

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 25 JANUARY 2018

Present: Councillors Stevens (Chairman), Lovelock, McElligott, McKenna, Page, Steele & Terry.

Apologies: Councillors Duveen and Rodda.

Also in attendance:

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| Adrian Balmer | EY LLP |
| Alan Cross | Head of Finance |
| Maria Grindley | Director and Engagement Lead, EY LLP |
| Paul Harrington | Chief Auditor |
| Peter Lewis | Strategic Finance Director |
| Kevin Parker | Principal Auditor |
| Jean Stevenson | Chief Accountant |

24. MINUTES

The Minutes of the meeting of 21 November 2017 were confirmed as a correct record and signed by the Chairman.

25. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports and investigations issued since the last quarterly progress report in September 2017. The report set out a summary of the audit reports in respect of Public Health Grant, Bank Reconciliations, Business Rates, Direct Payments, Adult Safeguarding, Payroll, N3 Accreditation and Journals. The report also referred to three school audits, which had been carried out and contained a table showing the audit reviews currently in progress and those planned for the next quarter.

In relation to the audit of Bank Reconciliations, it was noted that progress had been made to clear the backlog of historic reconciliations, prior to 2017/18. In the future, it was anticipated that as the Council predominantly initiated payments through the Oracle Fusion Payments module or Payroll there should be control at the transaction level, enabling the 'timing differences' to reconcile the Oracle Fusion bank position with the actual bank account automatically. Unfortunately, whilst the revised Bank Reconciliation Process had been designed, it had yet to become operational and as a result no monthly bank reconciliations had taken place so far in the current financial year.

The Committee referred to the concerns related to Direct Payments highlighted in the Chief Auditor's report. The Council currently offered clients the choice of managing and monitoring Direct Payments through either a bank account or pre-paid cards. There were demonstrable advantages to the use of pre-paid cards but in Reading the take-up was low at below 20%. The Service had responded positively to the recommendations in the audit report and would be reviewing the strategy for Direct Payments, with the intention of extending the use of pre-paid cards.

Resolved: That the report be noted.

26. CORPORATE (STRATEGIC) RISK REGISTER

The Chief Auditor submitted a schedule updating the Committee on the Q3 status of the Council's 2017/18 Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. The SRR was attached to the report at Appendix 1.

The report explained that the SRR had been developed to provide a focused and high level overview of strategic risks for staff, councillors and other stakeholders, and was supplemented by more detailed directorate, service and project risk registers. The report noted that the Council now faced significant financial pressures and risk mitigation would be limited by how much was available to spend. The appetite for the level of risk the Council was prepared to accept would by necessity have to increase accordingly, and under this new approach it was important that the level of risk appetite was determined. The SRR had therefore been re-formatted to include unmitigated and risk appetite scores and track scoring over time to better inform those responsible for managing the risks. The analysis of 'red', 'amber' and 'green' would now be based on the extent of the gap between the current residual risk and the risk appetite, and, in order to focus attention on areas of greatest risk, the Register should include only the key current risks that had not been mitigated down to the risk appetite level. It was therefore proposed that where risks had been rated as green for two or more consecutive quarters they should be removed from the Register.

The SRR highlighted twelve risks, three of which were rated as 'red' as follows: delivering a sustainable Medium Term Financial Plan/ achieve a balanced budget; data management; and failure to implement a Council-wide response to Child Sexual Exploitation.

Resolved:

- (1) That the Corporate Risk Register be noted;**
- (2) That a more detailed explanation of the rationale for rating Risks be included in future reports, as well as more historic data to show the movement in the 'RAG' status of risks over time.**

27. DRAFT INTERNAL AUDIT PLAN FOR 2018/19

The Chief Auditor submitted a report setting out the work that Internal Audit planned to undertake during the financial year 2018/19. The Indicative Internal Audit Plan was attached as Appendix 1 to the report along with the Internal Audit Charter at Appendix 2. The Chief Auditor had the responsibility to produce an audit strategy of how the internal audit service would be delivered and how it linked to the organisational objectives of the Council.

The report explained that Internal Audit was responsible for forming opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. It stated that in the context of the Public Sector Internal Audit Standards, 'opinion' did not mean simply a view, comment, or

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observation; it meant that Internal Audit would have done sufficient, evidenced work to form a supportable conclusion about the Council's activities they had examined.

In accordance with The Accounts and Audit Regulations 2015, the Council had to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes, with reference to public sector internal auditing standards and guidance. The Public Sector Internal Audit Standards required an Internal Audit Charter to be in place which would be reviewed periodically and presented annually to the Committee.

Resolved:

- (1) That the Internal Audit Plan for the period April 2018 to March 2019, which was attached to the report at Appendix 1, be approved;**
- (2) That the indicative Internal Audit Charter 2018/19, which was attached the report at Appendix 2, be noted.**

28. ANNUAL GOVERNANCE STATEMENT 2016/2017 - UPDATED ACTION PLAN

Further to Minute 19 of the meeting held on 21 November 2017, the Strategic Finance Director submitted a report setting out the updated action plan for the 2016/17 Annual Governance Statement (AGS), which was attached to the report at Appendix 1. The Council was required to prepare and publish an AGS each year as an accompaniment to the authority's financial statements. The Council was responsible for ensuring that its financial management was adequate and effective and that it had a sound system of internal control, which facilitated the effective exercise of the Council's functions, including arrangements for the management of risk. The AGS was a record of the overall effectiveness of governance arrangements within the Authority; it reflected the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrated how the key governance requirements had been met.

