

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	Audit & Governance Committee		
DATE:	2 JULY 2014	AGENDA ITEM:	3
TITLE:	HEAD OF AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	Head of Audit	E-MAIL:	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

1.1 This is the annual assurance report of the Head of Audit (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, which:

- Gives the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- Draws out key themes arising from the work of the Audit Team during the 2013/2014 financial year; and
- Compares the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

1.2 Detailed audit reports have been issued to the relevant Service Managers on the results of individual audits throughout the year, and to the relevant Directors and Heads of Service where unsatisfactory internal control has been identified. In addition, quarterly reports have been issued to, and discussed with, the Corporate Management Team (CMT) and the Audit & Governance Committee in order to report on standards of internal control, to provide appropriate focus on weaknesses and to progress remedial action where necessary.

Appendix 1 - Internal Audit Annual Assurance Report

2. RECOMMENDED ACTION

2.1 The Audit & Governance Committee are requested to note the assurance opinion given by the Head of Audit and consider the issues raised in the annual report

3. KEY ISSUES

- 3.1 As the Head of Audit I am required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, internal control and governance processes. The opinion is designed to assist the Council to meet its obligations, under regulation 4 of the Accounts and Audit Regulations. In giving this opinion, it should be noted that assurance can never be absolute and, therefore the most that the Internal Audit service can provide the Council's Audit and Governance Committee with, is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.
- 3.2 I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, internal control and governance processes. In my opinion, based on the work we (Audit Services) have undertaken, for the financial year ended the 31st March 2014 the Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisations objectives.
- 3.3 Based on the work the internal audit team has completed during the course of the year, which is set out in more detail below, i have concluded that Reading Borough Council's control environment is effective for its business needs and operates in an effective manner.
- 3.4 In addition, using assurance gained from our audit work on governance matters I can conclude that RBC'S governance, including internal control, is adequate and effective.
- 3.5 There have been no restrictions imposed on the scope of the internal audit function.
- 3.6 However there were a small number of reports issued as part of the agreed audit plan that identified specific areas for improvement. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.
- 3.7 The main issues raised as a result of Internal Audit activity during 2013/2014 are summarised in the attached report, thereby providing an overview of the effectiveness of internal control across the Council.
- 3.8 The matters raised in this report are only those, which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

- 3.9 I am satisfied that by delivering the agreed audit plan we have met the internal audit needs of the Council. We employed a risk-based approach to determining the audit needs of the organisation at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Summary of Key Issues

- 3.10 Those audit reviews assigned limited assurance during the year 2011/2012 and outcomes of investigations conducted are briefly detailed as follows:
- *LD Internal Trading Services (VFM)* - The audit review concluded that the unit costs for LD Supported Living were not competitive or sustainable. Benchmarking on spend on LD services also showed that RBC costs were higher than other authorities. Shortly after completion of the audit, a management review concluded that the internal service would not be provided - service users are now being supported through commissioned services.
 - *Debtor Processes (Debt Recovery)* - shortcomings were identified in the effective monitoring and management of aged debts, namely that a significant number (and value) of invoices are outstanding as unpaid and appear not to have been effectively managed by some service areas.
 - *Children & Adults Commissioning* - Commissioning strategies within Social Care are contained within service plans, but were found to lack detail in some areas and need development to give a clearer structure and approach to planning services. Progress has begun to support the development of commissioning strategies and enable a more focussed approach to commissioning and procurement. Progress will be followed up by internal audit.
 - *Learning Disabilities Commissioning* - At the time of the audit Learning Disabilities Commissioning had achieved savings of £250k by carrying out a 'staggered' review of 22 supported living packages using the resource allocation system (RAS). This work was to be extended during the year to include all the supported living cases. Although RAS has been useful in identifying savings within Learning Disabilities, we identified during our audit that 25% of LD clients had remained on an interim budget, with just over half of these in excess of a year, with no end or revision date in place. The service was to undertake a review of RAS and the use of interim budgets to ensure interim budgets are kept to the shortest time possible. This will be followed up by internal audit in 2014/15.
 - *Agency Managed Service & Spend* - At the time of the audit key IT process controls over the requisition and approval of workers through the Adecco Beeline system were found to be missing. A solution to rectify the control weaknesses was at the time being devised has subsequently been implemented. Internal audit will test the

implementation of the new control framework early in the 2014/15 financial year.

- *Deputyship & Appointeeship* - The Council offers specific assistance to help certain individuals who are unable to manage their own financial affairs. There are some challenges facing the team, principally regarding the continued growth of new clients and the need to balance this with maintaining existing levels of service and record keeping. Our audit identified some risks associated with cash handling that have prompted the Managing Director & Head of Finance to review, with a view to reducing further the amount of cash that needs to be handled by Council officers.

- *Information (Data) Security Management* - the council has made significant progress in respect of raising staff awareness of good practice and in ensuring that the relevant procedures have been incorporated into specific guidance to staff. Encrypted USB devices and document marking for all Council documents, however there remained areas of risk that require further action in order to meet best practice guidelines. Internal audit will keep a watching brief over information security management over the next 12 months.

- *Corporate Investigations* - an investigation into fuel theft and the movement of council vehicles revealed control weakness in the allocation and control of fuel and GPS tracking and monitoring of RBC vehicles. A follow up review will be undertaken in 2014/15.

4.1 All of these reviews have been reported to the Audit & Governance Committee during the year and follow up action will be reported back during 2014/2015 as part of the audit plan.

4.2 Whilst the overall opinion should inform the Annual Governance Statement, the Managing Director and the Corporate Management Team need to take into account those audit reviews assigned a limited assurance opinion and/or concerns flagged up following an investigation, together with other issues they have become aware of during the year. This should enable the Annual Governance Statement for 2013/14 to have considered all assurances, risks and other governance issues that have arisen. An issue which did come to during the financial year was regarding over-optimistic income targets for service areas within Arts & Leisure and the recording of income incorrectly between accounting periods at the end of the 2012/13 financial year. Budgets have been rebased and work is underway on how this can be prevented from happening in the future.

4. THE PROPOSAL

4.1 That this report forms the basis for CMT and the Audit & Governance Committee to undertake their annual review of internal control and to approve the annual governance statement for 2013/14 for signature and publication with the Council's accounts.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 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.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 N/A

7. LEGAL IMPLICATIONS

- 7.1 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. 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. 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”.

8. FINANCIAL IMPLICATIONS

- 8.1 N/A

9. BACKGROUND PAPERS

- 9.1 N/A