

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 1 AUGUST 2018

**Present:** Councillors Stevens (Chairman), Brock, Gittings, McKenna, Terry & Warman.

**Apologies:** Councillor Davies.

**Also in attendance:**

Councillor Lovelock	Leader of the Council
Adrian Balmer	EY LLP
Anthony Kearns	Principal Auditor
Jackie Yates	Director of Resources
Jean Stevenson	Chief Accountant
Matt Davis	Head of Finance
Paul Harrington	Chief Auditor
Rachel Kennedy	EY LLP

### 1. MINUTES

The Minutes of the meeting of 17 April 2018 were confirmed as a correct record and signed by the Chairman.

### 2. QUESTIONS

Questions on the following matters were submitted by members of the public and replied to by the Chairman.

	<u>Questioner</u>	<u>Subject</u>
1.	Peter Burt	Freedom of Information Act - Commercial Interests
2.	Roger Lightfoot	Arthur Hill Pool

(The full text of the questions and responses was made available on the Reading Borough Council website).

### 3. ACCOUNTS 2016/17 & 2017/18 UPDATE

Further to Minute 34 of the meeting held on 17 April 2018, the Head of Finance submitted a report providing an update on progress with the audit of the 2016/17 and 2017/18 accounts. The final draft 2016/17 Statement of Accounts was attached to the report at Appendix 1.

The report noted that the 2016/17 Accounts should originally have been audited and signed off by 30 September 2017, and that regular reports had been made to the Committee since then providing updates on progress. Further significant work had been undertaken since the last meeting to fully resolve the outstanding points identified by EY in relation to the 2016/17 accounts, in particular the two key issues identified in EY's technical review which were the valuation bases used for Property Plant and Equipment and the carrying value of the Council's PFI contracts. It was envisaged that the audited 2016/17 accounts would be presented to the next meeting of the Committee.

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The report explained that the continuing pressure of the 2016/17 work had meant that the 2017/18 Accounts process had been significantly delayed. The 2017/18 Statement and all supporting working papers for the core statements and associated notes would be submitted to EY by the end of August 2018, and would be made available for public inspection on the same date. EY would return to Reading during August and throughout September to finalise the 2016/17 audit and commence the 2017/18 audit.

### **Resolved:**

- (1) That the submission of the revised 2016/17 draft accounts to the External Auditor for their final review be noted;
- (2) That the progress made in closing the 2017/18 accounts be noted.

### **4. INTERNAL AUDIT ANNUAL ASSURANCE REPORT**

The Chief Auditor submitted a report setting out at Appendix 1 the Internal Audit Annual Assurance Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards. The report gave the Chief Auditor'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. It also set out key themes arising from the work of the Audit Team during the 2017/2018 financial year, and compared the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

The report explained that, on the basis of work completed during the course of the year, the Chief Auditor had concluded that only limited assurance could be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2017/18. The opinion reflected the relatively high number of limited assurance opinions provided, and the significance to the control framework of some of those areas where weaknesses had been found. It also took into account the work of other inspection bodies, such as the Council's External Auditor and Ofsted.

The report noted that key weaknesses identified within some of the Council's financial systems had been of particular importance in determining the limited opinion in 2016/17. Whilst improvements had been made in 2017/18 and the direction of travel was of improvement, there had been slow resolution on issues relating to bank reconciliations, accounts payable and accounts receivable. These systems influenced significant value and were exposed to risk, and therefore carried disproportionate weight in the overall assurance opinion.

The Committee expressed concern that the percentage of planned audits completed had fallen, and that the report showed that there had been difficulties with engaging some services in order to start an audit or to receive a management response to the audit findings. Officers outlined the arrangements made by the Corporate Management Team to support Internal Audit work.

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**Resolved:** That the limited assurance opinion given by the Chief Auditor be noted.

### 5. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2018.

The report set out a summary of the audit report in respect of General Ledger (Journals) 2017/2018 and the follow-up reviews of Electronic Document and Records Management (EDRM) and MOSAIC/Oracle Fusion End of year reconciliation. The audit of General ledger (Journals) and the review of EDRM had been given limited assurance, and the full reports were therefore attached to the report at Appendices 1 and 2.

The report also listed the audits that were currently in progress, or were planned for the remainder of 2018/19, and gave a summary of investigations work between April and June 2018.

The Chairman noted that an audit of 'Commercial property acquisitions and management' had been listed among cancelled or deferred audits in the Internal Audit Annual Assurance Report (Minute 4 above refers), but was not listed in the 2018/19 audit schedule. Officers reported that the internal audit had been cancelled as EY had been commissioned to review the financial model for commercial property acquisitions. It was agreed to submit the review to the next meeting of the Committee.

