

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

Present: Councillors Stevens (Chairman), Davies, Edwards, Emberson, Gittings, McKenna, Robinson & J Williams;

In attendance: Councillor Brock (Leader of the Council).

17. MINUTES

The Minutes of the meeting of 12 October 2020 were confirmed as a correct record and would be signed by the Chairman.

18. INTERNAL AUDIT QUARTERLY UPDATE 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 October 2020.

The report set out a summary of the audit reports in respect of: Purchase Cards; Records Management; Car Parks (Off Street); Licensing; and CIL - 15% Local Schemes. As the Chief Auditor had given 'limited assurance' to the way the Council dealt with 'Purchase Cards; Records Management; and CIL - 15% Local Schemes.', the full internal audit reports for those audits were appended to the report.

In relation to Purchase Cards, the report stated that adherence to policies and procedures had been poor and the controls in place had not been followed properly. In relation to Records Management, the audit found several areas of concern with the most fundamental issue being the lack of an up-to-date, agreed records management and document retention policy, which clearly detailed roles and responsibilities, and incorporated the areas highlighted in ICO guidelines. In relation to CIL - 15% Local Schemes, the audit found an absence of a complete control framework being in place to facilitate the timely use of 15% Local CIL money to deliver schemes. Generally, there was a combination of system weaknesses and factors that led to the 'limited assurance' finding.

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 December 2020.

Resolved: That the audit findings in relation to the Purchase Cards; Records Management; and CIL - 15% Local Schemes be noted, and the recommendations set out in the full audit reports be endorsed.

19. ANNUAL TREASURY MANAGEMENT REVIEW 2019/20

Peter Robinson, interim Assistant Director of Finance, submitted a report on the Annual Treasury Management Review 2019/20. The report stated that the Treasury Management Strategy required an Annual Outturn Report reviewing the Treasury Management activity which had taken place during the year. This report had been delayed due to the need to focus on the finalisation of the 2017/18 Statement of Accounts audit process. The report had appended the Council's Borrowing and Investment Portfolios for the Committee's information.

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

The report stated that the Council had continued to finance capital expenditure through maximising the use of capital receipts, capital grants and internal borrowing. In order to take advantage of low borrowing rates that were considered to be good value and to reduce the refinancing risk associated with existing internal borrowing, £45m of external borrowing (from the PWLB) had been taken out in 2019/20 at an average interest rate of 1.8%. Overall, the Council had under-borrowed by £185.607m as at 31 March 2020, after taking account of the £45m new loans. This had avoided the Council having to budget for and pay out external interest costs in the order of £6.069 million, based on the average rate for the existing debt portfolio of 3.27%. Against the 2019/20 General Fund budget there had been an overall net General Fund underspend in respect of interest receivable/payable of £0.579m.

Resolved: That the Treasury Management Outturn Report for 2019/20 be noted.

20. TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW 2020/21

Peter Robinson, interim Assistant Director of Finance, submitted a report on the mid-year review of the Treasury Management Strategy. The report provided an update on the activity of the Treasury Management function during the first half of the year for the period 1 April 2020 to 30 September 2020. The report stated that the Council had not taken out any new external long-term borrowing during 2020/21 as at 30 September 2020 and had complied fully with its Treasury Management Strategy Statement (TMSS) as agreed by Council on 25 February 2020. The report had appended the Economics Update and Investment Criteria & Limits for the Committee's information.

Resolved: That the Treasury Management Mid-Year report for 2020/21 be noted.

21. INFORMATION GOVERNANCE QUARTERLY UPDATE

Mike Graham, Assistant Director of Legal & Democratic Services, submitted a report outlining the actions in progress to improve the Council's policies, systems and processes for improving Information Governance. The report referred to the Committee receiving a number of limited assurance reports in this field and identified that work was needed to address the underlying issues with: Freedom of Information; Data Transparency; and Records Management. The report detailed the work being undertaken through the establishment of the Information Governance Board in April 2020 with the purpose of implementing and overseeing an Information Management Strategy. The Board was currently preparing the Information Management Strategy and Action Plan which outlined the Council's proposed approach to information management and governance with several workstreams being established to progress the necessary improvements.

The Committee noted that the Cyber Security training which was currently available for all staff and councillors through a Learning Pool e-learning package to complete had had a disappointing uptake. The report stated that action was in hand to improve the numbers undertaking the training, which was supported by the Committee.

Resolved:

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

- (1) That the progress being made to improve the Council's Information Governance be noted;
- (2) That the action being taken to address information governance issues raised by internal audit review be reported to a future meeting of the Committee;
- (3) That the action being taken to increase the uptake of Cyber Security training be endorsed and that Committee members ensure they had completed the training and encourage all other councillors to do likewise.

