

AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 27 SEPTEMBER 2023

Present: Councillor Williams (Chair); G Dennis, Emberson, Gittings, McGoldrick, Mitchell, Thompson and Yeo.

10. CHAIR'S ANNOUNCEMENTS

The Chair welcomed Councillor McGoldrick to the Committee who had recently replaced Councillor Edwards. Councillor Williams also thanked Councillor Edwards for her service on the Committee.

11. MINUTES OF THE PREVIOUS MEETING HELD ON 20 JULY 2023

The Minutes of the meeting held on 20 July 2023 were confirmed as a correct record and signed by the Chair.

12. EXTERNAL AUDITOR UPDATE

The Committee received a covering report on EY's draft 2020/21 Audit Results Report, which was attached as an Appendix to the report.

Adrian Balmer, EY, presented the draft Audit Report for 2020/21 summarising the 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 Committee was advised that the audit of accounts was substantially complete and it was anticipated that the final accounts for 2020/21 should be signed off before the Committee's next meeting in January 2024.

The Committee sought clarification of the summary of adjusted differences described in Section 4 of the Audit Results Report, Audit Differences, as 'unsubstantiated and unsupported', which totalled £1.186m.

Resolved:

- (1) That the External Auditors, draft Audit Results Report for 2020/21 be noted;**
- (2) That the Director of Finance and Chief Accountant be asked to circulate a briefing note explaining the Audit Differences, described as 'unsubstantiated and unsupported' in the Audit Results Report for the Committee's information.**

13. CLOSING FINANCIAL ACCOUNTS UPDATE

The Committee received a report on the progress of the audit of the Council's Final Accounts for 2020/21, as it neared completion. The report also gave a progress update on the 2021/22 accounts.

The 2020/21 audit of accounts was substantially complete and the Council's finance team had continued to amend and update the accounts in line with discussions and findings highlighted by the External Auditors. There were now no material issues outstanding. The Council was anticipating an unqualified audit opinion for 2020/21, subject to the completion and review of EY's audit work. The report sought approval for the audit of accounts 2020/21 to be signed off by the Director of Finance (S.151 Officer), in consultation with the Chair of the Audit and Governance Committee.

The report also stated that the draft 2021/22 accounts were on track to be produced by the end of October 2023 and would incorporate all changes from the 2020/21 audit. This would enable the Council to progress immediately into the 2021/22 audit process with the intention of having them signed off early next Spring. This would provide a good platform to continue the accounts

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preparation work and begin the collation of the 2022/23 accounts in line with the objective of returning to a timely position on the preparation of accounts within statutory deadlines.

Resolved:

- (1) That the progress made and findings to date on the audit of the accounts for 2020/21 and production of the 2021/22 accounts be noted;**
- (2) That the Director of Finance, as S.151 Officer, in consultation with the Chair of the Audit and Governance Committee, be authorised to sign off the 2020/21 Accounts, on the conclusion of the audit.**

14. GOING CONCERN ASSESSMENT 2020/21

The Committee received a report on the Director of Finance's assessment of the Council's "Going Concern" status for the purpose of the Statement of Accounts 2020/21, which was that Reading Borough Council could continue to operate as a going concern for at least a period of 12 months from the date of signing the audit opinion, and accordingly would remain a going concern for the purpose of the 2020/21 Statement of Accounts. The report stated that a number of considerations and detailed documents had been reviewed to confirm the Going Concern assessment, and the conclusion was included in the Executive Summary. The report had attached the Draft Going Concern Disclosure Note for 2020/21 Statement of Accounts for the Committee's information.

Resolved: That the outcome of the Director of Finance's assessment of the Council's "Going Concern" status be noted, which found that Reading Borough Council could continue to operate as a going concern for at least a period of 12 months from the date of signing the audit opinion, and accordingly remained a going concern for the purpose of the 2020/21 Statement of Accounts.

15. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

The Committee considered a report providing an update on the key findings emanating from the Internal Audit reports issued for the period 1 July to 30 September 2023 (Quarter 2).

The report summarised the findings, recommendations and management actions that had been put forward for each audit review and stated the overall assurance opinion level given by the Internal Audit team. A total of five audit reviews had been finalised in the period, as follows:

- Council Tax (Substantial Assurance opinion given);
- Leavers & Movers Process (Reasonable Assurance opinion given);
- Adult Social Care Debt (Reasonable Assurance opinion given);
- Payments to Care Providers Follow up (Limited Assurance opinion given); and
- Fuel System (No Assurance opinion given).

The audit of the Fuel System had found the systems and procedures for securing and accounting for fuel to be weak and no assurance could be given that the controls in place would protect the Council against loss of fuel. Further details were available to members of the Committee in a Part 2 Annex to the report that was exempt from publication under paragraph 7 of Part 1 of Schedule 12A of the Local Government Act (as amended). In relation to the follow up review of Payments to Care Providers, the audit identified that there had been considerable progress made since the original audit, but further progress still had to be made to address the high number of outstanding invoices.

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The report also detailed the audits that were currently in progress and gave a summary of investigations work that had taken place between 1 April and 30 September 2023.

Resolved: That the audit findings be noted, and the recommendations and management action underway, as set out in the Internal Audit & Investigations Quarter 2 Update Report, be endorsed.

16. DIRECT PAYMENTS: RESPONSE TO INTERNAL AUDIT RECOMMENDATIONS

Further to Minute 38 of the meeting held on 12 April 2023, the Committee considered a report on the response to an internal audit of Direct Payments, which had identified some process weaknesses and made a series of recommendations to improve the service. The report set out the action that had been taken to address Internal Audit's eight recommendations, five of which had now been completed. The three outstanding recommendations were all scheduled to be completed in the next few months. The Committee would receive a further progress update as part of the Audit Recommendations Tracker report to the next meeting on 23 January 2024.

Resolved: That the positive response to the Internal Audit recommendations to date in relation to Direct Payments be welcomed, and further progress to implement the remaining outstanding action be reported to the Committee in the regular Audit Tracker Recommendations report to the next meeting on 23 January 2024.

17. CIPFA PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES ON AUDIT COMMITTEES

The Committee considered a report on the CIPFA Practical Guidance for Local Authorities on Audit Committees. Attached to the report at Appendix 1 were proposed revised terms of reference for the Committee and at Appendix 2 a Self-assessment of good practice against the CIPFA Practical Guidance for Local Authorities on Audit Committees.

The report noted that the Guidance updated previous CIPFA guidance from 2018 and complemented the CIPFA Position Statement on Audit Committees; it also incorporated recent legislative changes and professional developments following the Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities. Whilst it was guidance CIPFA expected that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. The report summarised the guidance relating to the purpose, independence and effectiveness, core functions, membership, engagement and outputs, and impact of the Audit Committee. CIPFA had endorsed the recommendation of the Redmond Review that the external audit annual report should be submitted to Council by the external auditor and the report sought the Committee's endorsement of this change.

The report explained that a self-assessment using the CIPFA self-assessment tool had been conducted by Internal Audit in January 2023. This had concluded that current arrangements partially complied with the guidance, with 'moderate' improvement required. One of the outcomes from the self-assessment review was to propose that the Committee's terms of reference should be updated to those suggested by CIPFA for local authorities.

The report noted that, generally, the current terms of reference addressed the core areas identified in CIPFA's Position Statement but would benefit from updating. Areas for possible increased emphasis included organisational risk profile, value for money and an oversight role on fraud and anti-corruption and a broadened reference to internal controls and financial management. Possible areas for specific inclusion were reviewing governance and assurance arrangements for significant

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partnerships/collaborations, considering the assurance framework and whether it adequately addressed the Council's risks and priorities, detailing that both the Chief Auditor and External Audit had unrestricted access to the Committee Chair and an opportunity to meet privately with the Committee. The proposed Terms of Reference would also remove the decision-making powers of the Committee in relation to the approval of the annual financial statements, which would therefore revert to Council.

