

**READING BOROUGH COUNCIL
HEAD OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	6
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
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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 April 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	 GREEN	Substantial assurance 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 low impact on residual risk exposure .
Reasonable	 YELLOW	We can give reasonable assurance 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 low to moderate impact on residual risk exposure until resolved.
Limited	 AMBER	Limited assurance 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 moderate impact on residual risk exposure until resolved.
No assurance	 RED	There is no assurance 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 high impact on residual risk exposure until resolved.

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
High	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.
Medium	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
Low	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 General Ledger



- 4.1.1 The general ledger is classified as a key system by the Council's external auditors and requires an annual internal audit review. As part of this year's review we primarily focused on journal control, authorisation, accuracy and timeliness of posting.
- 4.1.2 Journals are used to affect the transfer of funds between codes in order to ensure the Council's accounts are complete and correct. Also at the end of the financial year, adjustments may need to be made to reflect correct amounts under accrual¹ basis of accounting journal entries to adjust account balances to reflect correct amounts.
- 4.1.3 Our review of Journal Processing identified a number of areas with scope for improvement as well as the high number of transactions, both value and volume, surrounding the opening and closing of the accounts and amendment to transactions. There are also a high number of manual interventions to load information into the General Ledger.
- 4.1.4 There are no formal processes or procedures to ensure that an audit trail is maintained for the source of the journals. Records of journal transactions are available, but there is no set policy for storage and protection of the original records used for manual or spreadsheet transactions in a centralised secure area.
- 4.1.5 The journal process is a single person process with no authorisation required on Oracle Fusion. Although there are legitimate circumstances where Finance officers (in particular) undertake journal transfers independently of a specific request there is no separation of duties at the time of processing.
- 4.1.6 The highest priority risks identified related to the need to document processes for all areas of operation, maintain audit trails to support activity and evidence management review and authorisation.

Managers Response: Actions contained within the action are being progressed; the highest priority recommendations are being addressed in the shortest timescale.

¹ Accruals are adjustments for 1) revenues that have been earned but are not yet recorded in the accounts, and 2) expenses that have been incurred but are not yet recorded in the accounts. The accruals need to be added via adjusting entries so that the financial statements report these amounts.

4.2 Accounts Payable



- 4.2.1 As with the general ledger, Accounts Payable is also subject to an annual review to support the work of the Council's external auditor.
- 4.2.2 Our audit identified inefficient processes and highlighted that the accounts payable function is incurring an unnecessary level of administrative delay, by not managing its supplier database. Invoices are processed manually, including printing off electronic invoices received by email and supplier set up is a time consuming manual process given the volume of new suppliers set up daily on the system.
- 4.2.3 Supplier categorisation also needs to be improved to provide better quality management information on categories of spend and to limit the number of suppliers on the system to a manageable level. There is no formal accreditation process for the majority of suppliers, who are chosen by the manager making the order.
- 4.2.4 There are currently over 13,500 suppliers on the system and a breakdown by supplier activity indicated that 43% of the active supplier database was one off suppliers and this rose to 82% having processed five or less orders in the six month period between April and September 2016.
- 4.2.5 The Council formally launched its Procure-to-Pay policy on 1st April 2016, with a stated aim of "no PO, no Pay". However, approximately 35% of orders are still being raised after receipt of the invoice and this has not been addressed through the business process. This is replicated when it comes to the prompt receipting of goods received that impose delays on processing payments. This impacts the accuracy of management financial information in respect of budgeting and accounting for expenditure in a timely fashion. It is also a technical breach of financial regulations to fail to raise a purchase order for goods and services in advance of being invoiced for them.
- 4.2.6 It is acknowledged that many of the issues outlined are as a result of organisational culture and currently this cannot be altered by issuing instructions on their own without some form of enforcement activity. The Accounts Payable system is not linked to procurement as a whole therefore managers are often free to pick their own suppliers and raise purchase orders in respect of goods and services that they have often not formally procured.

Managers Response: A specialist Payments Team Change Manager has been appointed to implement the actions arising from the audit and to create a detailed supporting implementation plan that addresses all points raised and integrates solutions with the introduction of upcoming supplier portal.

