

# Audit and Governance Committee

20 July 2023



**Reading**  
Borough Council  
*Working better with you*

<b>Title</b>	Chief Auditors Annual Assurance Report 2022/23
<b>Purpose of the report</b>	To note the report for information
<b>Report status</b>	Public report
<b>Report author</b> (name & job title)	Paul Harrington Chief Auditor
<b>Lead Councillor</b> (name & title)	Cllr Liz Terry
<b>Corporate priority</b>	Our Foundations
<b>Recommendations</b>	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.

## 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 2022/2023 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 Executive 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. Summary

- 2.1 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.
- 2.2 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 be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2022/2023.
- 2.3 The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation and assurances should be taken from other sources, such as recommendations following the LGA Corporate Peer review, External Audit and other internal/external reviews.
- 2.4 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.
- 2.5 26% of audits received limited or no assurance in 2022-23, compared to 38% in 2021-22, and 45% in 2020-21 (see Appendix 1 section 3).
- 2.6 One of the most significant areas to influence the annual assurance opinion, are the results of audits of the key financial processes and systems within the Council. These include, but are not limited to, the General Ledger, Accounts Payable (Creditors), Accounts Receivable (Debtors), Payroll, and Bank Reconciliation. Through regular audits over several years, we have seen a gradual improvement in the control environment within these key financial systems and processes. Whilst it is not feasible to audit every system or financial process annually, with the frequency dependent on available resources, informed by a risk assessment, all areas except for intercompany accounting arrangements between RBC and Brighter Future for Children (BFfC) have now received a positive audit assessment (opinion).
- 2.7 The General Ledger represents the Council's main accounting system which currently operates via Oracle Fusion. Several feeder systems interface with the General Ledger and as per last year, we were able to provide reasonable assurance over several key functions where significant issues have been raised in the past, primarily around the management of journals and the operation of holding/suspense accounts.
- 2.8 The Chief Accountant and the Finance Business Partner have introduced control features since April 2022 to manage Holding/Control Accounts, key Reconciliations, and critical information to assist with the development of the new financial system Chart of Accounts. A Finance Dashboard, which is a new initiative introduced this year, identifies all required reconciliations, and tracks their progress via a RAG status for each monthly accounting period across the year. It should also be noted that the Dashboard remains a work in progress to some extent, as the aim is to capture a range of performance management data for financial services, such as the percentage of invoices paid within 30 days. However, once in place, it will help provide and improve corporate oversight.
- 2.9 Journal control remains robust, with well-defined segregation of duties and appropriate approval/authorisation of journals. There are clear descriptions and supporting documentation to journals, together with timely processing of journals during 2022/2023.

- 2.10 There is now a clearer picture of outstanding debt and action is being taken to keep current debt under control; however, progress in ensuring Adult Social Care debt is tackled promptly requires further development.
- 2.11 The governance arrangements underpinning budgetary control have improved. Equally, the Medium-Term Financial Strategy (MTFS), which was approved by Council in February 2023, delivered a balanced budget in 2023/24 without the need to draw on reserves and set out a provisionally balanced budget for 2024/25.
- 2.12 A review of governance arrangements in place for monitoring the Council's Housing Revenue Account (HRA), undertaken in 2021/2022, flagged several areas for improvement. A subsequent follow-up review this year recognised that substantial progress has been made since the last audit, that previous gaps in control are being more effectively managed, which means that relevant risks for the Council are now being mitigated more robustly.
- 2.13 The first stage of the Financial Transformation Programme has concluded, addressing several key audit concerns, such as separation of duties between the setting up of providers and the paying of invoices, bank reconciliation, budget and performance monitoring. The critical project activity over the next few months will now 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 financial system, including finance code conversion, will need to be subject to rigorous testing.
- 2.14 The new finance system (e5) had a planned go-live date of 1st April 2023; however, this date has been extended and at the time of writing, the system project is ongoing, including the mapping of the new chart of accounts and the extensive testing required (including User Acceptance Testing) prior to go-live which is anticipated will be during autumn 2023.
- 2.15 The new finance system will be at the cornerstone of organising, planning, and controlling financial activities to manage resources efficiently and it is imperative that business processes work with the new Finance System, otherwise efficiencies and improvements will not be achieved. This new system will provide the general ledger, accounts payable and accounts receivable functions for both the Council and Brighter Futures for Children. Underpinning this will be the implementation of new and improved processes around the purchase-to-pay cycle including a new Portal to help manage purchase order workflows, an enhanced debt management process to streamline our processes for collecting debt and a new budget forecasting platform 'Collaborative Planning' which will automatically be linked to the e5 finance system to enable at least hourly updates to budget forecasts.
- 2.16 In addition, there will be a refreshed and simplified general ledger coding structure, a reviewed Scheme of Delegation to ensure appropriate levels of spend authorisations are in place, and enhanced controls around access to sensitive financial information. Debtors' and Creditors' master data records will be brought up to date, and individual user access rights will be reset.
- 2.17 The above must be reinforced with written procedures and training support for both budget holders and users.
- 2.18 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 to the control environment are needed.
- 2.19 The report also highlights the performance of the audit & investigations team over the year ending the 31 March 2023.

### **3. Contribution to Strategic Aims**

3.1 The Internal Audit Team 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. The Council's new Corporate Plan has established three themes for the years 2022/25. These themes are:

- Healthy Environment
- Thriving Communities
- Inclusive Economy

3.2 These themes are underpinned by "Our Foundations" explaining the ways we work at the Council:

- People first
- Digital transformation
- Building self-reliance
- Getting the best value
- Collaborating with others

3.3 Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the [Council's website](#). These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

### **4. Environmental and Climate Implications**

4.1 There are no environmental or climate implications arising from the report.

### **5. Community Engagement**

5.1 N/A

### **6. Equality Implications**

6.1 No equalities impact implications have been identified as arising from this report.

### **7. Other Relevant Considerations**

7.1 None

### **8. Legal Implications**

8.1 Legislation dictates the objectives and purpose of Internal Audit the requirement for an Internal Audit function is either explicit or implied in the relevant local government legislation.

8.2 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.

9.1 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”. The annual assurance opinion is required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards.

## **10 Financial Implications**

10.1 n/a

## **11 Timetable for Implementation**

11.1 n/a

## **12 Background Papers**

12.1 n/a

3.1