

**READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	23 July 2019		
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

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 2018/2019 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, Heads of Service (now 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, 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 2018/19. Whilst this is an improvement on the last two financial years, where only limited assurance could be given, there is still work to be done.
- 3.3 Of particular importance in determining the limited opinion in 2016/17 and 2017/18 were the key weaknesses identified within some of the Council's financial systems. In the past basic financial controls have not worked as expected, for example bank reconciliations have not been performed and journal control was poor. The Council recognised that it needed to improve financial controls and strengthened journal creation and authorisation with clear audit trails to support journal entries in place for 2018/19, along with a separation of duties between creation and authorisation.
- 3.4 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight were still not being performed. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis.
- 3.5 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A process was put into place in February 2019 and instructions have been provided to relevant staff to ensure control account reconciliations are submitted centrally to Finance.
- 3.6 There is also now a clear segregation of duties between producing the budgets (Budget Managers assisted by Finance Business Partners), approving them (Policy Committee and Council), uploading them (Financial Systems Accountant) and reconciling them (Finance Business Partners at directorate level and Financial Analysis and Planning Lead at organisational level). We are also satisfied that the procedures for developing and monitoring the implementation of the savings programme remain robust and promote scrutiny of the financial viability of savings.

- 3.7 We would however like to see documented workflows and procedures for key financial processes (e.g. bank rec and accounts payable), as such procedures will limit reliance on key individuals and minimise the risk of single points of failure. Corporate instructions such as Financial Regulations and the scheme of delegation require updating, with financial delegations reflected in the Council's financial management system.
- 3.8 Due to concerns regarding the low levels of implementation of agreed recommendations arising from internal and external audits, the Director of Resources implemented a reporting tool to list the current outstanding audit recommendations, together with their latest agreed implementation date and an update from the responsible officer on progress towards the implementation of agreed recommendations and actions. Where there was a lack of progress with implementation, the Assistant Director and responsible officer are asked to attend a meeting of the Audit & Governance Committee to explain the difficulties with implementation and the steps they were taking to address them.
- 3.9 During 2017/2018 we reported that only financial performance was reported to the Policy and Audit and Governance Committees throughout 2018/2019. Operational (as well as financial) performance was reported quarterly to the Policy Committee summarising performance, against the success measures published in the Corporate Plan to monitor progress against the Council's six priorities.
- 3.10 A review of all of the Council's employment policies has been progressed throughout the year to ensure policies are clear, easy to understand, up-to-date and reviewed regularly. This programme of work is welcomed by Internal Audit, as good employment policies strengthen corporate governance and should support a culture based on trust, fairness and inclusion. They can also speed the decision-making process by ensuring that clear guidance is readily available. With the launch on the new intranet, accessibility of policies and procedures has been greatly improved. In addition a significant piece of work to re-implement and roll out the functionality of ITrent will further strengthen governance arrangements.
- 3.11 There remain key pieces of work to be put in place to improve controls within accounts payable and accounts receivable and governance, such as greater corporate oversight over information security and how the Council stores data and adheres to retention policies.
- 3.12 The basis for the assurance opinion is set out in section 2 of the attached report and the key areas for improvement identified during our audit work are set out in section 4. 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

Internal Audit & Investigations Annual Assurance report

For the year ended 31 March 2019

1.0 OVERVIEW

1.1 Introduction

- 1.1.1 The Accounts and Audit (England) Regulations require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards¹ and corresponding Local Government Application Note².
- 1.1.2 The Public Sector Internal Audit Standards requires the Head of Internal Audit (Chief Auditor) to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment. **The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.**
- 1.1.3 Reporting the work of internal audit to the Audit and Governance Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit and Governance Committee receives quarterly reports during the year regarding internal audit and investigations activities, which provide a detailed overview of the work undertaken.

1.2 Purpose & Scope of Report

- 1.2.1 The report:
- a) includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management and internal control environment
 - b) discloses any qualifications to that opinion, together with the reasons for the qualification
 - c) presents a summary of the audit and anti-fraud work from which the opinion is derived, including reliance placed on work by other assurance bodies
 - d) draws attention to any issues the Chief Auditor judges particularly relevant to the preparation of the Annual Governance Statement.