4.3 Accounts Receivable



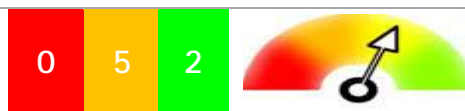
- 4.3.1 The Income & Assessment team in Corporate Support Services is responsible for the higher level management and control of the Accounts Payable system², with service areas responsible themselves for identifying and raising debtor accounts and then monitor and wherever necessary follow up unpaid invoices.
- 4.3.2 As at the end of February 2017³ there were a total of 5,280 unpaid invoices with a total of more than £11m, although this reduces to £4.4m outstanding (4,946 invoices) if sums due from other local authorities, schools and colleges, as well as other public organisations are disregarded. £2.5m of this was more than 5 months old, although the majority of this related to the current and previous calendar year(s).
- 4.3.3 There are different procedures in place for the monitoring and chasing of debt, however some are out of date and incomplete and are not located on the intranet to provide advice and guidance for users.
- 4.3.4 Staff in the central team are working diligently to follow up unpaid invoices and recover payment from debtors, although there is no apparent consistency, priority or direction as to their work, and in particular the order that accounts are worked on. Payments in respect of debtor invoices previously raised are automatically matched each day against debtor accounts. Those receipts which do not have a valid reference, for whatever reason, are posted to a suspense account. These are generally being investigated regularly and quickly cleared in most instances.
- 4.3.5 One common theme that emerged was that invoices are not always being raised promptly by service areas and that the level of detail on invoices is sometimes inadequate, which in turn generates queries by the debtor which then results in the Income & Recovery staff to having to act as intermediaries. These are important issues that if addressed, could improve collection performance.

Managers Response: Significant and alternative approaches are being reviewed, whereby directorates/services would forward details of potential invoices to the Income & Recovery for the team to raise centrally. This could have several potential advantages for the Council and could improve the efficiency and effectiveness of income collection and recovery. This proposal is to be further investigated and presented to CMT for discussion in the near future.

² This audit focused on the debtors function within Academy system and did not review other income collection systems in operation across the Council.

³ Position on completion of the audit

4.4 Bed and Breakfast Placements



- 4.4.1 The aim of the audit was to ensure that best value is being obtained, appropriate authorisation is given for the placement, payment is made for accommodation used and accommodation is fit for purpose. We did not review the homelessness strategy and/or policy as part of this audit.
- 4.4.2 Regular budget and performance meetings are held where key performance indicators and budgets are reviewed. Placements are actively monitored and there is evidence to demonstrate that options are explored and every effort is made to limit the time families spend in bed & breakfast accommodation. It is however noted that this is not always feasible due to the lack of other available accommodation and as a consequence the number of people in B&B in excess of 6 weeks is increasing.
- 4.4.3 Rates for B&B placements are negotiated on a placement by placement basis and although we recognise that there is an awareness of B&B rates within the team and that direct negotiation with landlords can achieve preferential rates, we did recommend that consideration is given to running a procurement exercise and/or benchmarking to demonstrate that value for money is being achieved.
- 4.4.4 Whilst there are no statutory requirements that B&B accommodation has to meet, the Council does conduct initial and ongoing inspections on properties, although record keeping in relation to this could be improved to clearly document that accommodation has been checked and is of a suitable standard. Out of borough properties are not inspected by Environmental Health and no assurance is obtained from the Local Authority in which the property resides that they have inspected it either.
- 4.4.5 Recommendations were also made to improve the record keeping within Mosaic for B&B placements made by Children's Services. Mosaic should accurately reflect the current situation for Children's Services clients in B&B accommodation, including closing purchase orders once clients have left and updating Mosaic to reflect the current position for each case.

Managers Response: Benchmarking exercise to be completed and reported to Housing Project Steering Group. Procurement exercise to be investigated and decision made on completing an exercise with action plan as appropriate.

Children's Services accepts the findings and are currently working with business support and mosaic colleagues to design a workflow which will be implemented.

