

AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 28 SEPTEMBER 2022

Present: Councillor Williams (Chair); G Dennis (Vice-Chair), Edwards, Emberson, Gittings, Mitchell, Terry and Thompson

14. MINUTES OF THE PREVIOUS MEETING HELD ON 19 JULY 2022

The Minutes of the meeting of 19 July 2022 were confirmed as a correct record and signed by the Chair.

15. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on the key findings emanating from the Internal Audit reports issued for the period 1 July to 30 September 2022. The report provided a summary of the findings following each audit review, summarised the recommendations and management actions that had been put forward for each area and stated the overall assurance opinion level given by the Internal Audit team. A total of five audit reviews were finalised in the period with four receiving a positive opinion and one receiving a negative opinion. The specific areas looked at were:

- Waste Management Operations (Substantial Assurance opinion given);
- Rent Accounting (Reasonable Assurance opinion given);
- Compliance with the Local Government Transparency Code (Reasonable Assurance opinion given);
- Compliance with the Freedom of Information Act (Reasonable Assurance opinion given) and
- Deferred Payments (Limited Assurance opinion given).

In relation to Deferred Payment Agreements (DPA), which enabled people to use the value of their homes to help pay for care home costs, it was found that communication and coordination between services in Adult Social Care and Legal Services needed to be improved. Deferred payment applications had been either progressed as a solicitor's undertaking or remained as an unsecured interim funding arrangement, creating a risk of carrying higher levels of unsecured debt than necessary because applications were not being processed promptly. There were arrangements in place to monitor the recovery status of these debts by the Social Care Debt Monitoring Group, although further emphasis to include interim funding arrangements and solicitor undertaking cases would be desirable to enable a fuller analysis of the DPA position.

The report also detailed the audits that were currently in progress and gave a summary of investigations work between 1 July to 30 September 2022.

Resolved: That the audit findings be noted, and the recommendations and management action underway, as set out in the Internal Audit & Investigations Quarter 2 Update Report, be endorsed.

16. INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

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Paul Harrington, Chief Auditor, presented a report following an external quality assessment of the Council's Internal Audit team to check conformance with Public Sector Internal Audit Standards (PSIAS).

The report explained that the Standards required that an assessment carried out at least once every 5 years. The report outlined the findings of the external quality assessment which was carried out by the Chartered Institute of Public Finance and Accountancy (CIPFA). A copy of CIPFA's Final Report was attached to the report at Appendix A.

The report explained that the review was carried out in April 2022 and involved a series of interviews with members of the Internal Audit team, key officers within the Council and BFfC and with members of RBC's and BFfC's Audit Committees, together with a review of key documents.

The report highlighted the Assessor's conclusion that: no areas of non-compliance with the standards had been identified, nor had any significant areas of partial non-compliance been identified, that would affect the overall scope or operation of the internal audit activity. The Assessor had also said that: "Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice but is itself a good example of best practice in local government internal audit".

The report noted the Assessor's comments regarding the local shortage of qualified auditors and the difficulties faced by the team in attracting qualified and experienced staff. The report highlighted the need for workforce and succession planning to mitigate the risk of losing mature and experienced staff in the short to medium term.

Resolved: That the outcome of CIPFA's external quality assessment of the Internal Audit team be noted.

17. STRATEGIC RISK REGISTER Q1 & Q2 2022/23

Robin Pringle, Health, Safety & Risk Management Lead, presented a report outlining the Q1 and Q2 updates to the Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. A copy of the SRR was attached to the report at Appendix 1.

The report explained that, following endorsement by the Committee on 19 July 2022 (Minute 6 refers) and approval by Policy Committee on 21 September 2022 (Minute 29 refers), the Risk Management Policy and Procedure document had been updated to bring it in line with best practice and to incorporate a formal Risk Management Procedure.

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 SRR was to identify those key vulnerabilities that needed to be closely monitored. In many cases this would be because the risk was relatively new and, whilst

being effectively managed, the associated control framework was yet to be fully defined and embedded.

The SRR highlighted 15 risks. 11 were rated 'amber' and four were rated 'red'. Those rated red were:

- Cyber - Risk of loss from cyber attack;
- Failure to deliver zero carbon commitments;
- High risk of homelessness within the new Ukrainian arrivals due to unmet future housing needs;
- Unable to achieve the budget savings, manage costs, as a result of cost of living increases and achieving income targets.

The report also identified several emerging risks that were not currently on the SRR. In the in the main these emerging risks were being caused by global and UK economic pressures, the cost-of-living crisis, inflation and price rises, and the impacts of the war in Ukraine. Changes required due to the impending introduction new 'Protect Duty' legislation were also identified. The report noted that all emerging risks were being monitored closely with mitigating actions being put forward.

Resolved: That the Council's Strategic Risk Register, as at the end of Q2 (September 2022), be noted.

18. IMPLEMENTATION OF THE FINANCE IMPROVEMENT PROGRAMME - UPDATE REPORT

The item was deferred to the next meeting of the Committee on 24 January 2023 to allow more time for the papers to be prepared.

