Internal Audit & Investigations Annual Assurance report

For the year ended 31 March 2026

1.0 OVERVIEW

1.1 Introduction

1.1.1 This report summarises the results of the work that Internal Audit has carried out in accordance with its annual plan for 2025-26 and provides an annual opinion on the internal control environment.

1.1.2 The Accounts and Audit (England) Regulations mandate that local authorities maintain an effective system of internal audit for their accounting records and internal controls, following proper practices defined by the Global Internal Audit Standards (GIAS)[1]. The GIAS require the Chief Audit Executive (Chief Auditor) to provide a written report to governance bodies, supporting the Annual Governance Statement with an opinion on the Council's control environment. This opinion is a key assurance source for the Council's annual governance statement. The Audit and Governance Committee reviews and monitors internal audit activities through quarterly reports, ensuring the internal audit function meets statutory obligations, which is crucial for corporate governance.

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.

1.3 Internal Audit Effectiveness

1.3.1 In line with good practice, Internal Audit should annually confirm compliance with the GIAS, reporting any non-compliance to the Audit and Governance Committee. This is supported by an External Quality Assessment (EQA), required every five years; the last, completed in May 2022, confirmed conformance, with the next due in 2027. A self-assessment undertaken this year confirms the service met the standards for 2025/26 and is effective.

[1] The Global Internal Audit Standards (GIAS) are a comprehensive, principles-based framework published by the Institute of Internal Auditors (IIA). They are a mandatory set of guidelines designed to elevate, evaluate, and guide the quality of internal auditing practices

2.0 ANNUAL ASSURANCE OPINION

2.1 Basis of the Annual Opinion

2.1.1 The annual opinion is primarily based on internal audit work undertaken during the year, supported by other assurance sources including fraud investigations, follow-up of management actions, the Council's governance and risk framework, and external inspections and reviews.

2.1.2 In forming this opinion, it should be noted that it reflects only the areas reviewed. Assurance cannot be absolute, and responsibility for maintaining effective governance, risk management and internal control rests with management, not Internal Audit.

Sufficient audit work has been completed to support the opinion. Based on the evidence reviewed, the Chief Auditor concludes that **Reasonable Assurance** can be placed on the adequacy and effectiveness of the Council's internal control framework for 2025/2026.

2.1.2 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 the year and the improvements required to the control framework in some of those areas where weaknesses were identified in the past.

2.1.3 27% of audits received limited or no assurance in 2025/2026, compared to 18% in 2024-25, and 44% in 2023-24, (see section 3). Some of the key areas for improvement identified during our audit work are set out in section 4.2. These are reviews where limited or no assurance has been given and improvements to the control environment are needed.

2.2 Inherent qualifications to the opinion

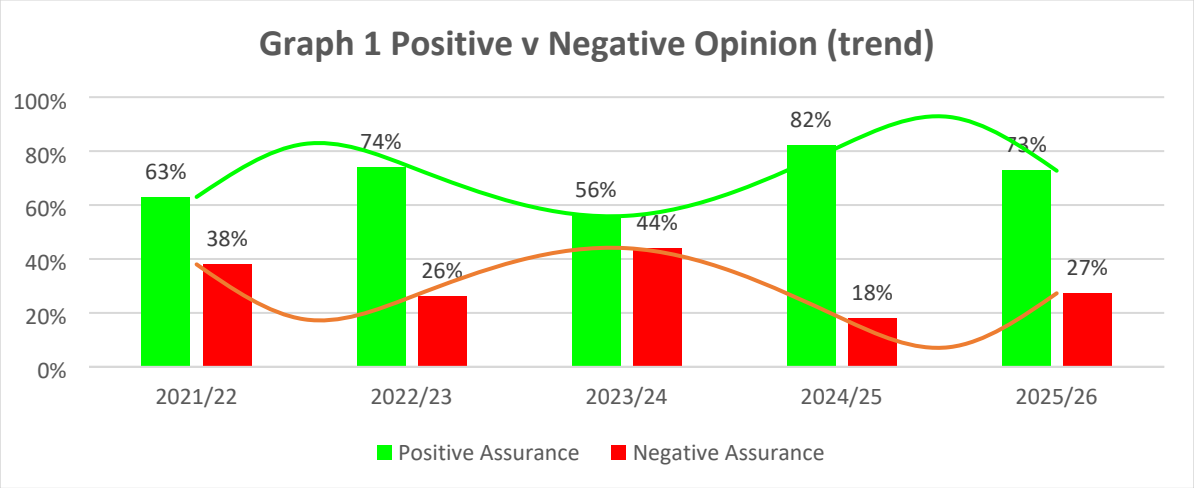
2.2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, not absolute, assurances of effectiveness. The Chief Auditor's assurance opinion should be considered alongside other sources, like External Audit reports and information governance reporting, to ensure the Audit & Governance Committee makes informed decisions about the Council's control environment.

