

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 23 JULY 2019

**Present:** Councillors Stevens (Chairman), Davies, Emberson, Gittings, McKenna & J Williams.

**Apologies:** Councillors Edwards and Warman;

**In attendance:** Councillor Brock (Leader of the Council).

### 1. DECLARATIONS OF INTEREST

Councillor Gittings declared a non-pecuniary personal interest in Agenda item 4/Minute 4, 'Audit Arrangements for Brighter Futures for Children'.

### 2. MINUTES

The Minutes of the meeting of 16 April 2019 were confirmed as a correct record and signed by the Chair.

### 3. QUESTIONS

Questions on the following matters were submitted, in accordance with Standing Order 36(2):

	<b>Questioner</b>	<b>Subject</b>	<b>Answer</b>
1.	Colin Lee	Accounts 2016/17	Cllr Stevens
2.	Colin Lee	Accuracy of Statutory Accounts	Cllr Stevens
3.	Colin Lee	Revisions to 2016/17 Accounts	Cllr Stevens
4.	Peter Burt	Public Access to Information	Cllr Stevens
5.	Peter Burt	Chief Auditor's Review of FOI Procedures	Cllr Stevens
6.	Cllr J Williams	Previous Auditors, KPMG	Cllr Stevens

(The full text of the questions and replies was made available on the Reading Borough Council website).

### 4. AUDIT ARRANGEMENTS FOR BRIGHTER FUTURES FOR CHILDREN

Further to Minute 32 of the previous meeting, Kate Graefe, Assistant Director of Procurements and Contracts, submitted a report setting out the audit arrangements for Brighter Futures for Children (BFfC), providing assurance that children and education service related risks that had previously been reported to the Committee were now being appropriately monitored and acted upon by the Company.

The report explained that BFfC operated an audit regime that was similar to the Council's, with the BFfC Audit & Risk (A&R) Committee being a key component in the Company's Corporate Governance arrangements. The A&R Committee met quarterly to review and discuss the effectiveness of the Company's internal control, governance and risk management arrangements. The A&R Committee was composed of two BFfC non-executive directors, one of whom chaired the meeting, the Director of Finance & Resources and the Managing Director. As part of Company's assurance

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process the A&R Committee reported on its activity to the Company Board, which would include an annual report. The Council's Internal Audit Team provided the internal audit service to the Company under a Service Level Agreement, details of which were set out in the report.

Paul Harrington, Chief Auditor, advised the Committee that the A&R Committee had now appointed a third non-executive director member. The Committee commented that BFfC may wish to review the appointments of the Director of Finance & Resources and the Managing Director to the A&R Committee, as their positions in the Company may present a conflict of interest when carrying out the role of the A&R Committee. Similarly, the Council had reviewed the membership of the Audit & Governance Committee and no longer appointed the Leader and Deputy Leader.

**Resolved: That Brighter Futures for Children's Internal Audit arrangements and governance in place to ensure that children and education service related risks were appropriately monitored and acted upon by the Company be noted.**

(Councillor Gittings declared a non-pecuniary personal interest in this item).

### 5. 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 2018/2019 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 never be absolute, reasonable assurance could now be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2018/19. The Assurance Report noted in section 4, that some key areas for improvement had been identified within some of the Council's systems. In these cases, it had only been possible to give limited assurance. The Chief Auditor emphasised that, whilst improvements had been made and the direction of travel was positive, there was still considerable work to be done.

The Committee noted the key performance indicators (KPIs) for internal audit, which were set out at paragraph 7.2.2 of the Assurance Report and included a target for management responses to audit reports to be received within three weeks. The KPIs expected this to be met on 90% of occasions but in 2018/19 it had only been achieved 30% of the time. It was proposed that a list should be kept of the services that missed the three week target for a response to ensure that the information was available for the Committee to review if there was no improvement in performance.

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### Resolved:

- (1) That the assurance opinion given by the Chief Auditor be noted;
- (2) That a record be kept by the Chief Auditor of the services that had not met the Key Performance Indicator to respond within three weeks of issue of a draft audit report.

### 6. INTERNAL AUDIT QUARTERLY PROGRESS 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 April 2019.

The report set out a summary of the audit reports in respect of Payroll; Non Domestic Rates; Section 106 (follow-up); Corporate Buildings Health & Safety Statutory Compliance Regimes; and Journal Testing.

