

**READING BOROUGH COUNCIL
DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 July 2022		
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES AND RESOURCES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF 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 2021/2022 financial year; and
- the audit work undertaken compared to 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 in meeting 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, the Chief Auditor has concluded that *reasonable assurance* can now be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2021/2022. Whilst this is progress on the last two financial years and the direction of travel is one of improvement, there is still more work to be done.
- 3.3 The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation and assurances should be taken from other sources, such as recommendations following the LGA Corporate Peer review.
- 3.4 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. 38% of audits received limited or no assurance in 2021-22, compared to 45% in 2020-21, and 38% in 2019-20. Although this trend has remained consistent over the past five years, we are now starting to see improvement in financial processes within the key financial systems.
- 3.5 Under the direction of the Finance Improvement Programme, the Accounts Payable workstream is essentially concluded, with ongoing performance monitoring included as part of the monthly Finance Transformation Board updates. This programme has addressed a number of key audit concerns, such as separation of duties between the setting up and paying of providers, authorisation and checks controls on BACS payments, performance monitoring and written procedures on processes to be followed.
- 3.6 Work on Accounts Receivable actions continue to develop, particularly around debt management and reporting. This is an area which had received a 'limited assurance' or 'no assurance' over several annual audit reviews. The Accounts Receivable function has been moved from a finance function to one that is now managed through the Revenues & Benefits team. This has taken time in terms of recruitment and training of resources, but there is now a clearer picture of the outstanding debt and action is being taken with regards to current debt that is keeping it under control.

- 3.7 Progress is being made in ensuring adult social care debt is promptly tackled but is still only at early stages and more work needs to be done by staff in that area in conjunction with the debtors' team to ensure that progress to date is maintained.
- 3.8 After considerable effort going back a number of years, the main bank account reconciliation process has been reviewed, improved, and brought up to date. Given the well documented issues, weaknesses and problems associated with not regularly and routinely achieving this fundamental control in the recent past, this should now give a tentative indication of a welcome improvement in financial control. Although the feeder systems reconciliations were found to be largely up to date, there are still procedural weaknesses that need to be addressed in order to ensure that this trajectory (of improvement) is built on and sustained.
- 3.9 The CIPFA Treasury Live system is used to provide cashflow information and the process of regular update, maintenance of audit trails, review and approval is in place. A review of reported borrowing and lending for the financial year 2021/22 found no exceptions with respect to the established criteria.
- 3.10 As well as the need for a new chart of Accounts, the Scheme of Financial Delegation is also being updated, as it is recognised that there needs to be more structure on the authority that officers have to make decisions on spending across the council. Greater clarification will be provided on financial limits of authority, so that in the event that an authorised officer is unable to take a decision, then the decision can be taken by the relevant line manager up to and including the Executive Director. We acknowledge this as a positive development.
- 3.11 We have reported in the past that there was poor documentary evidence being maintained to support intercompany journals between RBC and Brighter Futures for Children (BFfC). A review this year reported that those transfer payments that had happened and had been well supported; however, in-year reconciliations had not happened and the 2020-21 grant position was only being finalised in February 2022. At the time of the audit, BFfC had also not regularly requested RBC to transfer over any of the £1.15m of grant funding that has been received in the Council's accounts during the year. Likewise, quarterly recharges to BFfC for statutory posts have not been transferred either. A working structure is required to formalise roles and responsibilities that promote rigorous, cooperative, and professional working methods, with roles and responsibilities known to both entities.

- 3.12 In last year's annual assurance report, we reported "*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*". Whilst resources remain stretched with the planned implementation of a new finance system, in addition to other critical business as usual work demands, key posts in Finance have now been filled with permanent members of staff. The recruitment and appointment of permanent members of staff at senior levels within the Finance Team, under the direction of the Director of Finance, will hopefully lead to more stability and continuity in the service.
- 3.13 The critical project activity over the forthcoming financial year will be the implementation of the new financial system and the successful and timely migration of all financial data. The extraction of financial data from the existing finance system and loading into the new one, including finance code conversion, will need to be subject to rigorous testing. At the time of writing, there are still single points of failure with finance systems staffing and limited availability of accounting, accounts receivable, procurement and accounts payable staff to support the design, build and test phases of the project. Finance staff also continue to be stretched providing responses to audit queries, as well as performing day to day financial tasks. This risk needs to be proactively managed as much as possible.
- 3.14 The new finance system will be at the cornerstone of organising, planning, and controlling financial activities to manage resources efficiently. The build and design element of the project is important; however, at the same time, it is imperative that business processes work with the new Finance System, otherwise efficiencies and improvements will not be achieved. We need to decrease the reliance on spreadsheets and reduce the occurrence of errors, which currently result in a large volume of transactions being posted to suspense¹. The emphasis should be on getting it right first time.
- 3.15 One area which remains a high risk for Internal Audit and will therefore be subject to further testing throughout the next year, are payments made to Social Care Providers through the financial module of the MOSAIC system. An overpayment of circa £1m was triggered in the 2021/2022 financial year after inflationary increases were incorrectly applied.
- 3.16 We found a lack of a common understanding of roles and responsibilities and ownership of processes. There was no adequate control / workflow process around the treatment of inflationary uplifts, with no independent review to check for accuracy and changes being made manually and therefore subject to increased risk of error and potential fraud, albeit no evidence of fraud was uncovered.

¹ A suspense account is a temporary resting place for an entry that will end up somewhere else once its final destination is determined

3.17 In addition, amendments within Mosaic were unable to be reviewed in real time, so issues could take several days to identify and then several further days to ensure they were corrected. Linked to this review was an audit of Payments made to Voluntary Sector Providers which flagged an over reliance on a number of key individuals and a high degree of manual intervention, with limited resilience and a lack of shared understanding of the process between the services.

3.18 Some of the key areas for improvement identified during our audit work are set out in section 4 of the attached report. 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