

READING BOROUGH COUNCIL

DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	18 July 2017	AGENDA ITEM:	4
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
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**1. PURPOSE OF REPORT / THE PROPOSAL**

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 governance arrangements, risk management and 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 2016/2017 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 Detailed audit reports have been issued to the relevant Service Managers on the results of individual audits throughout the year, and to the relevant Directors and Heads of Service where unsatisfactory internal control has been identified. 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. The following document is attached to this report:

Appendix 1 - Internal Audit Annual Assurance Report

**2. RECOMMENDED ACTION**

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. KEY ISSUES

- 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 only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2016/17, are suitably designed and applied effectively.
- 3.3 This opinion is reflective of the relatively high number of limited assurance opinions provided and the significance to the control framework of some of those areas where weaknesses have been found. This opinion also takes into account the work of other inspection bodies, such as the Council's External Auditor and Ofsted.
- 3.4 Of particular importance in determining the opinion were the key weaknesses identified within some of the Council's financial systems. Compliance with core systems controls has deteriorated in recent years with slow resolution on issues relating to accounts payable, accounts receivable, general ledger and bank reconciliations. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall "limited assurance" opinion.
- 3.5 An area where in the past we have made recommendations to reinforce financial control has been journals. The journaling of monies within financial codes is still not under proper control and supervision. It is also not taking place in timely fashion which in turn means that there is a short period of intense pressure to allocate monies within the year end to balance activities taking place throughout the year.
- 3.6 Financial reconciliations remains an area of concern as progress on remedying weaknesses identified has been extremely slow and as a result the Council's bank account and other associated control accounts have not been reconciled in a timely fashion. Locally, we also identified gaps in documented financial procedures and corporate oversight.
- 3.7 Controls over financial processes and systems within social care require improvement; especially within Children's Services. There has been a lack of linkage between the procurement of services and the matching and payment of invoices for the same, leading to overpayments and potentially increasing the risk that suppliers or clients may try to defraud the authority. It is noted that this has been recognised by the Directorate and a project has been initiated to create a single co-located Access to Resources Team (ART) to address the collective need for cost avoidance and improved financial control.

- 3.8 A theme through a number of the significant governance issues is a lack of compliance. That is, the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not followed, leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption and/or poor value for money with the consequent negative reputational impact. There are also some corporate governance processes and policies across the Council which need updating and publicising. We found some key documents, such as the staff code of conduct, to be out of date and not communicated to staff on commencing employment with the Council or on a regular basis during their employment.
- 3.9 A balanced budget for 2017/18 was achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17. This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed. Hence the Council continues to face significant challenges; however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance, which in turn are reflected in the Council's Annual Governance Statement.
- 3.10 During 2016/17 the Council made particularly significant use of interim & agency staff, including several roles within the Corporate Management Team. It is however, recognised that the Council is in the process of replacing as many of these interim staff with permanently employed staff as possible, as quickly as practicable. This will reduce costs and deliver more stability in leadership and at practice level.
- 3.11 There have been some critical reports by external agencies: a qualified value for money opinion was offered by External Audit in 2015/16 and Children's Services were deemed inadequate by Ofsted. They found leadership, management and governance to be inadequate.
- 3.12 Implementation of improved measures, along with the Annual Governance Statement action plan, will be monitored monthly by a senior group of officers, chaired by a member of CMT and attended by the Chief Executive.

#### **4. THE PROPOSAL**

- 4.1 That this report forms the basis for CMT and the Audit & Governance Committee to undertake their annual review of internal control and to approve the annual governance statement for 2016/17 for signature and publication with the Council's accounts.

#### **5. CONTRIBUTION TO STRATEGIC AIMS**

- 5.1 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.

## **6. COMMUNITY ENGAGEMENT AND INFORMATION**

6.1 N/A

## **7. LEGAL IMPLICATIONS**

7.1 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.

7.2 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.

7.3 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” .

## **8. FINANCIAL IMPLICATIONS**

8.1 N/A

## **9. BACKGROUND PAPERS**

9.1 N/A

# Internal Audit & Investigations Annual Assurance report

For the year ended 31 March 2017



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## 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 on internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards<sup>1</sup> and corresponding Local Government Application Note<sup>2</sup>.
- 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 regarding internal audit and investigations activities and outcomes during the year.

### 1.2 Purpose & Scope of Report

- 1.2.1 The coverage of this report:
- a) includes an opinion on the overall adequacy and effectiveness of the Council's risk management systems 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.

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

<sup>2</sup> 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 The Management of the Council is also responsible for ensuring that 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 The Internal Audit Service carried out a self-assessment in 2016 against the Public Sector Internal Audit Standards (PSIAS), with the findings reported to the Audit and Governance Committee in September 2016. The PSIAS, which came into force in April 2013, require an external assessment to be completed once every 5 years. It is the intention of the Service to have an independent external assessment completed by CIPFA, in July 2017, the results of which will be reported to the Corporate Management Team (CMT) and the Audit and Governance Committee.
- 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 2016/17 a significant level of compliance with the Public Sector Internal Audit Standards and considers the Internal Audit Service to be effective. No significant deviations from the Public Sector Internal Audit Standards have been identified which warrant inclusion in the Council's Annual Governance Statement.