The report also listed the audits that were currently in progress, or were planned for 2019/20, and gave a summary of investigations work between April and June 2019.

**Resolved:** That the report be noted.

### 7. STRATEGIC RISK REGISTER 2018/19 Q1

Paul Harrington, Chief Auditor, submitted a report presenting the updated Corporate Strategic Risk Register, which was attached to the report at Appendix 1. The Register was presented to the Committee at least once every six months and included an assessment of the risk appetite for each individual risk, which gave an indication of the level of risk that the Council was willing to accept to meet its long-term objectives. In order to focus attention on the areas of greatest risk, it was recommended that the Register should only include the key current risks that had not been mitigated to an acceptable risk appetite level.

The report stated that, although guidance was provided in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remained very much a subjective process. The primary aim of the Strategic Risk Register was to identify those key vulnerabilities that the Corporate Management Team (CMT) considered should be closely monitored. The Committee discussed the relative merits of including the Climate Emergency as a key strategic risk and whether the extensive mitigation work to reduce the risk of injury and death in the Council's residential accommodation should be reflected in a lowering of the RAG score for this risk. In order to keep these issues under review, CMT would continue to consider regular reports on the Strategic Risk Register and discuss the most appropriate risks to monitor through this process.

**Resolved:** That the report be noted.

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### 8. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 32 of the meeting held on 16 April 2019, Jackie Yates, Executive Director of Resources, submitted 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 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 87 high and medium risk recommendations from Internal Audit, of which 37 (43%) were currently green, 29 (33%) were amber and 21 (24%) were red. Sixteen recommendations had now been completed and would be removed from the next report. The 'red' rated risks had increased from 16 to 21 since the last report, mainly as a result of action to address 28 'new' audit recommendations, which were not yet due for completion.

The Committee requested an update on recommendation 38, 'Section 106', to determine the reason there had not been a report from the Finance Service to enable reconciliation between Finance and Planning records since January 2019.

**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. FINAL ACCOUNTS UPDATE

Further to Minute 33 of the meeting held on 16 April 2019, Matt Davis, Assistant Director of Finance, submitted a report providing an update on progress with the completion of the Council's Final Accounts for 2016/17, 2017/18 and 2018/19. The Committee was advised that the 2016/17 Accounts had now been signed off and published on the Council's website. The draft 2017/18 Accounts were in the final stages of being completed and would shortly be handed over to the Council's external auditors. It was anticipated that the formal period of public inspection would begin in the week beginning 29 July 2019. Once the 2017/18 Accounts had been completed, officers would turn their attention to the 2018/19 Accounts. At this stage, it was anticipated the draft 2018/19 Accounts would be presented to EY in time to commence the public inspection by early September 2019.

**Resolved:**

- (1) That the 2016/17 accounts had now been signed off by the Council's external auditors be noted;
- (2) That the expectation that the accounts for 2017/18 would be available for the statutory 30-day public inspection period in the week beginning 29 July 2019 be noted;
- (3) That the progress being made towards closing the 2018/19 accounts be noted.

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### 10. EXTERNAL AUDITOR UPDATE

Adrian Balmer, EY, presented the Audit Results report on the 2016/17 accounts. The External Auditor's opinion was that the financial statements:

- gave a true and fair view of the financial position of Reading Borough Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended, except for the following areas: short-term creditors; short-term debtors; comprehensive income and expenditure statement; and IAS 19 scheme assets; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

The report explained that EY's opinion was qualified because of a number of significant control deficiencies which included: no journal controls; no control account or bank and cash reconciliations; and no clear control over the year-end financial closedown processes. In addition, EY had not been able to obtain sufficient appropriate compensating audit evidence in relation to the following areas: short-term creditors; short-term debtors; IAS 19 scheme assets and the following lines that made up the cost of services' part of the comprehensive income and expenditure statement: Adult Care and Health Services; Corporate Support Services; Children, Education and Early Help Services; Environment and Neighbourhood Services and Housing Revenue Account. Given the material uncertainty in these areas and the fact that EY had been unable to obtain the required level of assurance, EY could not form an opinion on the material correctness of these accounts.

**Resolved: That the position be noted.**

(The meeting commenced at 6.30pm and closed at 8.40pm).