4.5

E-tendering

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- 4.5.1 The objective of this audit was to review arrangements for e-tendering, to ensure the tendering process takes place securely in line with RBC contract procedure rules and general legal requirements surrounding procurement of goods and services by public bodies.
- 4.5.2 There is satisfactory control over the procurement process within the e-tendering software, with a clear audit trail maintained for all activity. All communication is electronic and stored on the system, with the security of data and access to the software programme satisfactorily controlled.
- 4.5.3 The processes followed on the IT system were compliant with legal requirements and RBC Financial Regulations in respect of procuring goods and services.
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4.6 S106 - Follow Up Review

- 4.6.1 Following the criminal investigation last summer and subsequent audit, a follow up review has been undertaken to assess whether the audit recommendations had been implemented.
- 6.6.2 Since this time last year considerable work has been done to address the principal control weaknesses in the receipting of S106 contributions, although further work is still in hand. In particular a new post has been created to lead on the monitoring of S106 requirements and contributions, a new management system, Exacom, has been procured to manage and account for S106 agreements and the main systems and procedures have been documented. However whilst there has been progress in developing new systems, the existing Acumen system has (had to) continued to be used, which means that some of the control weaknesses associated with that system remain, in particular the lack of a regular reconciliation back to Oracle Fusion of income due and received.
- 6.6.3 Exacom will provide a much improved system that should allow reconciliation to Fusion, and Planning are aiming to change the process whereby the Oracle codes linking to the S106 obligation will be set up at the start of the process.

4.7 Governance Review

4.7.1 A review was conducted of the ownership, completeness and currency of documentation that the Council is required to hold, publicise and periodically review in relation to its own governance arrangements. This was achieved by benchmarking current governance documents against the CIPFA/SOLACE delivering good governance in local government: framework (2016 edition).

4.7.2 The Council has in place, in most areas, an appropriate set of governance arrangements yet these are not always followed leading to weaknesses in internal controls. There are also some important governance processes across the Council which require strengthening. In particular, some key policies and documents are out of date and are not being communicated to staff on commencing employment with the Council or on a regular basis during their employment. A summary of the key issues we are identified are provided below:

- The existing Local Code of Corporate Governance for RBC has not been updated since 2002.
- The Officer Code of Conduct for RBC had not been updated for some while and refers to pay scales dated April 1999. There is also no reference to the Nolan Principles⁴. It is understood a revision is due to take place in the future for approval by the Personnel Committee and circulation to all staff;
- The current induction programme for new members of staff does not include guidance to certain key policies (including the Code of Conduct);
- There is a lack of clear and up to date policies and procedures covering important governance issues, such as declaring interests, gifts and hospitality for new or existing staff, the anti-fraud and an anti-money laundering policy, an anti-corruption statement and associated documents;
- A number of important policies are not easily and consistently accessible, up to date or in cases even listed on the Council's website, such as Freedom of Information, a formal Communication Strategy etc;
- Fraud risks are not currently reflected on risk registers; in addition the directorate risk register for Corporate Support Services was not finalised in 2016/17;

Manager's Response: The officer's code of conduct will be reviewed and updated to ensure it reflects current practice and requirements. NetConsent is to be used to roll out key policies and procedures. The 'due diligence group, will monitor implementation of recommendations arising from the audit and from those reported in the annual governance statement,

⁴ Committee on Standards in Public Life - The Seven Principles of Public Life, also known as the "Nolan principles"

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		
Child Exploitation & Missing Children	Q1	Apr-17	Jun 17	
Financial Assessments for Adult Care	Q1	Apr-17		
Public Health Grant	Q1	May 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			
Direct Payments/Personal Budgets**	Q1	Jun-17		
Information Governance & Data Protection (follow up)	Q2			
Payroll	Q2			
Local Transport Plan Capital Settlement (Grant Certification)	Q2			
Bank & Cash Rec	Q2			
MASH (Multi-Agency Safeguarding Hub)	Q2			
Pothole action fund	Q2	Jun-17		
NHS CHC	Q2			
EDRM (follow up)	Q2			
Deputyship and Appointeeship	Q2	Oct-17		
Children's Services Improvement Plan	Q2			
Emmer Green Primary School	Q2			
Council Wide Savings	Q2			
Bus Subsidy Grant	Q2			
Business Rates	Q2			

* 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			
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. CONTRIBUTION TO STRATEGIC AIMS

- 6.1 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.

7. COMMUNITY ENGAGEMENT AND INFORMATION

- 7.1 N/A

8. LEGAL IMPLICATIONS

- 8.1 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.
- 8.2 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.
- 8.3 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”.
- 8.4 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.

9. FINANCIAL IMPLICATIONS

- 9.1 N/A

10. BACKGROUND PAPERS

- 10.1 N/A