3 SUMMARY OF THE AUDIT WORK

3.1 The annual 2025/26 Annual Audit Plan was developed in line with the Global Internal Audit Standards. We will have completed 22 audits, 4 advisory reports, and certified 2 grants. Table A below summarises the report classifications.

Table A Report Classification (2025/26)	No. of Audits
Substantial Assurance	3
Reasonable Assurance	13
Limited Assurance	5
No Assurance	1
Total[2]	**22**
Grant Claims certified	2
Advisory report	**4**
No of projects in progress, but yet to be finalised	**2**

3.2 Full details of the audit work we have completed that has informed this opinion are in **Annex A**, together with the assurance levels we have been able to provide for each review. As well as the results of our own work, we have also considered other sources of assurance available to us for example, management assurance statements, internal oversight function reporting and independent inspections and reviews, which we have been informed of. Graph 1 shows the percentage of positive and negative assurance opinions given, compared to previous financial years.



3.3 Priority of Recommendations

3.3.1 At the time of writing, a total of 116 audit recommendations have been raised across both draft and final reports, of which 14 (12%) have been classified as high priority. Details of each individual report's ratings and the priority of recommendations arising from each audit can be found at Annex A. In the following sections we have set out the high-level key findings identified during our audit work for 2025/2026, which have helped inform the overall assurance opinion.

[2] This includes audits undertaken in the first half of the financial year, when Children's Services operated as BFfC. The total figure excludes school audits.

4 SUMMARY OF THE AUDIT WORK

4.1 Substantial and Reasonable Assurance Reviews

4.1.1 Across the audits completed, most received reasonable or substantial assurance, providing confidence that governance, risk management and control frameworks are in place and generally effective. Several areas, including Capital Programme and Monitoring, Housing Benefits, and Elections, demonstrated strong, well-embedded controls with robust oversight and compliance, requiring only minor improvements.

4.1.2 Most audits provided reasonable assurance, indicating sound arrangements overall but with opportunities to strengthen consistency and resilience. Financial management reviews confirmed key controls were operating effectively, though improvements were identified in documentation, process standardisation and reducing reliance on individuals. Operational and service audits similarly found established systems and oversight in place, but with some inconsistencies in application, gaps in training, and capacity pressures affecting performance.

4.1.3 Overall, the Council's control framework is sound, with improvement themes focused on enhancing documentation, consistency, and oversight to ensure controls remain robust and sustainable.

4.2 Limited & No Assurance Reviews

4.2.1 Across the period, one audit, Lone Working within Children's Services, received no assurance, reflecting significant weaknesses in implementation despite established policies. At the time of our review the key issues identified included low training compliance, poor system integration, inconsistent device usage, and weak oversight, resulting in insufficient assurance over staff safety.

4.2.2 Several audits received limited assurance, indicating notable but less fundamental weaknesses. The Financial Assessment and Benefits Team review identified capacity pressures, backlogs, and data quality issues affecting oversight and performance. Corporate audits, including the Joint Legal Team billing process and Commercial Leases rent roll (follow-up), highlighted weaknesses in governance, data integrity, and financial controls. Residents Parking Enforcement similarly showed fragmented policies and limited monitoring.

4.2.3 Overall, limited and no assurance audits point to weaknesses in governance, data reliability, and oversight, requiring sustained management action to ensure controls operate effectively.

4.2.4 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 12-18 months or sooner.

4.3 Follow up Audits

4.3.1 Follow-up work confirms that several areas have made good progress in strengthening controls. Improvements were evident in Deputies and Appointeeships and Unaccompanied Asylum-Seeking Children, where earlier recommendations have been implemented. Traffic Regulation Orders also showed sustained improvement, with stronger governance, clearer oversight, and delivery of a structured improvement plan.

