

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 JULY 2021

Present: Councillors Stevens (Chairman), Davies, Edwards, Emberson, Gittings, McElroy (via Microsoft Teams), McEwan and Robinson;

In remote attendance (via Microsoft Teams) Councillor McElroy was unable to attend in person, so attended and contributed remotely via Microsoft Teams, but did not vote on any of the items; and Councillor Brock (Leader of the Council)

1. MINUTES

The Minutes of the meeting of 20 April 2021 were confirmed as a correct record and signed by the Chairman.

2. 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 2020/2021 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, 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 were in place in 2020/21. The basis for the assurance opinion was set out in section 2 of the report and the key areas for improvement identified during the audit work were set out in section 4.

Despite the opinion being similar to last year, the Chief Auditor stated it should be noted there were positive signs of improvement. The Finance Improvement Programme (see Minute 4 below) was driving progress and since being introduced the tracking process of historic audit recommendations was paying dividends. Clearly, the encouraging improvement trajectory needed to be sustained in 2021/22 to enhance assurance that the effectiveness of control, risk and governance arrangements would continue to improve across the Council.

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

3. 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 January 2021.

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The report set out a summary of the audit reports in respect of: General Ledger; NNDR and Council Tax Administration; Commercialisation; and MOSAIC Payment Controls (Finance Module). As the Chief Auditor had given 'limited assurance' to MOSAIC payment controls, the full internal audit report was appended to the report.

In relation to MOSAIC Payment Controls (Finance Module), the report stated that generally supplier payments had been made in a timely manner, however there was a significant balance on supplier pre-payments. Purchase orders were not always raised in a timely manner and whilst supplier invoices were received, inputted onto MOSAIC and matched to the relevant purchase order they were not always attached to the relevant transaction in Oracle Fusion.

The report also listed the audits that were currently in progress and gave a summary of investigations work between April 2021 and June 2021.

Resolved: That the audit findings in relation to the MOSAIC Payment Controls (Finance Module) be noted, and the recommendations set out in the full audit report be endorsed.

4. IMPLEMENTATION OF THE FINANCE IMPROVEMENT PROGRAMME - PROGRESS UPDATE

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 progress against the Phase I plan since the last Committee had been good with a number of deliverables being achieved and the following Phase 1 workstreams almost reaching completion: Accounts Payable, Accounts Receivable and Chart of Accounts.

Phase II of the transformation programme was expected to commence at the end of August and would be aligned to the implementation of the new finance system. The financial system had been procured and implementation was due to start in August. The delivery date for completion of the workstream was 1 April 2022, which would coincide with the 'go live' date.

The audit tracker recommendations (see Minute 8 below) continued to be included within individual workstream deliverables where appropriate and were managed as part of the overall Plan. There were 34 (previously 43) recommendations within the tracker covered by the Finance Improvement Programme, none of which were now 'Red' rated. The Finance Transformation Board continued to oversee the Programme and monitor and challenge delivery timelines where appropriate.

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

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5. INFORMATION GOVERNANCE QUARTERLY UPDATE

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

The report detailed the work of the Information Governance (IG) Board, which was responsible for implementing and overseeing an Information Management Strategy. The Strategy would be informed by the technical review which had been undertaken by Leicester City Council and was in the process of being finalised. The Strategy was expected to be presented to Policy Committee this Autumn. The Committee noted that take-up of the Cyber Security training, which was currently available for all staff and councillors through a Learning Pool e-learning package, had improved since the last meeting, especially among Council staff, but that it needed to improve further.

The report had appended the Customer Relations Team's Data on Complaints, Freedom of Information (Fol) requests and Subject Access Requests (SARs) & MP Enquiries for 2020/21 for information and review. The Committee welcomed the new information and requested that future reporting should provide more explanation of the data and include trends to enable members to understand the context of the statistics.

Resolved: That the progress being made to improve the Council's Information Governance be noted and the Committee requested that in future the Data on Complaints, Freedom of Information (Fol) requests and Subject Access Requests (SARs) & MP Enquiries for 2020/21 include more explanation and context to enable the Committee to use the information as a practical tool for improvement and identify examples of good practice.

6. ANNUAL TREASURY MANAGEMENT REVIEW 2020/21

Darren Carter, Director of Finance, submitted a report on the Council's Treasury Management Strategy and Annual Investment Strategy for 2020/21. The Treasury Management Strategy required an Annual Outturn Report reviewing the Treasury Management activity which had taken place during the year.