¹ Public Sector Internal Audit Standards - Applying the CMIIA International Standards to the UK Public Sector. Institute of Internal Auditors, April 2013 (amended 2016)

² CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards

1.3 Control Environment

- 1.3.1 The Management of the Council are responsible for ensuring that the organisation operates in accordance with the law and proper standards, that public funds are safeguarded, properly accounted for and used economically, efficiently and effectively.
- 1.3.2 Management are also responsible for ensuring there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise; *internal control, governance, and risk management* arrangements. These three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

Internal Audit Effectiveness

- 1.3.3 As a prerequisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Chief Auditor is required to confirm the effectiveness of the Internal Audit Service and its resultant fitness for purpose to carry out work that informs the annual assurance opinion.
- 1.3.4 An external assessment of the internal audit service conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the summer of 2017 concluded that the Council's Internal Audit function 'generally conforms' to the requirements of the Public Sector Internal Audit Standards. The Assessor concluded that, *"Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit"*.
- 1.3.5 The Chief Auditor undertakes periodic reviews of the quality of internal audit work completed and also reviews all draft and final reports issued. In delivering the Internal Audit Service, the planning, conducting and reporting on reviews have been completed in conformance with the requirements of the PSIAS, published by the Chartered Institute of Internal Auditors and the subsequent Local Government Application Note in respect of PSIAS published by CIPFA.
- 1.3.6 The Chief Auditor is therefore able to report for 2018/19 compliance with the Public Sector Internal Audit Standards and considers the Internal Audit Service to still be effective. However, there has been a high turnover of staff (40%) over the past 18 months, which has resulted in a temporary shortage of experience, as well as skilled staff.

2.0 ANNUAL ASSURANCE STATEMENT

2.1 Basis of Assurance Opinion

2.1.1 This opinion is based on an assessment of:

- The design and operation of the underpinning governance and assurance framework
- The range of opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas.
- Whether management properly implement actions arising from audit work, to mitigate identified control risks within reasonable timescales.

2.1.2 The internal audit plan for 2018/19 was developed to provide independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk. The Plan was approved by the Audit and Governance Committee in January 2018. This Plan did not include resources deployed on reactive and proactive fraud which is referred to in section 9. Progress reports from the Chief Auditor were presented to the Committee at quarterly meetings throughout the financial year.

2.2 Annual Assurance Opinion for 2018/19

2.2.1 Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. The Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:

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 2018/19. Whilst this is an improvement on the last two financial years and the direction of travel is one of improvement, there is still more work to be done.

- 2.2.2 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 and the improvements to the control framework of some of those areas where weaknesses were identified in the past. An explanation of the assurance opinion levels can be found in annex 1.
- 2.2.3 Of particular importance in determining the limited opinion in 2016/17 and 2017/18 were the key weaknesses identified within some of the Council's financial systems. In the past basic financial controls have not worked as expected, for example bank reconciliations have not been performed and journal control was poor. The Council recognised that it needed to improve financial controls and has rectified the issues identified in previous years with regards to journal control. Testing of samples of journals revealed that there are now clear audit trails to support creation and separation of duties in the authorisation process for journals processed in 2018/2019.
- 2.2.4 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight were still not being performed. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis. Documented procedures to confirm the standards and methodology for producing and monitoring both the bank reconciliation and all contrite daily and monthly reconciliations were expected to be complete by the end of the 2018/2019 financial year.
- 2.2.5 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. Instructions have been provided to relevant staff to ensure control account reconciliations are submitted centrally to Finance. A template control sheet has been designed to record the area being reconciled, the month and year, the relevant general ledger codes, the name of the person preparing the reconciliation, the name of the person reviewing the reconciliation and the date that it was sent to Finance. This process commenced in February 2019, but has not been tested in detail by Internal Audit. However, once embedded this will address outstanding audit recommendations.
- 2.2.6 We did identify a particular weakness in relation to the reconciliation process between iTrent and Oracle Fusion, specifically the prompt posting of adjustments to ensure these are accurately and promptly reflected in the monthly reconciliation.

