

**READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	14 July 2020		
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO :	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
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1. PURPOSE OF THE REPORT

1.1 The attached annual assurance report of the Chief Auditor (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), sets out:

- the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- the key themes arising from the work of the Audit Team during the 2019/2020 financial year; and
- the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

1.2 The results of individual audits have been issued to the relevant Executive Directors, Assistant Directors and managers throughout the year. 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.

1.3 The following document is appended:

Appendix 1 - Internal Audit Annual Assurance Report

2. RECOMMENDATIONS

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

3. SUMMARY

- 3.1 The Chief Auditor is 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.
- 3.2 Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, which is set out in more detail in the attached report, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2019/20, are suitably designed and applied effectively.
- 3.3 The basis for the assurance opinion is set out in section 2 of the attached report and the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.
- 3.4 Of particular importance in determining the limited opinion were the key weaknesses identified within some of the Council's financial systems, which have remained unresolved and, in some instances, have deteriorated.
- 3.5 Basic financial controls have not worked as expected, for example bank reconciliations have not been kept up-to-date and historic audit recommendations relating to both accounts payable and accounts receivable have not been implemented.
- 3.6 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight had not been performed at the time of our audit in February 2020, since September 2019. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis. This has been a recurring theme for many years now.
- 3.7 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. This was specifically raised by EY in their section 14 letter of February 2017 where they recommended *'the Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed'*.
- 3.8 Although a process was designed and instructions were provided to relevant staff in February 2019 to ensure control account reconciliations are submitted centrally to Finance, this was never followed through in 2019/2020. Individual

services are expected to complete their own reconciliations and report back annually, hence there is still no regular corporate oversight. In addition, it was evidenced from our work that not all control account reconciliations were being kept up to date.

- 3.9 The overriding factors informing the limited assurance opinion for 2019/2020 relate to the Accounts Payable (AP) and Accounts Receivable (AR) systems, both of which were assigned limited assurance opinions. There are still considerable control deficiencies within the AP system, which are highlighted further in the attached report and there has been a failure to implement many of the recommendations made in the previous audit reports. The failure of business process has been realised with the creation of a duplicate BACS run of £5.6m that was not detected by any RBC controls and resulted in a resource intensive effort to recover duplicate payments that had been sent to suppliers.
- 3.10 There are still failings in the debt collection process, with no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days) and subsequent sundry debt increasing year on year. The total outstanding sundry debt, excluding social care for year ending the 31 March 2020 was £8.55m, with 35.23% being over 151 days old. The total Social Care (Adults & Children) debt as at the 31 March 2020 was £6.4m.
- 3.11 Testing of a sample of journals throughout the financial year revealed that sufficient control has been maintained, with audit trails to support creation and separation of duties in the authorisation process for journals processed. Although a recent audit of intercompany charging between RBC and Brighter Futures for Children (BFfC), has identified areas of poor documentary evidence being maintained to support intercompany journals.
- 3.12 To conclude, whilst we provided a reasonable assurance opinion in 2018/2019, we have not seen enough improvement in the control environment within some of the Council's key financial systems during 2019/2020 and some of the actions previously agreed have not been implemented.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6. LEGAL IMPLICATIONS

- 6.1 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.
- 6.2 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.
- 6.3 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”.

7. FINANCIAL IMPLICATIONS

- 7.1 N/A

8. BACKGROUND PAPERS

- 8.1 N/A