

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 14 JULY 2020

**Present:** Councillors Stevens (Chairman), Davies, Edwards, Gittings, McKenna, Robinson, Terry (in place of Councillor Emberson) & J Williams.

**Apologies:** Councillor Emberson;

**In attendance:** Councillor Page (Deputy Leader of the Council).

### 1. MINUTES

The Minutes of the meeting of 30 January 2020 were confirmed as a correct record and would be signed by the Chairman.

Further to Minute 22, the Committee noted that a report would be submitted to the next meeting on the Internal Audit Recommendations 97 and 98, which were set out in the Audit Recommendations Tracker, in relation to the timeliness of financial assessments of Adult Residential and Nursing Care Contributions.

### 2. 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 January 2020. The report highlighted that there would be a review of Internal Audit work to be undertaken in 2020/2021 and any amendments to the plan would be reported back to the Audit & Governance Committee at its next meeting. The review would be mindful that a proportionate approach to Internal Audit must be taken to allow Reading Borough Council staff and members to focus on the priorities, during these unprecedented times.

The report set out a summary of the audit reports in respect of Sundry Debtors; Bank and Control Account Reconciliations; Accounts Payable; Journal Testing; NNDR; DBS Checks; Web Payments; Housing Rent Accounting; Freedom of Information (follow-up); Blue Badge Scheme; and Residents' Parking (follow-up).

In relation to Sundry Debtors, the report strongly recommended that the corporate debt policy, recovery strategy and control framework for managing and monitoring debt was fully reviewed alongside the project for changing the debt management system as performance and collection levels and control had deteriorated. The deterioration in performance and increasing debt with no effective procedure in place had resulted in internal audit being unable to give any assurance.

In relation to Bank and Control Account Reconciliations, it was reported that despite previous review recommendations, Internal Audit still found no uniform approach in the production of reconciliations, where consistent standards for the recording of information and the retention of audit trails could then be evidenced. There was also an absence of a process to establish the segregation of duties involved in the preparation, review and approval of reconciliations, except for the Council's main bank account reconciliation.

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In relation to Accounts Payable, Internal Audit had noted that a project had commenced to map business processes and provide documented business practices with measurable performance indicators. However, notwithstanding the project that was now in train, this was the fourth consecutive year that the Council's Accounts Payable system had only received limited assurance.

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 August 2019.

### **Resolved:**

**That the Internal Audit recommendations set out in the report be endorsed and in particular those that applied to Sundry Debtors, Bank and Control Account Reconciliations and Accounts Payable.**

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

Paul Harrington, 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 2019/2020 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, which was set out in more detail in the attached report, the Chief Auditor had concluded, that whilst no assurance could ever be absolute, he could only give limited assurance that arrangements to secure governance, risk management and internal control within those areas audited in 2019/20, were suitably designed and applied effectively. The basis for the assurance opinion was set out in section 2 of the attached report and the key areas for improvement identified during the audit work were set out in section 4.

The report emphasised that the important issues in determining the limited opinion were the weaknesses identified within some of the Council's financial systems, which had remained unresolved and, in some instances, had deteriorated. Basic financial controls had not worked as expected, for example bank reconciliations had not been kept up-to-date and historic audit recommendations relating to both 'accounts payable' and 'accounts receivable' had not been implemented. Daily bank reconciliations had been undertaken throughout the financial year to check that all receipts in the bank account were processed by the cash system, so it was known that cash had been allocated. However, monthly reconciliations, dating back to September 2019, providing a cumulative oversight had not been performed at the time of the audit in February 2020.

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The Chief Auditor concluded, whilst a reasonable assurance opinion had been given in 2018/2019, there had been insufficient improvement in the control environment within some of the Council's key financial systems during 2019/2020 and some of the actions previously agreed had not been implemented. The Finance Department's response to the findings would be presented in a separate report on the agenda (see Minute 4 below) for your consideration.

**Resolved:**

**That the assurance opinion given by the Chief Auditor and the issues raised in the annual report be noted.**

### **4. RESPONSE TO THE INTERNAL AUDIT & INVESTIGATIONS ANNUAL ASSURANCE REPORT REVIEWS RELATING TO SERVICES DELIVERED BY THE FINANCE DEPARTMENT**

Further to Minutes 2 and 3 above, the Assistant Director of Finance, Peter Robinson, presented a report providing an update on progress by the Finance division to respond to Internal Audit's findings and recommendations in their Annual Assurance Report. The Internal Audit and Investigations Annual Assurance Report had delivered Limited Assurance Reviews in relation to four areas; Accounts Receivable, Accounts Payable, VAT and Bank & Control Account Reconciliations. The Annual Assurance Report had been thoroughly reviewed and actions to address all the audit findings and areas for improvement identified had been included in the Finance Improvement Programme, which was scheduled to be concluded by 30 September 2020. The action that the Finance Department had put in motion to address the findings of the Internal Audit and Investigations Annual Assurance Report were summarised in Section 3 of the report.