- 2.2.7 The projected revenue and capital outturn positions for 2018/19 have been reported quarterly to both the Policy and Audit & Governance Committee summarising performance against the measures of success published in the Council's Corporate Plan. We are also satisfied that the procedures for developing and monitoring the implementation of the savings programme remain robust and promote scrutiny of the financial viability of savings.
- 2.2.8 There is also now a clear segregation of duties between producing the budgets (Budget Managers assisted by Finance Business Partners), approving them (Policy Committee and Council), uploading them (Financial Systems Accountant) and reconciling them (Finance Business Partners at directorate level and Financial Analysis and Planning Lead at organisational level).
- 2.2.9 We note that a new finance structure was put into operation at the beginning of the financial year to increase resilience and capability. Appointments have also now been made to the more senior positions in the new structure. However, it is too early to comment on whether the new structure has been a success and is operating as intended.
- 2.2.10 We would also like to see documented procedures for key financial processes, as such procedures will limit reliance on key individuals and minimise the risk of single points of failure. Corporate instructions such as Financial Regulations require updating and a scheme of financial delegation needs better clarification and in turn reflected in the Council's financial management system.
- 2.2.11 In order to deliver the Corporate Plan and Medium Term Financial Plan there was a need to strengthen internal capacity, as there had been an over-reliance on interim and agency staff in key management posts. At the beginning of the financial year the Council recruited a Director of Resources, Heads of Finance, Procurement and Contracts, and HR and Organisational Development, strengthening the corporate capacity of the authority.
- 2.2.12 During 2018/2019 a new Council wide structure was implemented whereby Directors are now designated Executive Directors, responsible to the Council for the financial performance and service outcomes of their Directorate. Directorate delivery units will drive change across the services; ensuring major projects are monitored and delivered. The Executive Directors are the "Chief Officers" of the Council. The Executive Directors are, along with the Chief Executive Officer, accountable to Members directly for performance and financial outcomes. Heads of Service, who report to the Executive Directors, are the designated Assistant Directors.
- 2.2.13 The structure has strengthened the senior management structure of the corporate centre and built capacity to take forward the authority's transformation programme.

- 2.2.14 Due to concerns regarding the low levels of implementation of agreed recommendations arising from internal and external audits, the Director of Resources implemented a reporting tool to list the current outstanding audit recommendations, together with their latest agreed implementation date and an update from the responsible officer on progress towards the implementation of agreed recommendations and actions. Where there was a lack of progress with implementation, the Head of Service (now Assistant Director) and responsible officer are asked to attend a meeting of the Audit & Governance Committee to explain the difficulties with implementation and the steps they were taking to address them.
- 2.2.15 Some of the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.