**Resolved:**

- (1) That the report be noted;
- (2) That the review of the financial model for commercial property acquisitions be reported to the next meeting.

### 6. STRATEGIC RISK REGISTER 2018/19 Q1

The Chief Auditor submitted a report presenting the updated Strategic Risk Register, which was attached to the report at Appendix 1.

The report noted that the register was in a new format that now included scoring of unmitigated risk and risk appetite, and tracked the scores over one year. The RAG rating for each of the 10 risks included was now based on the gap between the current residual risk and the risk appetite.

The Committee discussed the Register and welcomed the inclusion of risk appetite scoring. It was noted that the likelihood score for the risk relating to information security was scored highly due to the possibility of human error, in which case it was unlikely that the Council would be able to mitigate the risk down to the level of the risk appetite. It was suggested that in such cases the Corporate Management Team could also consider the lowest score that could realistically be achieved.

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The Committee noted that the target dates for a number of Further Mitigation actions relating to several of the risks had recently passed, and asked officers to ensure that the actions listed had been carried out or were in progress.

**Resolved:** That the report be noted.

### 7. DRAFT OUTTURN POSITION 2017/18

The Head of Finance submitted a report setting out the draft outturn position of the Council's General Fund, Housing Revenue Account (HRA) and Capital Programme for 2017/18. The following appendices were attached to the report:

- Appendix 1 General Fund Outturn by Service
- Appendix 2 2017/18 Savings Programme Detail
- Appendix 3 Use of Delivery Fund 2017/18
- Appendix 4 2017/18 Capital Programme Detail

The report explained that General Fund service areas were showing a £0.863m overspend at year end, but that this was offset by underspends of £4.203m on Treasury, Corporate and Contingency budgets. The net provisional outturn was therefore an underspend of £3.340m, which meant that the General Fund reserve would reduce from £6.500m to £5.309m, and not £1.969m as originally forecast. The projected HRA outturn for 2017/18 was an underspend of £1.961m and the projected Capital outturn position was a net underspend of £5.665m against the latest approved budget of £79.306m.

The report also detailed delivery against agreed in-year savings, the use of Delivery Fund resources and set out the associated implications for future years. The Committee were asked to note the use of the Capitalisation Direction to fund transformation through the Delivery Fund.

The report noted that further work needed to be completed, including the external audit of the Council's financial accounts, before the outturn position could be finalised.

**Resolved:**

- (1) That the draft outturn position for 2017/18 be noted;
- (2) That the use of the Capitalisation Direction to fund transformation, as set out in Appendix 3, be noted.

### 8. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 36 of the meeting held on 17 April 2018, the Director of Resources submitted a report setting out, at Appendix 1, the first Implementation of Audit Recommendations tracker report.

The report noted that the Committee had previously expressed concern regarding the low levels of implementation of agreed recommendations arising from internal and external audits. Following discussion at the meeting held on 17 April 2018 it had

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been agreed to introduce an 'Implementation tracker report' to list of all the current outstanding high and medium risk internal audit recommendations, together with their latest agreed implementation date and an update from the responsible officer on progress towards the implementation of agreed recommendations and actions. In the future all Internal and External audit recommendations would be added to the tracker.

The report explained that each recommendation was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red. In the tracker report at Appendix 1 there were 106 high and medium risk recommendations from Internal Audit, of which 25 (24%) were currently green, 11 (10%) were amber and 69 (65%) were red.

The report proposed that, where there was a lack of progress with implementation, the Head of Service and responsible officer would be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they were taking to address them.

The Committee considered the report and gave feedback and suggestions for future iterations of the tracker, including that there should be a consistent level of detail in the officer updates and that the lines be numbered for easier reference. Information was specifically requested on the progress of implementation of recommendations arising from an audit of Foster Care.

It was noted that recruitment issues lay behind many of the issues identified in audits, and it was agreed that an update from the Head of HR be given at the next meeting.

### **Resolved:**

- (1) That officers ensure a consistent level of detail in the updates reported in future iterations of the report, and in particular that an update be given on the recommendations arising from the audit of Foster Care;
- (2) That the Head of HR give an update on recruitment issues to the next meeting of the Committee.

### **9. EXTERNAL AUDITOR UPDATE**

The Committee noted that the external auditor had commented, as necessary, during consideration of the items listed above and had no further contributions to make.

(The meeting commenced at 6.30pm and closed at 7.50pm).