Resolved –

- (1) **That the key points arising from the 'CIPFA Audit Committees: Practical Guidance for Local Authorities and Police', as summarised in the report, be noted;**
- (2) **That the recommendations of the Redmond Review that the external audit annual report should be submitted to Council by the external auditor be endorsed;**
- (3) **That Council be recommended:**
 - (a) **to approve the revised Audit & Governance Committee terms of reference, as set out at Appendix 1, and the removal of its decision-making powers in relation to the approval of the annual financial statements, returning the latter to Council;**
 - (b) **to require the Audit & Governance Committee to produce a public report annually on how it had complied with the CIPFA position statement, and discharged its responsibilities, including an assessment of its performance.**

18. REVIEW OF CONSTITUTION: CONTACT PROCEDURE RULES

The Committee considered a report on a refresh of the Council's existing Contract Procedure Rules (CPRs) to ensure the Council modernised the way it procured goods, services, and works, and that correct due diligence was in place to ensure that value for money was achieved. A copy of the proposed CPRs was attached to the report at Appendix 1. The CPRs were mandatory for all service areas and procurement staff and formed a fundamental part of the Council's Constitution. The main adjustments were highlighted in paragraphs 3.3 to 3.8 of the report and aimed to: simplify and improve consistency of terminology; set out the legislative and Public Policy obligations; prepare for the implementation of the Procurement Bill; define officers' practical obligations in establishing a contract, the procedural steps for undertaking a procurement and the required content of contracts; and clearly define the exceptions to the requirements for competition. A web-based supplementary Procurement Manual for staff containing procedural and practical details to support the processes would be produced to support use of the CPRs once agreed, and would be further embedded by an Awareness Programme. The Manual would sit outside of the Constitution and would therefore be easier to amend in response to changes in procurement practice.

Resolved –

- (1) **That the updates to the Contract Procedure Rules, as set out in Appendix 1 to the report, be endorsed;**
- (2) **That Council be recommended:**

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- (a) To adopt the Contract Procedure Rules, as set out in Appendix 1 to the report;**
- (b) To support the further development and implementation of a Procurement Manual for staff, containing the procedural and practical details and guidance to support the processes outlined within the updated Contract Procedure Rules;**
- (c) To authorise the Assistant Director of Procurement and Contracts, in consultation with the Chief Executive and Executive Director of Resources, to make appropriate amendments to ensure that the proposed Contract Procedure Rules aligned with terminology included within the new Procurement Bill when it was introduced in autumn 2024.**

19. STRATEGIC RISK REGISTER 2023/24

The Committee considered a report outlining the updates to the Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. A copy of the SRR was attached to the report at Appendix 1. The Risk Register covered the actions completed by the Council for June to September 2023 and the risk ratings for September to December 2023. The SRR had been reviewed by CMT on 11 September 2023 and no risks had been removed or de-escalated to the relevant Directorate Risk Register. There had also been no new risks added to the SRR. However, the number of red risks had been increased to include 'Failure to deliver zero carbon commitments' due to decisions being awaited on capital bids for carbon saving projects and 'Unable to deliver a balance budget', because of the cost-of-living crisis, demand pressures and ability to achieve income targets.

Resolved: That the Council's Strategic Risk Register, as of 11th September 2023, be noted.

20. TREASURY MANAGEMENT REVIEW QUARTER 1 2023/24

The Committee considered a report on the activity of the Treasury Management function during the first quarter of the year for the period 1st April 2023 to 30th June 2023. The report stated that the CIPFA Code of Practice for Treasury Management 2021 recommended that the Committee should be updated on treasury management activities at least quarterly. The Committee was advised that there had been full compliance with the Treasury Management Strategy Statement (TMSS), as agreed by Council on 28 February 2023, during this period. The report had attached the Link Group Economics Update; Debt and Investment Portfolios; and the list of approved countries for investments.

