

READING BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

19 SEPTEMBER 2019

QUESTION NO. 1

Colin Lee to ask the Chairman of the Audit & Governance Committee:

Internal Audit Investigations

How do the internal auditors decide on which areas of Reading Borough Council's finances and practices they scrutinise, examine and audit over a financial year, indicating how the process is initiated and progressed i.e.

- 1) Who is able to instruct them to consider an investigation;
- 2) The process used to determine whether an investigation will be undertaken, and
- 3) The officers or Councillors who are as a matter of course informed and kept apprised of the examination?

REPLY by Councillor Stevens (Chair of the Audit & Governance Committee):

In accordance with the Public Sector Internal Audit Standards, a risk-based approach to audit planning is followed. Although there is no statutory maximum or minimum internal audit exposure, the annual audit plan needs to have appropriate coverage, to enable the Chief Auditor to provide his Annual Assurance opinion at the end of the financial year.

The internal audit team cannot audit all of the Council's risks and therefore each potential auditable activity is risk assessed and prioritised, whilst giving due consideration to available resources and the skills of the team.

The information which is used to prepare the risk assessment and proposed internal audit plan is collected from a number of different sources, including committee reports, risk registers etc. Executive Directors and their management teams are also consulted on areas to be included in the audit plan, along with key finance staff and statutory officers. The objective of this exercise is to gain an understanding of the Council's objectives and risks. This information is then used to inform and design the audit plan.

The audit plan is fixed for a period of one year; however it must at the same time be fluid, kept under continuous review and amended to take into account emerging risks and areas where assurance work is required to be provided. Any significant changes are reported back to the Audit & Governance Committee.

The Council's Audit and Governance Committee is required to approve and monitor progress of the audit plan, with outcomes of internal audit reviews and investigations reported to the Committee throughout the year. The plan is shared with Senior Managers so they are aware of reviews which will be undertaken in their areas.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit will be promptly brought to management's attention to enable appropriate remedial action to be taken prior to being formally published in the audit report. As already mentioned, a summary of all audits completed is reported to the Audit & Governance Committee and for those audits assigned a negative assurance opinion the full audit report is disclosed. Additionally, all reports are circulated to the relevant Service Manager, Assistant Director and Director.

Any Senior Manager or Councillor can request a review on investigations. Equally, reviews may arise from whistle blowing activity. Any request for additional audits or investigations is assessed by the Chief Auditor in consultation with the Executive Director of Resources. The decision on whether or not to proceed will very much depend on the nature of the request or allegation, available resources and current workload.

The Chief Auditor keeps the Executive Director of Resources, as the Council's statutory section 151 officer, apprised of progress with the plan and issues arising.

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QUESTION NO. 2

Colin Lee to ask the Chairman of the Audit & Governance Committee:

2016/17 Accounts

I am led to believe that the issues with RBC's 2016/17 accounts had not been identified previously; can I please have an explanation as to why the issues were not identified and resolved before external auditing if there is sound internal auditing, investigation and scrutiny?

REPLY by Councillor Stevens (Chair of the Audit & Governance Committee):

The roles of internal and external audit are different. Internal auditors generally examine issues related to internal controls, governance and risk, while external auditors examine the financial records and issue an opinion regarding the financial statements of the Council.

As reported to the committee, significant work has been undertaken by officers and external audit to enable the sign off of the 2016/17 accounts.

EY found that some of the basic financial controls were not working as expected during 2015/16 and 2016/2017, for example, the regular completion of reconciliations and bank reconciliations not being kept up-to-date.

These control weaknesses were also flagged to the Audit & Governance Committee by the Council's internal auditors, culminating in the Chief Auditors limited assurance opinion for 2016/2017. In his annual report for 2016/2017, the Chief Auditor reported that compliance with core systems controls had deteriorated, the journals were not under proper control and supervision and reconciliations were an area of concern.

The responsibility for addressing recommendations sits with management not Internal Audit. Due to concerns regarding the low levels of implementation of agreed audit recommendations, the Executive Director of Resources implemented a reporting tool in July 2018 to update the Committee on 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 is a lack of progress with implementation, the Assistant Director and responsible officer are asked to attend a meeting of this Committee to explain the difficulties with implementation and the steps they are taking to address them.

A new finance structure was also put in place early 2018 to increase resilience and capability. This has not only increased capacity, but has also provided some much needed resilience within the Finance Service.

Internal Audit have subsequently reported to this Committee, improvements with recommendations and journal processing and the Chief Internal Auditor's Annual assurance opinion for 2018/2019, as previously reported to this committee, has improved.

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QUESTION NO. 3

Colin Lee to ask the Chairman of the Audit & Governance Committee:

Audit of Partner Enterprises

May I have an overview of the authority of Internal Audit to conduct an evaluation of partner enterprises such as Reading Transport Limited, PFI schemes, Housing Associations and if there is no right in practice and in contract for such investigations what guarantees does the Council hold that such companies are working and delivering 1) in the best interest of the people of Reading, 2) best practice and 3) are delivering value for money?

REPLY by Councillor Stevens (Chair of the Audit & Governance Committee):

The internal audit service has no authority to undertake audits of partners; Council owned companies or contractors, unless provision is made in the relevant contract or service agreement. For example, Brighter Futures for Children, a wholly owned subsidiary Company of the Council, 'buys back' the internal audit service. However, the reporting and assurance is provided to the Company Board not to the Council.

Reading Transport Limited is another wholly owned company and has its own appointed Auditors. Housing Associations are independent organisations and are invariably registered Charities which are subject to scrutiny from the Charity Commission and their own Auditors.

The Council PFIs schemes for Housing and Waste Disposal have been examined by internal audit in the past, with the focus on reviewing governance, contract management and payment mechanisms.

The Council ensures that partnering organisations are delivering value for money and are working in the best interests of the people of Reading through regular performance and financial monitoring to the Council, as Shareholder and through contract management arrangements.