The action plan attached to the report set out the details of and commentary on 10 headline actions that had been identified, all of which had been or were in the process of being implemented.

Resolved: That the updated action plan associated with the annual governance statement for 2016/17 be noted.

29. ACCOUNTS 2016/17

Further to Minute 20 of the meeting held on 21 November 2017, Peter Lewis, Strategic Finance Director, submitted a report on the continuing work to sign off the accounts as a true and fair view of the Council's finances and the action being taken to remedy the current situation. Since the previous meeting, significant effort had been committed to addressing the deficiencies in the accounts and the report summarised the actions taken to date and those planned. In undertaking these actions, attention was also being paid to preparations for the completion of the 2017/18 accounts,

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which had to be undertaken by 31 May 2018 with the audit completed by 31 July 2018.

While there remained strong commitment within the Finance Team to delivering improved accounts for audit, it was recognised that to move from the current situation to unqualified accounts within this accounting year would be challenging. The report stated that action had been undertaken to bolster significantly the resources dedicated to the task of improving the accounts. Other actions had also been initiated to seek to deliver the 2016/17 closedown and to improve processes in 2017/18. A table in the report briefly set out the actions underway or planned at the current time.

The Committee noted that despite the work that had been carried out by the Finance Service, it had not been possible as yet to provide EY with outputs of sufficient quality to enable them to sign off the Accounts for 2016/17. Some of the issues identified pre-dated 2016/17 and would take time to resolve. It was noted that the issues identified so far had not significantly changed the 2016/17 outturn position for the Council.

The Committee also noted that the 'health check' of Fusion, the main financial ledger system, which was due to take place in January 2018 had not commenced. This was because the contractor engaged to undertake the review had not performed as required and had been replaced. The work was now expected to commence in March 2018.

Resolved: That the actions underway or planned to rectify the deficiencies in the 2016/17 accounts and ensure that they were not repeated in 2017/18, as described in the table below paragraph 3.3 of the report, be endorsed.

30. PREPARING FOR THE 2018/19 BUDGET - DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2018/19

Alan Cross, Head of Finance, submitted a report to provide an opportunity to pre-scrutinise the current draft of the Annual Treasury Strategy & Investment Statement, as recommended by CIPFA. The current draft of the Annual Treasury Strategy & Investment Statement was appended to the report for consideration. The Treasury Strategy Statement would form part of the Council's overall budget proposals, presented as part of the Budget Report to Council on 28 February 2018. The early presentation of the Statement would enable councillor consideration ahead of the decisions that would need to be taken as part of the budget setting process in February 2018. The draft Treasury Strategy might be amended to ensure it was consistent with the remainder of the budget proposals, but it was not expected to change significantly for 2018/19.

The Committee noted that the Investment Strategy stated that borrowing would rise from £350m to £600m in the early years of the next decade and referred to the table setting out external borrowing and debt along with treasury and non-treasury investments. It was requested that, in order to be able to assess more accurately the exposure of the Council to the level of debt being held, it would be helpful to have

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the corresponding information about the Council's asset holdings. The Committee was advised that the estimated value of Council assets was over £1bn as at 31 March 2017, and although some of the evaluations were notional, due to the assets not being 'disposable' for a capital receipt, such as the highways network, this information did put the Council's debt position into context.

Resolved:

- (1) That the draft Treasury Strategy & Investment Statement, prior to its inclusion in setting the 2018/19 budget, be noted;**
- (2) That, in future, reports on the Investment Statement be expanded to include details of the Council's assets to enable the Committee to assess the level of exposure to debt repayments compared with the net worth of its assets.**

31. BUDGET MONITORING REPORT

The Strategic Finance Director submitted a report on Budget Monitoring that had been considered by the Policy Committee at its meeting on 15 January 2018 (Minute 62 refers) and was presented for information. The Committee noted that, based on the position at the end of November 2017, it was projected that the revenue budget would be underspent by £0.9m as at the year end, with an unused contingency of £1.6m should there be no further unexpected pressures and savings shortfalls. However, there remained some serious concerns, in particular that the total of negative variances was £9.1m, and that this would have some impact on 2018/19 if not mitigated by ongoing savings.

Resolved: That the report be noted.

32. APPOINTMENT OF EXTERNAL AUDITORS

The Strategic Finance Director submitted a report asking the Committee to note the appointment of the external auditors under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.

Resolved: That, in accordance with regulation 13 of the Local Audit (Appointing Person) Regulations 2015, the appointment of Ernst & Young LLP to audit the accounts of Reading Borough Council for five years, from 2018/19 to 2022/23, be noted.

33. EXTERNAL AUDIT UPDATE

The Committee noted the ongoing work being undertaken to complete the Accounts for 2016/17 as referred to in Minute 29 above.

Resolved: That the position be noted.

(The meeting commenced at 6.30pm and closed at 7.54pm).