22. DRAFT AUDIT PLANNING REPORT

Maria Grindley and Adrian Balmer, EY, presented the Provisional Audit Plan summarising the initial assessment of the key risks driving the development of an effective audit for the Council and outlining EY's planned audit strategy in response to those risks. The planning procedures were ongoing and the Audit & Governance Committee would be updated, if there were any significant changes or revisions at its next meeting. The Committee received an assessment of the audit risks and key areas of focus for the external auditors, which included:

- Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue expenditure;
- Qualified Accounts 2017/18 - Corporate Support Services, income; Economic Growth and Neighbourhood Services, income and expenditure; Short-term Creditors; IAS19 pension liability, employer costs and actuarial adjustments;
- IAS 19 Assurance Process, Pension liabilities and other related amounts;
- Valuations of Property, Plant and Equipment and Investment Property, PFI Long-Term Liabilities and Deferred Income;
- IFRS 9 and IFRS 15 implementation - IFRS9 (Financial Instruments) and IFRS15 (Revenue from Contracts) had come into effect for Local Authority Accounts in 2018/19. At the time of the 2017/18 final audit work, the Authority had not conducted any preliminary work to position itself for either standard and the impact was therefore unclear. A detailed impact assessment would therefore be needed for both new standards;
- Group accounts: differences in accounting policies of the components - all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS, which created a higher inherent risk that the consolidated figures might not be harmonised to comply with the Group accounting policies;
- Going concern disclosures - the unpredictability of the current environment had given rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Council's actual year-end financial position and performance.

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

Resolved: That the Provisional Audit Plan summarising the initial assessment of the key risks, be noted and further reports be presented to the Committee as necessary.

23. INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING (“REDMOND REVIEW”)

Paul Harrington, Chief Auditor, submitted a report on an independent review by Sir Tony Redmond of the local audit process and transparency of local authority financial reporting. The ‘Redmond Review’ examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting a Local Authority’s annual accounts enabled the public to understand this financial information and receive the appropriate assurance that the finances of the authority were sound. The findings and recommendations of the review along with the response of the Ministry of Housing, Communities and Local Government were set out in an appendix to the report. Whilst some recommendations had been agreed, others were being considered further with a full response to be made by spring 2021.

Resolved: That the recommendations of the Redmond Review and the responses from the Ministry of Housing, Communities and Local Government be noted.

24. CLOSING FINANCIAL 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 2018/19 and 2019/20. The report stated that the Audit of the 2017/18 Accounts had been completed and signed off by EY at the end of October 2020. Additionally, the draft 2018/19 Accounts were complete and had been handed over to the Auditors in mid-February 2020. These Accounts had been updated in November 2020 as a result of the revised brought forward 2017/18 balances, although despite this the Audit of these Accounts had commenced in September 2020. Officers had almost completed the 2019/20 accounts but had agreed with EY to focus on prioritising resolving the 2018/19 outstanding queries and getting these signed off before passing them over to EY. This would also enable transformation work to be completed to assist with the 2020/21 accounts and mean that brought forward balances from 2018/19 could be updated to save more audit time.

Resolved:

- (1) That the progress made in relation to the Audit of the 2018/19 Accounts be noted;**
- (2) That the progress being made in closing the 2019/20 Accounts be noted.**

25. IMPLEMENTATION OF THE FINANCE IMPROVEMENT PROGRAMME - PROGRESS UPDATE

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

Further to Minute 16 of the meeting held on 12 October 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 report stated that a number of Phase I targeted deliverables had been achieved but there had been delays in delivery of the overall programme due to capacity as a consequence of resources being directed towards priority issues such as closure of accounts, managing Covid related activity and staff sickness. Supplier delays around accounts payable had also affected some activities. Three of the workstreams were nearing completion; Accounts Payable, Accounts Receivable and Chart of Accounts with residual activity expected to be completed by 31 March 2021. Phase II (developing corporate financial management governance and the overarching financial management environment) would only commence once Phase I workstreams had been completed. The Audit tracker recommendations continued to be included within individual workstream deliverables where appropriate and were managed as part of the overall Plan.

Resolved: That the progress being made to implement the Finance Improvement Programme be noted.

26. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 15 of the meeting held on 12 October 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 137 high and medium risk recommendations from Internal Audit, of which 35 (26%) were currently green, 32 (23%) were amber and 73 (27%) were red. Thirty-three recommendations had now been completed and would be removed from the next report.

Resolved: 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.

27. HOUSING BENEFIT & COUNCIL TAX SUPPORT SCHEME - RISK BASED VERIFICATION POLICY 2021/22

Sam Wills, Revenues & Benefits Manager, submitted a report recommending that the Council continued to use its Risk Based Verification (RBV) process in 2021/22. The scheme enabled processing of claims for Housing Benefit payments and Council Tax

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 28 JANUARY 2021

Support awards to be streamlined, thereby enabling customers to receive payments sooner. The approach also helped to mitigate risk and fraud entering the system. The Council's risk-based verification policy principles had remained unchanged and there were no recommended scheme changes to the Council's 2021/22 Council Tax Reduction Support Scheme and subsequently no impact on the Risk Based Verification Policy. The Risk-Based Verification Policy 2020/21 and Temporary Covid measures were appended to the report for endorsement but had not been published because they contained exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Resolved:

- (1) That the Risk-Based Verification Scheme, as appended to the report, be approved;**
- (2) That the continued use of a Risk Based Verification approach to evidence supporting claims for Housing Benefit and Council Tax support in 2021/22 be approved.**

28. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:

That pursuant to Section 100A of the Local Government Act 1972 (as amended), members of the press and public be excluded during consideration of the Items below as it was likely that there would be a disclosure of exempt information as defined in the relevant paragraphs specified in Part 1 of Schedule 12A to that Act.

29. READING TRANSPORT LIMITED

The Committee received a verbal update on the financial implications of COVID 19 on Reading Buses.

Resolved: That the position be noted.

(Exempt information as defined in Paragraph 3)

(The meeting commenced at 6.30pm and closed at 8.45pm).