Resolved: That the item be deferred to the next meeting on 24 January 2023.

19. ANNUAL GOVERNANCE STATEMENT 2021/22

Michael Graham, Assistant Director of Legal & Democratic Services, submitted a report setting out the updated action plan for the 2021/22 Annual Governance Statement (AGS), which was attached to the report at Appendix 1.

The report explained that 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 report explained that, to support of the Annual Governance Statement, each directorate had completed a Directorate Governance Statement in relation to systems and processes operational within their areas during the year. These were signed off by the relevant Director. The Directorate Statements demonstrated that Directorates had evaluated and assessed their internal control environment.

Resolved:

- (1) That the Annual Governance Statement for 2021/22 be approved;
- (2) That the Assistant Director of Legal & Democratic Services be authorised to make minor amendments to the Statement, prior to signature by the Leader and Chief Executive.

20. INFORMATION GOVERNANCE QUARTERLY UPDATE

Michael Graham, Assistant Director of Legal & Democratic Services, presented a report outlining the action underway to improve the Council's policies, systems and processes for Information Governance following several limited assurance reports in this area.

The report provided an update on the work done to improve Data Transparency. It noted that several relevant sources of information and data had been identified and that a Transparency Code page had been added to the Council's website. A process for reviewing and publishing the required information had also been implemented with the Information Governance Board to receiving quarterly updates.

The report also updated on the work done to improve the management of Freedom of Information (FOI) requests. This included the Quarter 1 statistics for the number of FOI requests received by each directorate, along with percentages for the number answered within timescale. It was noted during the meeting that an error had been made calculating the figures published in the report and that the Total % in paragraph 4.8 should be 63.0% not 58.1%. Notwithstanding the discrepancy it was noted that, whilst several measures had been introduced with the aim of improving FOI performance, performance across the Council remained disappointingly low and was still well below the 90% answered within 20 working days required by the Information Commissioner.

The report further explained that the Customer Relations and Information Governance Service had embarked on a plan of working directly with services to improve FOI response timescales across the Council and BfC. The service had updated the Council's FOI policy and procedures which would be published on a dedicated FOI intranet page. It was noted that an action plan for working with services had been approved and would be implemented during the Autumn. This included a communications plan for both RBC and BfC. Further feedback on progress and performance relating to FOI requests would be provided at the next meeting on 24 January 2023.

The report also provided an update on the progress made towards clearing the backlog of Subject Access Requests; an outline of the work done by Council's Information Governance Board; an update on the Council's Information Management Strategy and

Action Plan and an update on the progress made relating to Cyber Security and Information Governance training for staff.

Resolved: That the progress being made to improve the Council's Information Governance be noted and the future actions outlined in the report be endorsed.

21. QUARTER 1 PERFORMANCE REPORT (2022/23)

Darren Carter, Director of Finance, submitted a report, which had been considered by Policy Committee on 21 September 2022 (Minute 30 refers) setting out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and the Housing Revenue Accounts as at the end of June 2022 (Quarter 1). The report also summarised performance against the measures of success published in the Council's Corporate Plan. The following documents were attached to the report:

- Appendix 1 - Financial Monitoring for Quarter 1;
- Appendix 2 - Capital Programme for Quarter 1;
- Appendix 3 - Corporate Plan Measures for Quarter 1;
- Appendix 4 - Corporate Plan Projects for Quarter 1;
- Appendix 5 - Debt Write-Offs (exempt information).

The report noted that the forecast General Fund (GF) revenue outturn position at the end of Quarter 1 included a projected adverse net variance on service expenditure of £4.058m. This variance was offset by a projected £4.616m positive net variance on Corporate budgets, of which £3.627m related to the unallocated Corporate Contingency, resulting in a projected overall positive net variance of £0.558m. The forecast adverse variance on services included net pressures totalling £0.564m within Adult Care and Health Services relating to care cost pressures; £1.669m within Economic Growth and Neighbourhood Services, primarily relating to ongoing income shortfalls in Car Parking and Planning as an ongoing impact of Covid-19; £1.761m within Brighter Futures for Children (BFfC), relating to pay, inflation and demand pressures; and a total £0.064m across Resources and Chief Executive Services relating to income pressures. Detailed explanations for these variances were set out in the report.

The report explained that the service budget pressures were offset by positive net variances within Corporate Budgets, specifically £1.713m on Capital Financing Costs as a result of the 2021/22 Capital Programme outturn position and £3.627m on Corporate Contingencies. Other Corporate Budgets were forecasting an adverse net variance of £0.724m. This was primarily due to a current forecast pressure of £0.934m relating to the 2022/23 pay award. A pay award of 2% was assumed as part of 2022/23 budget setting with additional contingency retained corporately to fund a pay award up to 4%. The pay offer made in July 2022 was estimated to cost an additional £1.434m above the amount budgeted (including the contingency) across the Council and BFfC. BFfC had included a forecast pressure of £0.500m in their forecast which was prior to the pay award offer announced in July, therefore the difference of £0.934m was included within the Corporate forecast.