## 2.0 ANNUAL ASSURANCE STATEMENT

### 2.1 Basis of Assurance Opinion

2.1.1 Our assurance opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2016/17, including our assessment of the Council's corporate governance and risk management processes. The internal audit plan for 2016/17 was developed to primarily provide the Audit & Governance Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk.

2.1.2 The 2016/17 Internal Audit Plan was approved by the Audit and Governance Committee in April 2016. This does not include the resources deployed on reactive and proactive fraud which is referred to in section 9. Progress reports from the Chief Auditor are presented to the Committee at quarterly meetings.

#### Annual Assurance Opinion for 2016/17

2.1.3 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, which is set out in more detail below, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2016/17, are suitably designed and applied effectively.

2.1.4 This opinion is reflective of the relatively high number of limited assurance opinions provided and the significance to the control framework of some of those areas where weaknesses have been found. This opinion also takes into account the work of other inspection bodies, such as the Council's External Auditor and Ofsted.

- 2.1.5 Of particular importance in determining the opinion were the key weaknesses identified within some of the Council's financial systems. Compliance with core systems controls has deteriorated in recent years with slow resolution on issues relating to accounts payable, accounts receivable, general ledger and bank reconciliations. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall "limited assurance" opinion.
- 2.1.6 An area where in the past we have made recommendations to reinforce financial control has been journals. The journaling of monies within financial codes is still not under proper control and supervision. It is also not taking place in timely fashion which in turn means that there is a short period of intense pressure to allocate monies within the year end to balance activities taking place throughout the year.
- 2.1.7 Financial reconciliations remains an area of concern as progress on remedying weaknesses identified has been extremely slow and as a result the Council's bank account, along with key control accounts have not been reconciled in a timely fashion.
- 2.1.8 Locally we have also identified gaps in documented financial procedures and corporate oversight.
- 2.1.9 Controls over financial processes and systems within social care require improvement; especially within Children's Services. There has been a lack of linkage between the procurement of services and the matching and payment of invoices for the same, leading to overpayments and potentially increasing the risk that suppliers or clients may try to defraud the authority. It is noted that this has been recognised by the Directorate and a project has been initiated to create a single co-located Access to Resources Team (ART) to address the collective need for cost avoidance and improved financial control.
- 2.1.10 A theme through a number of the significant governance issues is a lack of compliance. That is, the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not followed, leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption &/or poor value for money with the consequent negative reputational impact.
- 2.1.11 Whilst the Council has appropriate governance arrangements, some corporate governance processes and policies across the Council need updating and publicising. Some key documents are out of date and not communicated to staff on commencing employment with the Council or on a regular basis during their employment.

- 2.1.12 A balanced budget for 2017/18 was achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17. This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed. Hence the Council continues to face significant challenges; however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance, which in turn are reflected in the Council's Annual Governance Statement.
- 2.1.13 During 2016/17 the Council made particularly significant use of interim & agency staff, including several roles within the Corporate Management Team. It is however, recognised that the Council is in the process of replacing as many of these interim staff with permanently employed staff as possible, as quickly as practicable. This will reduce costs and deliver more stability in leadership and at practice level.
- 2.1.14 There have been some critical reports by external agencies: a qualified value for money opinion was offered by External Audit in 2015/16 and Children's Services were deemed inadequate by Ofsted. They found leadership, management and governance to be inadequate.
- 2.1.15 Given the risks presented via the significant changes being delivered and further cost reduction activity across the Council, senior management needs to continue to closely monitor the operation of the Council's control environment through the transformation and change processes. 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. The message is consistent with prior reports and will no doubt continue to be a challenge into 2017/18.
- 2.1.16 The open and transparent nature of the Council's response and the desire to improve internal practices is reflected in the Annual Governance Statement (AGS). It is considered that if the Council strengthens internal controls and processes throughout 2017/18, then it is likely that an improved audit opinion can be issued at the end of this financial year.

## 2.2 **Inherent qualifications to the assurance opinion**

- 2.2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk altogether and therefore can only provide reasonable, not absolute, assurances of effectiveness.

- 2.2.2 Pressures of work with reduced staffing and a large number of interim or acting managers means that it has been harder to get audits started and doubly difficult to get timely replies and engagement with the reports. This has been slow in many cases and there has been reluctance in some areas to either engage in the audit process and/or to provide responses to audit recommendations.
- 2.2.3 This, combined with reorganisations and the state of continuous change for a number of key services across the Council, has made the audit planning more difficult. This has resulted in several changes to the plan and more audits than usual being cancelled or deferred through the year.

### 3.0 SUMMARY OF THE AUDIT WORK

- 3.1 An annual audit plan was produced by Internal Audit to cover the period 1 April 2016 to 31 March 2017, which was agreed with the Corporate Management Team and the Audit & Governance Committee. The annual audit plan was in line with the Public Sector Internal Audit Standards for Internal Audit.
- 3.2 Satisfactory progress has been made against the Internal Audit plan during the period. Assignments have been completed in accordance with the plan, although there are a small number that still require finalisation of the reports. We completed 28 planned audit reviews, 5 school reviews and 3 grant claim certifications. The table below summarises the report classifications for the planned audit reviews undertaken in 2016/2017.