4.3.2 However, not all areas have fully addressed previous weaknesses. At the time of our audit, Children's Savings Accounts and Junior ISAs continued to exhibit governance gaps, including outdated policies and limited data assurance. Similarly, Commercial Leases Rent Roll still showed weaknesses in data integrity, reconciliations, and billing processes, with ongoing risks to income accuracy.

4.3.3 Overall, while progress is evident, particularly where there is clear ownership, some areas continue to require further action to fully resolve underlying control issues.

4.4 Internal Audit Fact Finding Investigation

4.4.1 A fact-finding review by Internal Audit identified that the implementation of the Council's case and customer management system (Arcus) was adversely impacted by weaknesses in governance, planning and delivery. These issues were compounded by high workloads, limited training, and ineffective escalation of concerns.

4.4.2 Key issues included inconsistent stakeholder engagement, insufficiently defined requirements, weaknesses in procurement and contract management, and ineffective oversight, evidenced by poor documentation and a lack of clear decision-making. The system went live with unresolved technical and data issues and limited testing, resulting in reliance on manual workarounds and adverse impacts on service delivery.

4.4.3 The Council is working to improve the system through a structured programme. This includes strengthening governance and business-as-usual arrangements, addressing technical and data backlogs, embedding the system through process review and training, and delivering targeted enhancements. The programme is aimed to address underlying issues, support organisational learning, and provide a clearer basis for future decisions.

5 OTHER SOURCES OF ASSURANCE

5.1 Third Party Assurance

5.1.1 The Council's third-party assurance landscape during 2025/26 presents a qualified but relied-upon position, supporting an overall assessment that core governance, risk management and internal control arrangements remain in place and are operating, albeit with material weaknesses in specific service areas requiring sustained improvement. External audit work for 2024/2025 concluded that, aside from a weakness in governance linked to children's safeguarding arrangements, the Council's wider arrangements for financial sustainability and value for money were operating effectively, and Internal Audit's annual opinion of reasonable assurance for 2024/2025 was not contradicted by external findings. This provides a sound basis to place reliance on the Council's overarching governance framework, including member oversight, financial control, and the assurance architecture reported through Audit and Governance Committee.

5.1.2 However, regulatory inspections across key front-line services identified serious but localised control and governance weaknesses, most notably within housing, children's services and youth justice. These findings consistently point to gaps in risk identification, quality assurance, and the timely escalation of concerns, resulting in adverse regulatory judgements. Importantly, there is clear evidence that these issues are being addressed through formal, structured governance responses, including improvement boards, independently chaired oversight arrangements, regulator engagement, and monitored action plans. In adult social care, while external assessment identified areas for improvement, it also recognised visible leadership and established governance arrangements, providing a more balanced assurance position.

5.1.3 Taken together, this evidence supports our view that the Council has effective governance mechanisms to identify, respond to and begin to address weaknesses, but that in several high-risk service areas these arrangements were not operating effectively at the point of inspection and have yet to demonstrate sustained improvement. Accordingly, assurance can be placed on the design and responsiveness of governance and control frameworks, but only limited assurance can currently be taken on their consistent effectiveness in practice within affected services, pending the embedding and delivery of agreed improvement plans.

6.0 Performance of the Internal Audit Service

6.1 The Global Internal Audit Standards set out 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. Our performance during the year in relation to the performance indicators agreed for the internal audit service is shown in table B.

Table B: Key performance Indicators

	Key Performance Indicators	Target	Actual 2023/24	Actual 2024/25	Actual 2025/26
i.	**Client Satisfaction**	**90%**	90%	-	94%
ii.	**Production of final report within 10 days of receipt of management responses**	**90%**	91%	86%	95%
iii.	**Management responses received within 15 days of issue of draft report**	**75%**	86%	62%	76%
iv.	**Number of projects completed within agreed budgeted days relative to total number of projects undertaken**	**75%**	82%	56%	48%
v.	**Percentage of audit projects completed relative to those in the (revised) plan**	**75%**	73%	77%	86%
vi.	**Actual spending of controllable budget**	**100%**	109%	116%	104%
vii.	**% Of working days lost to sickness**	**2.0%**	0.40 %	3.22 %	1.42 %

- Line 'I' is the overall satisfaction level following post audit surveys (see 6.2 below)
- Line 'iv' shows how many projects were completed within the planned number of days. This is used to track progress, but some projects take longer due to complexity, with extra time agreed after review
- Line 'v' is the key measure for the annual assurance opinion. If enough work is not completed, an annual opinion cannot be given.
- 'vi' Actual spend against the budget shows a negligible overspend, which is attributable to the built-in vacancy factor.

