

## AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 12 OCTOBER 2020

**Present:** Councillor Stevens (Chairman);  
Councillors Davies (Vice-Chair), Emberson, Gittings, McKenna,  
Robinson and J Williams

**Apologies:** Councillors Edwards

### 9. MINUTES OF THE PREVIOUS MEETING HELD ON 14 JULY 2020

The Minutes of the meeting of 14 July 2020 were confirmed as a correct record and would be signed by the Chairman.

### 10. CLOSING ACCOUNTS UPDATE

Peter Robinson, interim Assistant Director of Finance, submitted a report providing an update on the completion of the Council's Final Accounts for 2017/18, 2018/19 and 2019/20. The report stated that the Audit of the 2017/18 Accounts was almost complete and it was anticipated that they would be signed off by the end of October 2020. The update by Ernst and Young (EY), the Council's external auditors (see also Minute 11 below) provided further information on the residual steps required to enable the 2017/18 Accounts to be signed off. Additionally, the draft 2018/19 Accounts were complete and had been handed over to the Auditors in mid-February 2020. Preliminary pieces of work relating to the Audit of this set of Accounts had now commenced with the planning meeting having taken place on 28 September 2020. Finally, the Committee was advised that officers had also almost completed the 2019/20 accounts. At this stage, it was anticipated that the draft 2019/20 accounts would be completed and handed over to EY by the end of October 2020 and available for public inspection shortly thereafter.

#### **Resolved:**

- (1) That the progress made in relation to the Audit of the 2017/18 Accounts, be noted and that they be circulated to the Committee once they were finalised;
- (2) That the Executive Director for Resources, in consultation with the Chairman of the Audit & Governance Committee, be authorised to sign off the final accounts for 2017/18 on behalf of the Council;
- (3) That the progress being made in closing the 2019/20 Accounts, be noted;
- (4) That the Audit of the 2018/19 Accounts had commenced in September 2020, be noted.

### 11. EXTERNAL AUDITOR UPDATE

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Maria Grindley and Adrian Balmer, EY, presented their draft Audit Results report, which summarised the preliminary conclusion in relation to the audit of Reading Borough Council for 2017/18.

The Committee was advised that the previous audit year, 2016/17, was challenging for the Council, with EY's audit opinion being qualified in four areas, Debtors, Creditors, I&E and Pensions. The value for money conclusion had been an adverse report and statutory recommendations had been issued to the Council highlighting areas for improvement. The Council had implemented changes to address EY's recommendations in relation to processes, documentation and controls. However, the 2017/18 year was well underway as these changes were being implemented. Therefore, EY's report highlighted those matters where improvements were being made but were not yet embedded by 31 March 2018. It was anticipated that these improvements would be reflected in the 2018/19 financial statements. The Committee was also advised that EY had been unable to obtain assurance from the auditors of the Royal Berkshire Pension Fund for 2017/18 due to a timing issue between the closure of the Council's 2016/17 audit and the change in auditors at the Pension Fund. EY had made it clear in the report that the circumstances for lack of assurance were beyond the control of the Council in this instance.

It was the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. EY had not identified any significant deficiencies in the design or operation of an internal control that might result in a material mis-statement in the financial statements of which the Council was not aware. However, the audit did reveal some control 'risks' to be addressed in relation to: Payroll; MOSAIC; Exit Packages; Employee Recharging; NNDR Appeals Provision; Council Tax Bad Debt Provision; and NNDR Impairment of Debt, which had been drawn to the Council's attention.

During the general debate, the Committee discussed the position of Reading Transport Limited and the impact of the COVID-19 pandemic on the financial position of the Company, due to the likely reduction in passenger numbers that would have been experienced over recent months. The Committee requested a report to the next meeting on the financial implications of COVID 19 on Reading Buses.

It was reported that EY had substantially completed the audit of Reading Borough Council for the year ended 31 March 2018 and subject to concluding the outstanding matters listed in the report, EY confirmed that it expected to issue a qualified audit opinion on the financial statements.