Resolved: That the Treasury Management Review Quarter 1 report for 2023/24 be noted.

21. 2023/24 QUARTER 1 PERFORMANCE AND MONITORING REPORT

The Committee considered a report, which had been considered by Policy Committee on 25 September 2023 setting out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and the Housing Revenue Accounts as at the end of Quarter 1 (June 2023). The report also summarised performance against the measures of success published in the Council's Corporate Plan. The following documents were attached to the report:

- Appendix 1 – General Fund Revenue Financial Monitoring & Performance Quarter 1 (2023/24);
- Appendix 2 – Brighter Futures for Children Budget Monitoring Report Period 3 (2023/24);

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- Appendix 3 – Capital Programme Quarter 1 (2023/24);
- Appendix 4 – Corporate Plan Performance Measures (Monthly & Quarterly) Quarter 1 2023/24;
- Appendix 5 – Corporate Plan Projects and Initiatives Quarter 1 (2023/24).

Resolved: That the 2023/24 Quarter 1 Performance and Monitoring Report and the recommendations set out and approved by Policy Committee on 25 September 2023 be noted.

22. IMPLEMENTATION OF THE NEW FINANCE SYSTEM – PROGRESS UPDATE

The Committee considered a report on the implementation of the new finance system, e5, which had recently passed a user acceptance testing milestone and was due to go live on 1 November 2023. The project was now at the stage of delivering training, finalising interfaces, rehearsing data migration, and assessing business readiness for go-live. The project Steering Group was meeting on a weekly basis to assess progress and advise on actions with representation from across the Council. The report summarised the key activities to be completed in the run up to go-live as well as the plans for user support and finance improvement post go live.

Resolved: That the progress to implement the e5 system and the plans for go-live and ongoing financial performance improvement be noted.

23. ANNUAL GOVERNANCE STATEMENT 2022/23

The Committee considered a report setting out the updated action plan for the 2022/23 Annual Governance Statement (AGS), which was attached to the report at Appendix 1.

The report explained that the Council was required to prepare and publish an AGS each year as an accompaniment to the authority's financial statements. The Council was responsible for ensuring that its financial management was adequate and effective and that it had a sound system of internal control, which facilitated the effective exercise of the Council's functions, including arrangements for the management of risk. The AGS was a record of the overall effectiveness of governance arrangements within the Authority; it reflected the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrated how the key governance requirements had been met.

The report explained that, to support the Annual Governance Statement, each directorate had completed a Directorate Governance Statement in relation to systems and processes operational within their areas during the year. These were signed off by the relevant Executive Director. The Directorate Statements demonstrated that Directorates had evaluated and assessed their internal control environment.

Resolved:

- (1) That the Annual Governance Statement for 2022/23 be endorsed;
- (2) That the Assistant Director of Legal & Democratic Services be authorised to make minor amendments to the Statement, prior to signature by the Leader and Chief Executive.

24. INFORMATION GOVERNANCE QUARTERLY UPDATE

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The Committee considered a report outlining the action underway to improve the Council's policies, systems and processes for Information Governance following several limited assurance reports in this area.

The report provided an update on: the action being taken to address the backlog of Subject Access Requests; the on-time responses to FOI requests, which stood at to 73.6% in Quarter 1 and the ongoing work to increase responses within the required timescale to 90%, as expected by the Information Commissioner's Office; data transparency; the work of the Information Governance (IG) Board; the Information Management Strategy, which set out the Council's approach to information management and governance; and uptake of the compulsory Cyber Security training for all staff and Members, which would be followed-up to improve compliance.

The report stated that the current focus would be on continuing the work with the Data Stewards, the action plan work from the Breach Management process review and the project plan for the redaction software.

Resolved: That the progress being made to improve the Council's Information Governance be noted and the future actions outlined in the report be endorsed.

(The meeting commenced at 6.30 pm and closed at 8.16 pm)