6.2 Post Audit Surveys

6.2.1 Following completion of an internal audit review, managers are asked to rate internal audits performance throughout the various stages of the audit process. The ratings being unsatisfactory, satisfactory, good, and very good. A total of eight questions are asked against three stages of the audit process: pre audit arrangements, audit visit, and post audit. The summaries of findings are detailed in graph 2 below and show positive feedback.

Graph 2 - Audit Satisfaction

6.1.1 In addition to providing assurance over the effectiveness of controls, risk management and governance arrangements, Internal Audit seeks to add value to services. To support this, respondents were asked to consider where the audit review had added value. Responses were grouped into five distinct themes, with respondents able to select more than one category.

6.1.2 The results indicate that the primary contribution of audit work was in driving improvement, with 53% of responses identifying either areas for improvement (29%) or enhancements to procedures and processes (24%). A further 23% of responses indicated that audits provided assurance over the effectiveness of existing controls. In addition, 15% of responses highlighted good practice across services. Only a small proportion (9%) resulted in escalation to senior management, suggesting that relatively few matters required intervention at a senior level.

7 Counter Fraud Activity

7.1 Best practice indicates that the outcomes of corporate investigations, including the number and nature of investigations undertaken, should be reported on an annual basis to support transparency and oversight. While Corporate Investigations is not a statutory function within local government, it represents an important component of the Council's overall counter-fraud and governance framework. Accordingly, progress on investigations is reported quarterly to the Audit & Governance Committee, including a summary of investigations in progress. The Committee's role is one of oversight and assurance—seeking to ensure that appropriate arrangements are in place to prevent, detect and investigate fraud, and that significant issues and outcomes are appropriately reported and addressed. Table C below provides a high-level overview of investigations undertaken compared to previous financial years.

7.2 The counter-fraud resource comprises three full-time equivalent (FTE) staff (a reduction of one FTE compared to the three previous years), all of whom are experienced investigators. The team undertakes investigations across a range of areas, including Council Tax Reduction Scheme fraud, Adult Social Care (Direct Payments), tenancy fraud, misuse of Blue Badges, and other referrals relating to potential fraud or irregularity within Council services.

Table C Annual Summary of Investigations	2023/24	2024/25	2025/26
Housing Tenancy Fraud			
No. Housing Tenancy Referrals investigated	39	56	78
Properties Recovered	6	10	7
Estimated saving from Recoveries[3]	£469,800	£783,000	£548,100
Prosecutions Secured	0	0	0
Application under the Proceeds of Crime Act	0	0	0
Value of POCA/Compensation award	0	0	0
Right to Buy Fraud			
No. of RTB applications investigated	25	7	13
No of RTB applications refused because of investigation[4]	6	0	0
Estimated savings from preventing sale of property[5]	£576,000	0	0
Social Care			
Social Care	18	1	0
Financial value of cases[6]	£133,730	0	0

[3] Using the notional savings multiplier is used by the Cabinet Office in its National Fraud Initiative report. Notional £78,300 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.

[4] Social housing tenants who were not entitled to right to buy because of their status in the UK, or who had secured multiple tenancies unlawfully.

[5] 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 (RTB discount of £102,400 plus the rental income for the period of 12 months, which RBC would have lost if RTB approved)

[6] The values for 2022/2023 and 2023/2024 are part of a direct payment review we undertook, which found large amounts of unspent payments in users accounts – no fraud was identified.

Table C Annual Summary of Investigations continued	2023/24	2024/25	2025/26
Parking Fraud			
Blue badge referrals	45	103	184
Blue Badges recovered	9	16	20
Prosecutions secured	3	0	3
PCN's issued	19	12	52
Estimated annual savings [7]	£5,175	£9,200	£15,880
Council Tax Support			
No. CTAX Referrals investigated	78	62	92
Prosecutions	0	0	0
Add pens	0	0	0
Value of fraudulent overpayments identified	£18,617	£11,779	£8,375
Value of add pens	0	0	0
Single Person Discount			
Value of fraudulent overpayments identified[8]	£227,000	-	£11,042
National Fraud Initiative (NFI)			
Matches received[9]	-	2158	0
Cases investigated	56	544[10]	0
Financial value of cases	£3,853	£24,614	0
Fraud Hub			
Matches received[11]	-	-	10,756
Cases Investigated	-	-	321
Financial value of cases	-	-	£28,255
Internal Investigations			
No. Internal Referrals	7	3	5
Number of cases investigated	7	3	5
Cases prosecuted	0	0	0
Financial value of cases	0	0	£74,500

[7] £794 (from £575) is the notional value applied by the Cabinet Office per blue badge cancelled to reflect lost parking and congestion charge revenue.