2.3 Inherent qualifications to the opinion

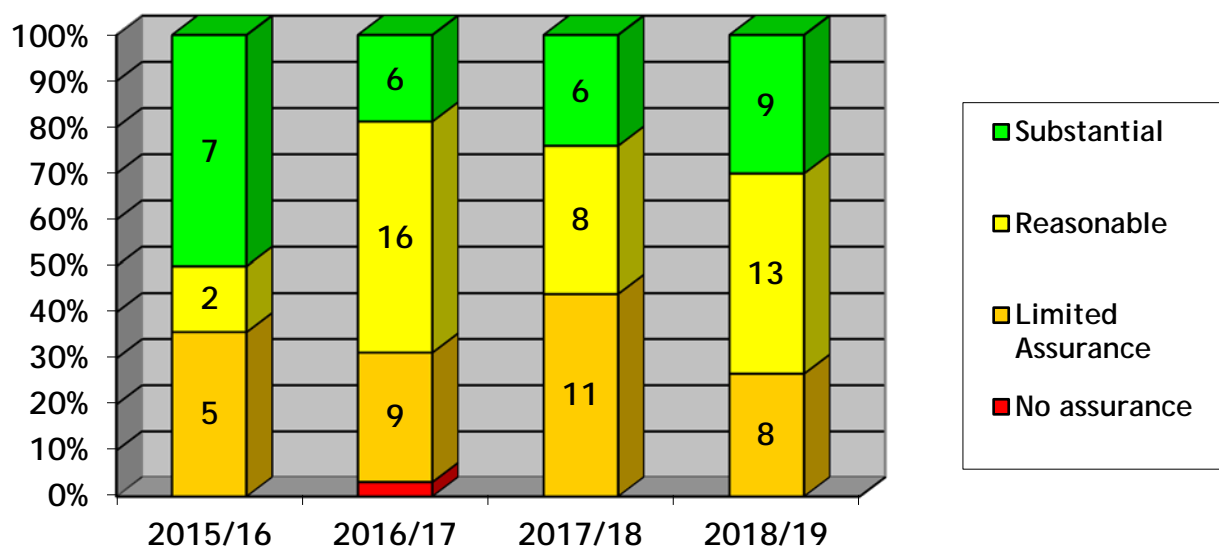
- 2.3.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, not absolute, assurances of effectiveness.
- 2.3.2 It has been noticeably difficult to get timely replies and engagement with some of our (draft) reports. This has been slow in many cases and there has been reluctance in some areas to provide responses to audit recommendations.
- 2.3.3 In continuing to provide ongoing robust assurance on the control environment, Internal Audit will need management's support to ensure that reviews are undertaken as planned and management responses are prompt and appropriate.

3 SUMMARY OF THE AUDIT WORK

- 3.1 The annual 2018/19 Annual Audit Plan was developed in line with the Public Sector Internal Audit Standards for Internal Audit. Although satisfactory progress has been made against the Plan during the period, a number of audits had to be deferred, due to both resource issues and unplanned work.
- 3.2 We completed 34 audits (including follow ups), encompassing 8 school reviews during the year. The table below summarises the report classifications.

Report Classification (2017/18)	No. of Audits
Substantial Assurance	09
Reasonable Assurance	13
Limited Assurance	08
No Assurance	0
Assurance N/A	4
Total	34
Reports in the process of being completed	3
Grant Claims certified	5
Total	42
No of projects cancelled or deferred	05

- 3.3 The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for all audits issued.



3.4 Priority of Recommendations

- 3.4.1 At the time of writing we have made a total of 127 audit recommendations in our reports (both draft and finalised), of which 13 (10%) were classified as a high priority.
- 3.4.2 In the following section we have set out the high level key findings identified during our audit work for 2018/2019.
- 3.4.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 2.

4 LIMITED ASSURANCE REVIEWS

- 4.1 Some of the key areas for improvement identified during our audit work throughout the year are set out below:
- i. **Accounts receivable:** no progress has been made in centralising the accounts receivable function, and the same control deficiencies reported in 2017/2018 apply for 2018/2019. Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance.*
 - ii. **Accounts Payable:** Although work has taken place to address concerns raised in previous audit reports, many of the actions are work in progress. These include, but are not limited to: open purchase order control, lack of documented business process and office procedures, no central control over suppliers.*
 - iii. **Data Storage:** corporate governance over data processing and storage issues require improvement as RBC may be failing in not removing data it no longer requires for processing or failing to identify personal data that it holds and ensure that it is adequately protected.*
 - iv. **Delayed transfers of care:** at the time of our audit the systems for the recording of individuals ready to be discharged from hospital are resource intensive, with known data quality issues.*
 - v. **Continuing health care:** at the time of our audit we identified a risk that the Council is not identifying potential CHC cases and so may be contributing for the costs of care for people, when other parties should be financially responsible instead, or as well.*

- vi. Residents parking: no system documentation, setting out the management and administrative arrangements for maintaining and monitoring applications.*
- vii. Additional Payments: Lack of supporting documentation, including justification for the payment, evidence of appropriate sign off, regular review and the ongoing cost effectiveness of arrangements. We also found no regular review or any assessment of additional payments being made.*
- viii. Direct Payments (follow up): Although new procedures have been put in place, quarterly monitoring and annual audit checks by staff of Direct Payment accounts are not being done on time and there are backlogs with both. In addition gaps and inconsistencies between records were identified.*

Note: an audit is a snapshot at one moment in time and therefore weaknesses may have been rectified and improvements made since the audit review. These audits will be subject to audit follow up during the next financial year.