**Resolved:**

- (1) That the importance placed by the Finance department upon the findings of the Internal Audit and Investigations Annual Assurance Report, be noted;**
- (2) That the actions that the Finance department had put in motion to address the findings of the Internal Audit and Investigations Annual Assurance Report, be noted;**
- (3) That a report on the Financial Improvement Programme be submitted to the next meeting to provide assurance that appropriate action was being taken to address all audit findings and areas for improvement identified within the Finance Department.**

### **5. FINAL 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 nearing completion, with RBC Officers now having responded to all aside from a handful of

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the current Ernst and Young (EY) queries. EY was currently reviewing RBC responses and some follow-on queries may subsequently arise given the volume of work undertaken. In addition, the draft 2018/19 Accounts had been completed and handed over to the Auditors in mid-February 2020. The audit of this set of Accounts was expected to begin in August 2020. Officers were also fully engaged in completing the 2019/20 accounts. At this stage, it was anticipated that the draft 2019/20 accounts would be completed and handed over to EY in August 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;
- (2) That the progress being made in closing the 2019/20 Accounts, be noted;
- (3) That the indicative commencement date of the Audits of both the 2018/19 and 2019/20 Accounts would be August 2020, be noted.

### 6. CIPFA FINANCIAL MANAGEMENT CODE

Stuart Donnelly, Financial Planning & Strategy Manager, submitted a report on the The Financial Management Code 2019 (FM Code), which had been introduced by the Chartered Institute of Public Finance & Accountancy (CIPFA), which set out for the first time, the standards of financial management for local authorities. Local authorities would be expected to comply fully with the FM Code from 1 April 2021, with 2020/21 effectively being a shadow year. An initial self-assessment of the Council's current standing against each of the Financial Management Standards was carried out in March 2020 by the Financial Planning & Strategy Manager in conjunction with the Council's Section 151 Officer using a RAG Rating approach. The findings of the initial self-assessment against the seventeen Financial Management Standards were summarised in the report and indicated the overall rating was 'amber'. This was consistent with the results of the CIPFA Financial Management Model Staff Survey which had been issued to all staff within the Finance Department.

The report had appended the CIPFA Financial Management Code 2019 and the accompanying guidance notes, which were intended to provide practical guidance to implement the Code. The guidance notes stated that, "it is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them". Therefore, regular self-assessment exercises would be required in order to demonstrate compliance with the Code going forward. In order to assist, CIPFA would be running training events in September 2020 to introduce the Code and provide practical implementation tips. Consequently, a follow-up self-assessment exercise would be undertaken in January 2021 once the guidance notes had been fully considered, and relevant officers had been able attend one of the CIPFA training events and further work had been completed.

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### Resolved:

- (1) That the requirement to implement the Financial Management Code from 1<sup>st</sup> April 2021, be noted;
- (2) That the findings of the initial FM Code Self-Assessment, which rated the Council as 'amber', be noted;
- (3) That a further self-assessment exercise would be undertaken in January 2021 and reported back to this Committee in advance of full implementation of the FM Code from 2021/22, be noted.

### 7. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 22 of the meeting held on 30 January 2020, Jackie Yates, Executive Director of Resources, presented a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report.

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 104 high and medium risk recommendations from Internal Audit, of which 34 (33%) were currently green, 50 (48%) were amber and 19 (20%) were red. Thirteen recommendations had now been completed and would be removed from the next report.

In relation to the Internal Audit Recommendation 20, which was about ensuring reviewed there was inclusion and oversight for the full monitoring of all S106 monies, the Committee requested an explanation of why the complete reconciliation between the respective record systems in Planning used to identify, track and manage S106 amounts and financial systems that record S106 amounts had not been possible, mainly due to resource issues in the Finance Department.

### 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 97 and 98, Adult Residential and Nursing Care Contributions, a report be submitted to a future meeting on the timeliness of financial assessments;
- (3) That in respect of Internal Audit Recommendation 20, an explanation be provided of why it had not been possible to implement a complete reconciliation between the respective record systems in Planning used to identify, track and manage S106 amounts and financial systems that recorded S106 amounts.

### 8. EXTERNAL AUDITOR UPDATE

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Maria Grindley, EY, presented EY's draft Audit Results report, which summarised the preliminary audit conclusion in relation to the audit of Reading Borough Council for 2017/18. The final report would be presented at the conclusion of the audit.

### Resolved:

That the draft Audit Results report, which provided a summary of the preliminary audit conclusion, be noted.

(The meeting commenced at 6.30pm and closed at 8.20pm).