easing their dependence on benefits. For the refugees who are not likely to gain employment the focus should be on equipping the refugees with the basic language and social skills to sustain them once the programme support ends (after five years). I.e. many may need to move into social housing unless their rent is supported by housing benefit or universal credit.

Current year findings (3 of 3)

Observations and findings from our meetings with the refugees – control design

3

Rating

Medium

Implications

If the strategic objectives and financial sustainability of the programme are not reassessed regularly to take into account changes such as employability of refugees, changes to benefits and rent shortfalls then the Council may not fully understand the full cost implications of these variables and the scheme may not be affordable or sustainable in the longer term. This could have both financial and reputational impacts to the Council.

Action plan

An overall, longer term financial assessment of the programme needs to be undertaken. This should take into account known variables (at varying levels of impact or “stress testing”) to enable the Council to understand and prepare for the point at which the scheme becomes financially unsustainable. This can be used to prepare and plan for this eventuality and, potentially, to make representations the Home Office for more support.

The Council should consider the longer term support provided to assist the adult refugees to find employment detailed above.

Management response

The Syrian Refugee Programme Manager will consider the longer term financial assessment of the programme and document this in an operational document that will be “live” and updated periodically. This approach will more readily assist better scenario planning and preparation.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-03



**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points	Report classification	Option A	Option B	Points
Critical	40 points per finding		Low risk	Satisfactory	6 points or less
High	10 points per finding		Medium risk	Satisfactory with exceptions	7 – 15 points
Medium	3 points per finding		High risk	Needs improvement	16 – 39 points
Low	1 point per finding		Critical risk	Unsatisfactory	40 points and over

Appendix B: Terms of reference

The terms of reference was prepared by Tom Davies (Chief Auditor) and the scope of this review remains the Chief Auditor’s responsibility. We designed our testing procedures to address the scope which was provided to us by the Chief Auditor.

Background: Hastings Borough Council (“the Council”) volunteered to take part in the Syrian Refugees Resettlement programme which is controlled by the Home Office. As part of this programme families are allocated to the Council and there are two caseworkers within the Council who arrange for suitable housing in time for their arrival, education, health, employment and integration into the community. The council has had nine families so far and will stop taking any further families once it reaches 100 people which would be around 20 families. At present, the Council is half-way through the five year duration of the programme.

As part of the programme each refugee receives £200 cash subsistence on arrival because it takes around two months for their Universal Credit, Housing Benefit payments, etc. to come through. This is just meant for food and toiletries and other purchases, for example, bus passes are made by credit card by the caseworkers.

The Council gets reimbursed by the Home Office for all expenditure as long as it is coded to a unique VIP number for each refugee. There is an upper limit of £20,520 per adult refugee over 5 years. The financial accounts are in good order and a small surplus that has accrued has been put in a reserve account.

Audit Objective: To assess the adequacy of controls over all the financial processes of the Syrian Refugee Resettlement Programme including assurance that all expenditure made is for valid programme needs and is accounted for promptly, accurately and efficiently and completely reclaimed.

The following sub-processes will be examined via walkthrough, review of control design and control testing where appropriate:

- Cash storage and withdrawal arrangements
- Cash receipting processes
- Controls over corporate credit card expenditure by support workers
- Compliance of spend with the guidance for Syrian Refugee Resettlement issued by Local Government Association
- Adequacy of record keeping to support expenditure made on the scheme
- Budget monitoring of monies into and out of the programme
- Review of the surplus accrued as part of the scheme
- Review of contingency arrangements for the recovery of expenditure incurred as part of the scheme

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for Hastings Borough Council and solely for the purpose and on the terms agreed with Hastings Borough Council in our agreement dated 20/03/2017. The work was performed in accordance with Hastings Borough Council's internal audit methodology and the findings reported to the Head of Internal Audit, who remains responsible for the final conclusions expressed and ratings assigned therein. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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