5.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

5.1 Corporate Governance

- 5.1.1 Our internal audit work has confirmed that the Council has taken steps to improve governance, such as more robust budget monitoring, greater scrutiny of the financial viability of savings and improved performance management.
- 5.1.2 The performance framework is, in effect, a summary of the key internal processes and components through which the Council sets, delivers, monitors and reports on its priorities; as such it encompasses elements of strategy, finance, performance, people and risk management, and reporting and accountability. Last year we reported that only financial performance was reported to the Policy and Audit and Governance Committees. Performance is now reported quarterly to the Policy Committee summarising performance, against the success measures published in the Corporate Plan to monitor progress against the Council's six priorities.

- 5.1.3 The Team Reading programme was introduced by the Chief Executive to promote the Council's vision and its values, supported by a leadership behaviours programme and new HR policies and procedures. These are intuitive programmes which will help improve the governance arrangements of the Council.
- 5.1.4 A review of all of the Council's employment policies has been progressed throughout the year to ensure policies are clear, easy to understand, up-to-date and reviewed regularly. This programme of work is welcomed by Internal Audit, as good employment policies strengthen corporate governance and should support a culture based on trust, fairness and inclusion. They can also speed the decision-making process by ensuring that clear guidance is readily available. With the launch on the new intranet, accessibility of policies and procedures has been greatly improved. In addition a significant piece of work to reimplement and roll out the functionality of ITrent will improve governance.
- 5.1.5 There remain key pieces of work to be put in place to improve governance over information security and data protection, such as strengthening corporate oversight over data processing, ensuring compliance with the General Data Protection Regulation (GDPR) and how the Council stores data and adheres to retention policies.

5.2 Risk Management

- 5.2.1 The Corporate Management Team (CMT) manages and reviews the Council's strategic risks and reports were provided throughout the year providing status updates on corporate risks to the Audit & Governance Committee.
- 5.2.2 While risk management techniques are deployed, we are still of the view that risk management practice is not thoroughly embedded in all parts of the Council.
- 5.2.3 The risk registers help maintain transparency, in line with the principles of corporate governance, which in turn helps demonstrate that risk management is an integral and explicit part of the Council's overall management arrangements. Whilst the strategic risk register has been updated throughout the year, the directorate registers have not been maintained with as much vigour.
- 5.2.4 Internal Audit have used the Council's Corporate Risk Register to inform the audit planning process and at the same time can provide assurance that appropriate measures are being taken to manage the Council's key business risks.

6.0 ASSURANCES FROM OTHER SERVICES

6.2 External Auditor

6.2.1 At the time of writing, EY were still undertaking the audit of the 2016/17 accounts and were to commence their audit of the 2017/18 and 2018/19 accounts later on during the summer, once they have completed their NHS audits. We were therefore unable to take any assurances from their work, but have been aware for some while of the historic control deficiencies relating to the 2016/17 and 2017/18 accounts.

6.3 ICT Assurance

6.3.1 Public Services Network³ (PSN) Certification has been achieved and the Council is certified until 18th September 2019. The Council has just undertaken independent PSN Vulnerability Testing for 2019/20 and will be addressing any Critical/High vulnerabilities identified.

6.3.2 The Council is also implementing continuous vulnerability scanning of its IT network, to move from once a year to monthly continuous assessments which will manage risks better.

7.0 Resource availability, allocation & jobs completed

7.1 For 2018/2019, the planned and actual resource availability is summarised in table A on the following page. This set out the requirement of 1024 planned audit days. The actual resource availability for the year for planned reviews was 938 days, with the difference due to vacancies.

