

**READING BOROUGH COUNCIL
DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 July 2021		
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILLOR MCEWAN	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	AUDIT & INVESTIGATIONS	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 2020/2021 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 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 below, 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 2020/21, are suitably designed and applied effectively.
- 3.3 Whilst our opinion is similar to last year, it must be noted that a positive trajectory to improvement is starting to emerge following improvement initiatives, such as the Finance Improvement Programme and the significant improvement in the implementation of historic audit recommendations, since implementing the new tracking and reporting process. Clearly, this improvement trajectory needs to be sustained in 2021/22 to enhance assurance that control, risk and governance arrangements are effective across the Council.
- 3.3.1 The audit opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Reasonable, through to Limited and No Assurance. This opinion is reflective of the number and level of assurance opinions provided throughout the year and the improvements required to the control framework in some of those areas where weaknesses were identified in the past.
- 3.3.2 45% of audits received limited or no assurance in 2020-21, compared to 38% in 2019-20, and 27% in 2018-19, thus the operational effectiveness of the controls in place need to be addressed, to ensure that the controls are consistently and routinely applied across the Council.
- 3.3.3 We acknowledge the level of change over the last year brought about by the Covid-19 pandemic and the impact this had on the Council's revenue budget and savings plans. The Council was already facing significant budgetary pressures over the next three years, with planned savings amounting to £15.344m in 2020/21. There have also been major challenges in monitoring financial performance against the budget that was approved in February 2020 as the impact of the pandemic delivered an unprecedented level of change and uncertainty. The budget was based upon a pre-pandemic set of assumptions that have had to be continually revised and adjusted throughout the year.

- 3.3.4 At the time of writing, the provisional General Fund revenue outturn position for 2020/21 is a £12.573m net favourable variance, made up of £4.468m of unspent Covid-19 grant funding, service net favourable variances of £1.652m and £6.453m of corporate contingencies held to deal with pressures not foreseen in the original budget, were ultimately not required. Whilst we recognise there have been major challenges in monitoring financial performance against the budget, an audit of budgetary control^[2] highlighted budget monitoring meetings at service level had not been held as frequently in all cases in the last year due to the circumstances, specifically Covid-19. It was felt that greater clarification was also needed over the roles of service teams (budget holders) and Finance.
- 3.3.5 A Finance Improvement Programme commenced in the summer of 2020 to build a strong financial management and governance foundation, with the aspiring direction of a fit for the future, exemplar financial management and governance environment in Reading. The Programme is led and overseen by the Finance Transformation Board chaired by the Deputy Chief Executive and meets fortnightly. The Board receives updates and reports ensuring appropriate challenge and stewardship, monitors progress of delivery against the Project Plan and signs off key deliverables. Although we commend this work and recognise that there has been an improvement in the control framework, most notably in Accounts Payable, there is still further work to be done.
- 3.3.6 Whilst a new Corporate Debt Policy was approved at Policy Committee, there are still failings in the debt collection process, with no standard procedures for the monitoring, reporting and chasing of debt and a lack of consistent arrangements for tackling and reporting on long term debt and subsequent sundry debt increasing year on year. This is not a criticism of the finance system per se, but of the complete end-to-end process. Our audit of Penalty Charge Notice's (PCN's) identified significant levels of longstanding PCN charges (debt) that has not been written off, as all outstanding charges are removed from the system, so by-passing any potential write-off procedure.
- 3.3.7 Even though there has been significant improvement in the journal process on Oracle Fusion, an audit of intercompany charging between RBC and Brighter Futures for Children (BFfC), identified areas of poor documentary evidence being maintained to support intercompany journals. We 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.
- 3.3.8 A review of the chart of accounts is well underway, with the number of cost and subjective codes being rationalised. Once completed, this needs to be

^[2] Audit report currently at draft stage

reviewed on a regular basis to ensure the benefits of the review are not then negated over time.

- 3.3.9 Progress has been made in clearing the transaction on the bank reconciliation, however issues with the Civica system, which allocates the transactions, did result in many transactions being incorrectly allocated. Automating some of the processes, such as the validation of daily balances using the Civica bank reconciliation model will improve efficiencies. However, some initial work on the bank to clear the transactions in the current system as much as possible will need to be undertaken.
- 3.3.10 Work on improving corporate oversight of feeder system reconciliations has been delayed due to vital work required on the audit 2018/19 and other work pressures. Initial work has focused on the payroll and accounts payable reconciliations for both 2019/20 and 2020/21. Some improvements to the VAT claims and linking these to the VAT control accounts have been made and the VAT claim also includes a step by step summary guide to completing the claims.
- 3.3.11 Corporate oversight of control account reconciliations is an essential component of internal control and was raised by the Council's External Auditors, Ernst & Young (EY) in their section 24 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'*.
- 3.3.12 At this point it should be noted that staff resources continue to be an issue, with a very high turnover of staff and reliance on interim staff in a number of key positions within Finance. Staffing resource will be further impacted upon with the proposed implementation of a new finance system. This work will take a significant amount of time, in addition to other critical business as usual work demands.
- 3.3.13 The limited assurance judgement is not exclusive to finance; however, finance systems and processes continue to be a priority and therefore have a greater significance on the overall assurance opinion given.
- 3.3.14 Also, of particular importance in determining the limited opinion were key weaknesses reported in the area of Information Governance where we identified that work was needed to address the underlying issues with: Freedom of Information; Data Transparency; and Records Management. Some of the key areas for improvement identified during our audit work are set out in section 4, which also cut across other service areas across the Council. These are reviews where limited assurance has been given and improvements are needed.

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