The report stated that the Council had continued to finance capital expenditure through maximising the use of capital receipts, capital grants and internal borrowing. During 2020/21 the Council had taken out a short-term loan of £10m for one month during May 2020 to assist in managing the short-term cashflow position, but no long-term loans (over one year in duration) had been taken out during the year. The Council had not experienced any significant cashflow difficulties during the year due to the Covid-19 pandemic as although cash inflows had been reduced as a result of income losses, particularly from chargeable services such as car parking and leisure, they were offset by the receipt of additional one-off grant funding from the Government and a slowdown in capital expenditure. The Council had also kept prudent levels of surplus cash in short-term accessible investments to protect against any unforeseen cashflow issues.

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Overall, the Council had under borrowed by £197.051m as at 31 March 2021. As a consequence, the Council had effectively avoided incurring external interest costs in the order of £6.522m during 2020/21, based on the average rate for the existing debt portfolio of 3.31%. Against the 2020/21 General Fund budget there had been an overall net General Fund underspend of £0.028 million on the Capital Financing budget as reported in the 2020/21 Quarter 4 Performance report to Policy Committee on 12 July 2021. This budget included interest payable, interest receivable and Minimum Revenue Provision (MRP).

The report confirmed that the Council had not breached any of its treasury management performance indicators during 2020/2021. The Borrowing and Investment portfolios were appended to the report for further information.

Resolved: That the Treasury Management Outturn Report for 2020/21 be noted.

7. FINANCIAL ACCOUNTS UPDATE

Darren Carter, Director of Finance, submitted a report providing an update on the completion of the Council's Final Accounts for 2018/19, 2019/20 and 2020/21. The report stated that officers had now completed all outstanding work in respect of the 2018/19 Accounts. The revised Statement reflecting all the agreed amendments had been handed over to EY ahead of EY's internal quality assurance panel to review the audit.

Officers were on schedule to complete the updates required to the 2019/20 Statement of Accounts arising from the 2018/19 audit by the end of July 2021 to facilitate the commencement of the audit in early August. Preparation and completion of the 2020/21 Accounts was also underway and the aim would be to have both 2019/20 and 2020/21 Statements of Accounts signed off by March 2022.

Resolved:

- (1) That the progress made in relation to the audit of the 2018/19 accounts be noted and that they be circulated to the committee once finalised;
- (2) That the Director of Finance, in consultation with the Chairman of Audit & Governance Committee, be authorised to sign off the Statement of Accounts for 2018/19 on behalf of the Council;
- (3) That the progress being made in closing the 2019/20 and 2020/21 be noted.

8. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Jackie Yates, Deputy Chief Executive, 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

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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 117 high and medium risk recommendations from Internal Audit, of which 34 (29.1%) were currently green, 54 (46.2%) were amber and 10 (8.5%) were red. Nineteen 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.

9. EXTERNAL AUDITOR UPDATE

Maria Grindley and Adrian Balmer, EY, reported on their draft audit results, which summarised the external auditor's audit conclusion in relation to the audit of Reading Borough Council and Group for 2018/19. The previous audit year, 2017/18, had been challenging for the Council, and EY's audit opinion had been qualified in four areas, Debtors, Creditors, I&E and Pensions, the value for money conclusion had an adverse report. There had been a number of changes implemented to address EY's recommendations in relation to processes, documentation and controls and there had also been a number of new appointments during 2018/19 and to date. Due to the fact that the 2018/19 year was well underway whilst these changes were being implemented, the issues arising had not been fully addressed by the 2018/19 year end. Therefore, the report also highlighted a number of matters where improvements had not yet been embedded as at 31 March 2019. The external auditors expected to see these improvements reflected in the 2019/20 financial statements.

The certification of the 2018/19 accounts had been significantly delayed due to delays in certifying the 2017/18 accounts, which were signed off in October 2020 and had therefore missed the deadline of 30 September 2018. Since then there had been a positive improvement in timescales and the 2018/19 audit had taken 10 months to complete which was an improvement on prior years. In addition, discussions and planning for the 2019/20 statements had already started with work anticipated to start in the summer. EY expected to complete the work on 2019/20 to a shorter timescale, which would assist the Council get back on track in relation to the timing of the audit cycle.

EY reported they had substantially completed the audit of Reading Borough Council for the year ended 31 March 2019 and expected to issue a qualified audit opinion on the financial statements in the form that appears at Section 3 of the report. The report also highlighted matters concerning the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. However, it should be noted that despite the accounts still likely to be qualified the number of specific qualifications had been greatly reduced and areas of concern in respect of the Value for Money judgement had also been lifted.

Resolved: That the position be noted.

(The meeting commenced at 6.30pm and closed at 8.21pm).