³ The PSN is the government's high-performance network, which helps public sector organisations work together, reduce duplication and share resources

Table A Resource (Planned v Actual)	Planned Totals	Actual Totals	Gain (+) Against
Resource Available	1514	1500	14
Non-audit time			
Annual & other leave	184	196	12
Sickness	30	25	-5
Training (1)	48	50	2
Supervision & appraisal (2)	45	59	14
Management	29	58	29
Administration (3)	39	64	25
Other (4)	28	28	0
Sub-Total:	403	480	77
Non Audit Related Work			
Risk Management (5)	12	8	-4
Emergency Planning & Business Continuity (6)	12	1	-11
Corporate Investigations Team (7)	27	33	6
Insurance (8)	31	38	7
Elections (9)	5	2	-3
Sub-Total:	87	82	-5
Audit time available:	1024	938	-58
Time Allocated to Audit Work	Planned Days	Actual Days	Variance Days
Audit Reviews	776	762	-14
Other Assurance work	88	66	-22
Contingency	100	62	-38
Audit Planning & Reporting	60	48	-12
Total	1024	938	-86

- 1) Professional training support, external courses & seminars, internal courses/training.
- 2) One to ones, appraisals, staff supervision & audit sign off etc.
- 3) Review of internal audit, updating office procedures, IA web and intranet page etc.
- 4) Budgetary control, plan reconciliation, health & safety, quality control etc. team meetings
- 5) Facilitation of risk registers, training etc.
- 6) Assisting in emergencies, attending EP team meetings etc.
- 7) Management of the Corporate Investigations Team
- 8) Management of Insurance Team
- 9) Participation in election work

7.2 Performance of the Internal audit Service

7.2.1 The Public Sector Internal Audit Standards document the expected professional standards for internal audit in Local Government and are the applicable standards against which the quality of internal audit in local government is assessed. The Chief Auditor monitors compliance against the code, by self-assessment and/or external review.

7.2.2 Our performance during the year in relation to the performance indicators agreed for the internal audit service is shown in table B below: -

Table B: Key performance Indicators for internal audit

Key Performance Indicators		Actual			
		Target	2016/17	2017/18	2018/19
i.	Client Satisfaction	90% or above	91.4%	89%	85%
ii.	Production of final report within 2 weeks of receipt of management responses	90%	86%	86%	86%
iii.	Management responses received within 3 weeks of issue of draft report	90%	36%	29%	30%
iv.	Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	39%	54%	49%
v.	Number of audit projects completed relative to those in the (revised) plan	80%	88%	71%	80%
vi.	Actual spending of controllable budget	-	98%	99.5%	99%
vii.	% Of working days lost to sickness	2.0%	0.81%	0.78%	1.83%

7.2.3 As with previous years, in some areas of the Council it has been hard to get audits started and doubly difficult to get timely replies and engagement with the draft reports. This in turn has led to audits being delayed, taking longer than originally planned, which has subsequently impacted upon internal audit performance statistic. Line iii in the above table is a good indicator of the delays in receiving a management response to the draft report, with only 30% of responses received within three weeks.

8.0 Counter Fraud Activity

- 8.1 Best practice advises that the results of corporate investigations, including the number and types of investigations undertaken should be reported annually. Progress on investigations is reported every quarter to the A & G Committee with a summary on the types of investigations in progress. Table D provides a high level overview of investigations undertaken compared to previous financial years. The counter fraud resource consisted of four experienced investigators for the 2018/19 financial year.
- 8.2 The Investigations Team deals with benefit, housing tenancy, blue badge and internal fraud etc. and has had a successful year, demonstrating the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified approximately £2m in notional and cashable savings (see table C below for more detail). The deterrent of this activity should not be underestimated.
- 8.3 In recognition of their work they were highly commended for performance in the area of "Pursue" in Fighting Fraud and Corruption Locally.