### **Resolved:**

- (1) That the draft Audit Results report, which provided a summary of the preliminary audit conclusion, be noted;
- (2) That the control 'risks' identified in relation to: Payroll; MOSAIC; Exit Packages; Employee Recharging; NNDR Appeals Provision; Council Tax Bad Debt Provision; and NNDR Impairment of Debt be noted and action taken to

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mitigate the risks be reported to the Committee to provide assurance that these areas of concern were being adequately addressed;

- (3) That a report be submitted to the next meeting on 28 January 2021 on the financial implications of COVID 19 on Reading Buses to be considered in Part 2 of the agenda (closed session).

### 12. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2020. The report stated that a total of eight audit reviews had been completed in the period between July and September 2020, five of which had received a positive assurance opinion and three a negative assurance opinion.

The report set out a summary of the audit reports in respect of Local Transport Capital Funding; Bus Subsidy Specific Grant Determination; Rent Guarantee Scheme; External Stores; ESFA Grant; Intercompany Transfers; Staff Vehicle Documentation (Grey Fleet); and Government's Transparency Code.

In relation to Intercompany Transfers, the report found it difficult to confirm the completeness and accuracy of payments, as there were delays in payment and poor reconciliation controls, to understand what had been paid and when. The Audit recommended that clear and regular reconciliations should be undertaken to ensure payments were processed on a timely basis and were complete and accurate. Mike Hirst, Chief Accountant, confirmed that RBC Officers and colleagues at BFfC had thoroughly reviewed the intercompany transfers and he was confident that the issues identified in the Audit had been successfully resolved.

In relation to Staff Vehicle Documentation, it was reported that the audit had flagged a number of areas of concern that needed to be resolved to ensure that the Council was adequately responding to and addressing the various potential risks in this area. Significantly, there was no up-to-date and agreed Grey Fleet policy in place and consequently this had created a lack of clarity and common understanding of roles and responsibilities. Failure to address the audit's concerns could have significant legal implications for senior officers and the Council corporately.

In relation to Government's Transparency Code, the audit highlighted that the Council was not complying with the publication and statutory requirements of the Transparency Code in all instances. There was a lack of clarity on individual responsibilities, with no overarching corporate oversight and a lack of guidance over the whole process. The process created additional work in replying to Freedom of Information (FOI) requests, which could otherwise have been averted by the publication of this information.

The report also listed the audits that were currently in progress, or were planned for 2020/21, and gave a summary of investigations work between April and September 2020.

**Resolved:** That the Internal Audit recommendations set out in the report be endorsed and in particular those that applied to Intercompany Transfers; Staff Vehicle Documentation (Grey Fleet); and Government's Transparency Code and the

full reports on these three audits be circulated to the Committee for information.

### **13. DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20**

Mike Graham, Assistant Director of Legal & Democratic Services, submitted a report setting out the updated action plan for the 2019/20 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.

Assistant Directors and Executive Directors had completed Annual Assurance Statements in respect of governance and internal control arrangements for their respective areas. The improvements to governance arrangements and internal control, which had been identified, were set out in the AGS and included measures to respond to the Covid-19 pandemic. Having undertaken this review, the Council was satisfied that suitable and appropriate governance arrangements were in place but identified further improvements that were set out in the conclusion of the AGS.

The Committee reflected on the content of its agendas and the predominance of audit-related items. It was agreed that the balance of business should be reviewed with the aim of including more items about the Council's governance arrangements at future meetings.

#### **Resolved:**

- (1) That the draft Annual Governance Statement for 2019/20 be approved for publication with the Council's accounts;
- (2) That the Chief Executive, in consultation with the Leader and Chair of the Audit & Governance Committee, be authorised to make any necessary amendments before final publication;
- (3) That the business of the Committee be reviewed with the intention of increasing the number governance-related items on future agendas.