[8] Data matching exercise, matching address records against tracing and occupier lookup databases to determine the strength of match. This is not a saving and is an increase to the tax base.

[9] The National Fraud Initiative (NFI) is a data matching exercise in the UK aimed at preventing and detecting fraud. It involves comparing electronic data held by public and private sector organizations to identify inconsistencies that may indicate fraudulent activity. The Cabinet Office is responsible for conducting the NFI, using its powers under the Local Audit and Accountability Act 2014

[10] Cases investigated to date (31 May 2025)

[11] Fraud Hub refers to interim data matches carried out between NFI exercises. Unlike the main NFI, which runs every two years, the Fraud Hub enables more regular matching of data shared by participating councils to identify potential fraud, error, and discrepancies.

8 WHISTLE BLOWING

8.1 The Council's Whistleblowing Policy is designed to provide a safe, confidential, and accessible mechanism for employees, contractors, and suppliers to raise concerns about serious wrongdoing, including fraud, misconduct, breaches of governance, or risks to health and safety. The policy reinforces the Council's commitment to openness, integrity, and accountability by ensuring that concerns raised in good faith are treated seriously, assessed promptly, and, where appropriate, subject to proportionate investigation.

8.2 The policy sets out clear reporting routes, allowing concerns to be raised either openly or anonymously, and emphasises the protection available to whistleblowers from victimisation or detriment. It also outlines the support available to individuals raising concerns, including guidance from Human Resources, access to trade union representation, and signposting to the Employee Assistance Programme. In addition, the policy provides guidance on external reporting options where individuals feel unable to raise concerns internally, thereby further strengthening the Council's governance framework.

8.3 While multiple reporting channels are available, the most frequently used route is via the dedicated inbox (Whistleblowing@reading.gov.uk). Referrals received through this channel are initially reviewed by Internal Audit, who undertake a triage process to assess the nature, severity, and credibility of the concerns raised. Where appropriate, matters are then referred to the relevant service area or specialist function for further investigation.

8.4 During the 2025/26 financial year, 14 whistleblowing allegations were received through the Council's established reporting channels. This represents a marked increase compared with previous years, as set out below:

Year	**2022–23**	**2023–24**	**2024–25**	**2025–26**
Referrals	02	03	05	14

ANNEX A: Detailed analysis of internal audit reviews 2025/26

Title	Opinion	Status
Fleet Management **	Advisory	Final
Closing the Gap 2 Funding **	Advisory	Final
Coroners **	Advisory	Final
ARCUS system implementation	Advisory	Final
Electoral register and elections	Substantial	Final
Capital programme and monitoring	Substantial	Final
Housing benefits	Substantial	Final
Health & Safety	Reasonable	Final
Traffic Regulations Orders follow up	Reasonable	Final
Land Charges *	Reasonable	Final
Payments against orders (children's)	Reasonable	Final
Purchasing cards *	Reasonable	Final
Accounts receivables	Reasonable	Draft
Occupational Therapy waiting lists (Adults)	Reasonable	Final
Cemeteries and Crematorium *	Reasonable	Final
Alfred Sutton Primary School	Reasonable	Final
Christ the King Primary School	Reasonable	Final
Coley Primary School	Reasonable	Final
Wilson Primary School	Reasonable	Draft
Blagrave Nursery School	Reasonable	yes
Financial Assessments & Benefits Team (FAB)	Limited	Final
Children's savings accounts & junior ISA follow-up	Limited	Final
Joint Legal Team (JLT) Billing Process	Limited	Final
Home Improvement Grant	Limited	Final
Commercial lease/rent follow up	Limited	Final
Lone working (children's)	No Assurance	Final
LTP	Certified	Final
BSOG	Certified	Final
Unaccompanied asylum-seeking children follow up	Reasonable	In Progress
Housing repairs (reactive)		In Progress
Micklands Primary School		In Progress

* Additional to plan and undertaken by apprentice
** Added to the plan following whistleblowing allegations