Table C Annual Summary of Investigations	2016/17	2017/18	2018/19
Housing tenancy Fraud			
No. Housing Tenancy Referrals investigated	86	46	57
Properties Recovered	10	18	21
Estimated saving from Recoveries ¹	£150,000	£270,000	£1,953,000
Prosecutions Secured	0	3	3
Application under the Proceeds of Crime Act	1	0	0
Value of POCA/Compensation award	£21,000	£46,817	0
Right to Buy Fraud			
No. RTB applications investigated		11	35
No RTB applications refused as a result of investigation ²		3	1
Estimated savings from preventing sale of property ³		£195,000	£65,000
Parking Fraud			
Blue badge referrals	25	13	27
Blue Badges recovered	6	3	10
prosecutions secured	3	1	3
PCN's issued	4	3	6
estimated annual savings ⁵	£3,450	£1,725	£5,750
Residual Housing Benefit			
Prosecutions	3	1	1
value of fraudulent overpayments identified	£1,518	£12,169	£34,360





Continued from previous page	2016/17	2017/18	2018/19
Council Tax Support			
No. CTAX Referrals investigated	112	90	296
Prosecutions	2	1	0
add pens	14	2	2
value of fraudulent overpayments identified	£19,468	£4,772	26,943
Value of add pens	£8,333	£2,386	£1,091
Single Person Discount			
value of fraudulent overpayments identified ⁴			£195,247
New Homes Bonus			
Reduction in no. of long term empty properties			115
NHB reward ⁶			£106,467
Social Care			
No. Social Care Referrals investigated	2	1	1
Financial value of cases	£1,500	£6,000	£62,000
Internal Investigations			
No. Internal Referrals	4	3	2
Number of cases investigated	1	3	2
Cases prosecuted	1	2	2
Financial value of cases	£43,000	£12,000	£14,598

Notes:

- ¹ Notional £93,000 (previously £18,000) per property recovered based on average four year fraudulent tenancy - this includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies. The notional savings multiplier is used by the Cabinet Office in their National Fraud Initiative report.
- ² Social housing tenants who were not entitled to right to buy because of their status in the UK, or had multiple tenancies unlawfully.
- ³ Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RTB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RTB cap and the changes in average house prices. This method allows for benchmarking to be carried out.
- ⁴ Following a data matching exercise matching 21,918 address records against tracing and occupier lookup databases to determine the strength of residency for all individuals in a household within the borough, investigations officers are working with Council Tax reviewing the very high risk data matches and high risk matches. From the matches investigated to date £195,247 was identified for CTAX recovery.
- ⁵ £575 is the notional value applied by the Cabinet Office per blue badge cancelled to reflect lost parking and congestion charge revenue.
- ⁶ The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. The 'net reduction' of 115 long term empty properties earns the Council an NHB payment of £106,467 for 2020/21, part of the 4-year NHB reward of £425,870.




ANNEX 1: Assurance Framework

Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

OPINION	EXPLANATION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Substantial</p>  <p>GREEN</p>	<p>Substantial assurance can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with low impact on residual risk exposure.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Reasonable</p>  <p>YELLOW</p>	<p>We can give reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Limited</p>  <p>AMBER</p>	<p>Limited assurance can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">No assurance</p>  <p>RED</p>	<p>There is no assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with high impact on residual risk exposure until resolved.</p>

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

PRIORITY	CURRENT RISK
	<p>Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.</p>
	<p>Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective</p>
	<p>Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration</p>

- 3.1.1 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.
- 3.1.2 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

ANNEX 2: Detailed analysis of internal audit reviews 2018/19

SUBSTANTIAL ASSURANCE - can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure

Title	Start	Draft	Final	Recs		
				H	M	L
Business Rates (NNDR)	Feb-19	May-19		0	0	5
PPE Journals	Jun-18	Jun-18	Jun-18	0	0	0
Journals 18/19 Q1	Jul-18	Jul-18	Jul-18	0	0	0
Journals 18/19 Q2	Oct-18	Oct-18	Oct-18	0	0	0
Revenue Budget Setting	Jul-18	Oct-18	Nov-18	0	3	1
Budgetary Control & Savings	Nov-18	Jan-19	Mar-19	0	0	1
Hugh Faringdon Secondary School	Oct-18	Oct-18	Nov-18	0	0	3
Redlands Primary School	Nov-18	Nov-18	Dec-18	0	0	2
The Hill Primary School	Sep-18	Oct-18	Nov-18	0	3	5

REASONABLE ASSURANCE- We can give **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** expose until resolved.