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The report stated that £1.570m (15%) of budgeted savings had been delivered to date in this financial year, with a further £5.415m (53%) of savings on track to be delivered by March 2023. £2.061m (20%) of savings were currently categorised as non-deliverable (red) and £1.178m (12%) categorised as at risk of delivery. There was therefore a potential impact on the 2023/24 budget should these savings not be deliverable on a recurring basis. These savings would be reviewed as part of the 2023/24 budget setting and 2023/24-2025/26 Medium Term Financial Strategy processes.

The report also explained that the Housing Revenue Account (HRA) was projecting a positive net variance of £2.505m as at the end of Quarter 1, which resulted in a forecast contribution to HRA reserves of £0.422m. The General Fund Capital Programme was forecast to spend to budget against a revised budget of £115.980m in 2022/23, and the HRA Capital Programme was forecast to spend to budget against a revised budget of £30.502m 2022/23.

The meeting discussed the necessity of the Quarterly Performance Report being submitted to both the Policy Committee and the Audit & Governance Committee within a very short space of time. The Chair undertook to liaise further with officers and Members of the Committee regarding the matter.

Resolved: That the 2022/23 Quarter 1 Performance and Monitoring Report and the recommendations set out and approved by Policy Committee on 21 September 2022 be noted.

22. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Darren Carter presented a report setting out progress with the Implementation of Audit Recommendations. A copy of the Implementation of Audit Recommendations Tracker for September 2022 was attached to the report at Appendix 1.

The report explained that each recommendation set out in Appendix 1 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.

The tracker now had 91 high and medium risk recommendations from Internal Audit, of which 29 (31.9%) were currently green but not complete, 42 (46.2%) were amber and 15 (16.5%) were red. Five recommendations had now been completed and would be removed from the next report and 13 recommendations had been added to the tracker since the last report.

It was noted that, following the request made by Councillors at the last Committee, an additional column had been added to the tracker to show the original implementation date for each audit recommendation. Inclusion of this additional information had highlighted the need to review the rating for each recommendation as it appeared that, in some instances, ratings had not been applied consistently and in accordance with the stated policy.

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 a review of the tracker be conducted to check and amend any incorrectly rated recommendations.

23. CLOSING FINANCIAL ACCOUNTS UPDATE

Mark Sanders, Chief Accountant, submitted a report on the progress made towards the completion of the audit of the Council's Final Accounts for 2019/20 and the preparation for the 2020/21 and 2021/22 accounts.

The report outlined the progress made by both the Council's Finance team and the External Auditor's (Ernst & Young's) team since the last meeting. The report explained that increased resources had been allocated to complete residual work on the 2019/20 accounts and to begin the audit of the 2020/21 accounts. The goal being to bring the whole accounts process up to date.

In relation to the 2019-20 accounts, it was noted that all information and explanations had been provided to the External Auditor (EY) who are now in the final stages of presentational adjustments had been made to the draft accounts to ensure the accounts were of a suitable audit quality. Where relevant appropriate adjustments had also been made to later years' accounts in a bid to improve efficiency during future years' audits.

At the meeting Mark Sanders updated the Committee that, as of 27 September 2022, the Statement of Accounts for 2020-21 had been published on the Council's website for statutory public inspection. The report explained that the external audit of the 2020/21 accounts had commenced at the start of August 2022 and regular meetings had been taking place with EY to track progress and to ensure that audit requests were being met.

The report explained that the first stage in the production of the 2021/22 accounts had been completed following the closure of the annual management accounts and the receipt of asset and pension valuations from external advisors. Although the focus had been on the 2020/21 process, many of the working papers for both 2020/21 and 2021/22 financial years were being prepared and reviewed concurrently. The intention being for the 2021/22 Statement of Accounts to be made available for public inspection in January 2023 to coincide with the external audit work commencing, subject to agreement with EY.

The report included a timetable which included estimated completion dates for the various stages of the audit process for the 2019/20, 2020/21 and 2021/22 accounts. The report confirmed the plan to bring the accounts process back up to date with the 2022/23 accounts process concluding in September 2023. This would be dependent on the incremental successful approval of each year's accounts and on resources being available to both Council and EY staff.

Resolved: The Committee noted the progress made on the audit of the accounts for 2019/20, and the preparation for following years' 2020/21 and 2021/22 accounts.

24. DRAFT AUDIT RESULTS REPORT

Adrian Balmer and Maria Grindley from Ernst & Young presented the External Auditor's Draft Audit Results Report for 2019-20. The draft report summarised the External Auditor's preliminary audit conclusions in relation to their audit of Reading Borough Council and Group for the 2019/20 financial year.

Resolved: That the content of the Draft Audit Results Report for 2019-20 be noted.

(The meeting closed at 7.33 pm)