(Councillor Davies declared a non-pecuniary in this item: Nature of interest Councillor Davies had received support from the Small Business Grant Fund).

### **14. STRATEGIC RISK REGISTER**

Paul Harrington, Chief Auditor, submitted a schedule updating the Committee on the Q2 status of the Council's 2020/21 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 primary aim of the Strategic Risk Register was to identify those key vulnerabilities that needed to be closely monitored. Risk appetite had been introduced to the SRR in 2018, which established the level of risk that an organisation was willing to seek or accept in order to meet its long-term objectives. This approach was consistent with the Institute of Risk Management which advised that risk appetite should be identified for each risk. In order to focus attention on areas of greatest risk, the SRR should only include the key current risks that did not exceed the risk appetite level. As a result, it was recommended that where risks had been rated as 'green' for two or more consecutive quarters they should be removed from the Register and would only be re-instated should the risk level rise again.

The SRR highlighted fourteen risks, five of which were rated as 'red' as follows: 'The Council does not create and deliver a sustainable Medium-Term Financial Plan and/or achieve a balanced budget; Provider Failure & Market Sustainability Issues and Failure of major contract causes financial, service delivery, legal and H&S issues which directly impact the Council; Insufficient vision and strategy for sustainable economic development and resilience; BFfC - Failure of the new Children's Company to improve service levels and financial overspend; and Cyber-attack results in service disruption, data loss or damage, financial loss and/or reputational damage'.

**Resolved:** That the Council's Strategic Risk Register, as at September 2020, be noted.

### 15. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 6 of the meeting held on 14 July 2020, Jackie Yates, Executive Director of Resources, presented a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report. An update on progress with the implementation of Internal Audit Recommendations in relation to Adult Social Care Financial Assessments (lines 97 & 98 of January 2020 tracker) were also included at Appendix 2, at the request of the Committee.

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 122 high and medium risk recommendations from Internal Audit, of which 50 (41%) were currently green, 48 (39%) were amber and 24 (20%) were red. Twenty-six recommendations had now been completed and would be removed from the next report.

In relation to the Internal Audit Recommendations 15 & 16, Mike Graham, Assistant Director of Legal & Democratic Services, reported that he would be chairing the Information Governance Board, which would be overseeing the implementation of the

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action required. The Committee requested a progress report on the work of the Board to the next meeting.

### **Resolved:**

- (1) That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report;
- (2) That, in respect of Internal Audit Recommendations 15 and 16, which were aimed at improving the Council's information governance management arrangements, a report be submitted to the next meeting on 28 January 2021 on the Information Governance Board's work to develop an action plan to address the deficiencies in this area that had been identified.

### **16. FINANCE IMPROVEMENT PROGRAMME UPDATE**

Further to Minute 4 of the meeting held on 14 July 2020, Chris Tidswell, CIPFA, presented a report providing an update on progress of the Finance Improvement Programme (FIP) against the plan for each workstream and their deliverables. The report explained that the FIP had two key phases: Phase I was responding to the historic and current issues identified to ensure a sound foundation and 'getting the basics' right. The second phase would concentrate on embedding Phase I delivery and developing the financial management culture and governance framework across the Council. The FIP was being led and overseen by the Finance Transformation Board chaired by the Executive Director of Resources. The Board received updates and reports ensuring appropriate challenge and stewardship and monitored progress of delivery against the Project Plan and signed off key deliverables across the six Phase I workstreams, as follows: Accounts payable; Accounts receivable; Chart of accounts; Reconciliations; Final accounts; and Finance system (general ledger and associated modules). The process was also coordinated to respond to the 'Audit Tracker' recommendations (see Minute 15 above). The report summarised the timescale for delivering the FIP and highlighted each workstream's terms of reference and progress against the improvement plan.

**Resolved:** That the progress being made to implement the Finance Improvement Programme be noted and the action being taken to achieve the 'deliverables' be endorsed.

(The meeting closed at Time Not Specified)