Title	Start	Draft	Final	Recs		
				H	M	L
Bank and Cash Reconciliations	Dec-18	Jan-19	Feb-19	3	3	0
Payroll	Feb-19	April 19		1	0	2
Employee Gifts & Hospitality & Declarations of Interest	Sep-18	Nov-18	Mar-19	0	4	2
Payment Card Industry Data Security Standard	Jun-18	Aug-18	Nov-18	0	3	0
Network Infrastructure Security	Mar-18	Aug-18	Oct-18	0	4	2
Homes for Reading	Aug-18	Mar-19	Apr-19	0	7	3
South Reading Leisure Centre	Jul-18	Aug-18	Sep-18	0	1	0
Right to Buy (follow up)	Apr-18	Jun-18	Jul-18	0	1	3
Christ the King Catholic Primary School*	Jan-19	Feb-19	Mar-19	0	2	0
St Michael's Primary School*	Mar-19	Mar-19	Apr-19	0	2	5
Whitley Park Primary School	Jun-18	Jul-18	Jul-18	0	3	3
Norcot Nursery School	Jun-18	Jul-18	Jul-18	0	3	5
New Bridge Nursery School*	Jun-18	Jul-18	Nov-18	0	1	1

*Results of audit reported directly to BfFC

LIMITED ASSURANCE - can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

Title	Start	Draft	Final	Recs		
				H	M	L
Direct Payments (Follow up)	Dec-18	Mar-19	Apr-19	1	5	1
Continuing Health Care (CHS)	May-18	Oct-18	Nov-18	2	5	1
Delayed Transfer of Care	Apr-18	Aug-18	Nov-18	1	4	1
Accounts Receivable	Oct-18	Dec-18	Jan-19	1	6	1
Accounts Payable	Dec-18	Feb-19	Apr-19	1	2	1
Additional Payments	Feb-18	Jul-18	Aug-18	1	3	1
Data Storage	Jun-18	Dec-18	Apr-19	1	3	0
Residents Parking	Jul-18	Oct-18	Dec-18	3	5	1

Other reviews completed, which didn't require an assurance opinion:

Title	Start	Draft	Final	Recs		
				H	M	L
Troubled families Grant Sign Off Q1	Sep-18	Sep-18	Sep-18	0	0	0
Troubled families Grant Sign Off Q3	Dec-18	Dec-19	Dec-18	0	0	0
Troubled families Grant Sign Off Q4	Feb-19	Feb-19	Feb-19	0	0	0
Local Transport Plan Capital Settlement (Grant Certification)	Aug-18	Oct-18	Nov-18	0	0	1
Bus Subsidy Grant	Aug-18	Oct-18	Nov-18	0	0	1
Stronger Together Partnership	Sep-18	Oct-18	Oct-18	0	0	0
Commercial Leases (Stepping Stones)	May-18	Jul-18	Dec-18	2	0	0
Spoil Certificate and Counterfoils	Oct-18	Oct-18	Oct-18	0	0	0

Planned audits carried over to 2019/2020 for completion:

Title	Start	Draft	Final	Recs		
				H	M	L
Public Health						
Entitlement & Assessment/HB Subsidy	Feb 19	Jun 19				
Foster Care*	Mar 19	May 19	May 19	1	5	1
Looked After Children*	Mar 19	April 19	May 19	2	3	0
Child Exploitation*	Jan 19	April 19	May 19	1	5	1
Commercialisation	Oct 18	Jan 19				
Sec 106 Agreements	Mar 19	April 19				
Phoenix College*	Feb-19	Mar-19	May 19	0	0	0
Corporate Buildings H&S Statutory Compliance Regimes	Feb 19	May 19				

*the results of these audit reviews will be reported directly to BfFC