Report Classification (2016/17)	No. of Audits
Substantial Assurance	6
Reasonable Assurance	16
Limited Assurance	9
No Assurance	0
Assurance N/A	2
<b>Total</b>	<b>33</b>
Projects in progress	1
Grant Claims certified	3
<b>Total</b>	<b>37</b>
No of projects cancelled or deferred	6

### 3.3 Priority of Recommendations

- 3.3.1 At the time of writing we have made a total of 194 audit recommendations in our reports (both draft and finalised), of which 8% were classified as a high priority.
- 3.3.2 In the following section we have set out the high level key findings identified during our audit work for 2016/2017.
- 3.3.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 1.

## 4 LIMITED ASSURANCE REVIEWS

- 4.1 Some of the key areas for improvement identified during our audit work are set out below:
- *General Ledger* - There is a lack of clear documented business processes and identification of responsibilities that identify and describe the operation of the feeder systems and the requirements for data input on a manual or spreadsheet basis. The input of unstructured or poor quality data from feeder systems (particularly the AP system) increases the need for remedial action in the General Ledger in the form of journal activity. The audit noted the number of high value transactions surrounding the opening and closing of the accounts and the volume of amendment to transactions. There are also a high number of manual interventions to load information into the General Ledger. There are no formal processes or procedures to ensure that an audit trail is maintained for the source of the journals. Records of journal transactions are available, but there is no set policy for storage and protection of the original records used for manual or spreadsheet transactions in a centralised secure area.
  - *Bank & Cash Reconciliations* - The regular completion of reconciliations was not timely in 2016/2017, there is no centrally held list of the control account reconciliations and no process in place to ensure these are completed in a timely way. The Interim Director of Finance has confirmed that the finance service is committed to bringing the bank account reconciliation up-to-date and for it to be completed on a monthly basis going forward. Lessons are being drawn out to ensure that the reconciliations for 2017/18 can progress in a timely manner.

- *Accounts Payable* - Our audit identified inefficient processes and highlighted that the accounts payable function is incurring an unnecessary level of administrative delay, by not managing its supplier database. Invoices are processed manually, including printing off electronic invoices received by email and supplier set up is a time consuming manual process given the volume of new suppliers set up daily on the system. Supplier categorisation needs to be improved to provide better quality management information on categories of spend and to limit the number of suppliers on the system to a manageable level. There is no formal accreditation process for the majority of suppliers, who are chosen by the manager making the order. 35% of orders are still being raised after receipt of the invoice and this has not been addressed through the business process. This is replicated when it comes to the prompt receipting of goods received that impose delays on processing payments. This impacts the accuracy of management financial information in respect of budgeting and accounting for expenditure in a timely fashion.
- *Accounts Receivable* - Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance, as Income & Recovery staff also have to act as intermediaries when accounts are queried by customers. There are different procedures in place for the monitoring and chasing of unpaid invoices with no apparent consistency, priority or direction as to the work of Income & Recovery staff and in particular the order that accounts are worked on. As at the end of February 2017 there were a total of 5,280 unpaid invoices with a total of more than £11m, although this reduces to £4.4m outstanding (4,946 invoices) if sums due from other local authorities, schools and colleges, as well as other public organisations are disregarded. £2.5m of this was more than 5 months old, although the majority of this related to the current and previous calendar year(s).
- *S106 income* - Following the s106 fraud a subsequent audit review highlighted inherent weaknesses in the administration of the billing and collection of developer S106 contributions. The Director has confirmed new processes have been introduced to improve control. In addition, a new S106 data system has been installed. It is hoped that this system can link directly to Oracle Fusion, as this will be the most efficient way of monitoring receipts. This will be followed up by internal audit in Q1 of the 2017/18 financial year.
- *Nursing & Residential Care Packages* - There needs to be an improvement in audit trails to better evidence placement decisions made by the Adult Funding Panel and to improve procedures to ensure care packages are reviewed annually to comply with statutory review processes. The Adult Social Care Transformation Team has since been working to improve the function of Adult Funding Panel process.

- *Information Governance & Data Protection* - The audit highlighted a need to improve governance structures to evidence the effective management of information governance and data protection to meet evidence based accreditation programmes like PCIDSS<sup>3</sup> for credit card use and N3<sup>4</sup> for Health Service connectivity. The Head of Customer Services has confirmed that action is being taken to improve governance in this area including revised policies and procedures, enforced document marking, identification of Information Asset Owners and staff training.
- *Subject Access Requests* - Under the Data Protection Act 1998, individuals have a right to access information held about them by any organisation that processes personal data. There was a lack of a consistent policy and procedure which could be applied to subject access requests. The Council's Employment and Information Solicitor has confirmed that different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Services. A new policy and procedure has been implemented and key officers are being trained by Legal Services.
- *Electronic Document & Records Management* - The Council uses an Electronic Document Records Management system which offers considerable savings in paper handling and associated processes. Current internal processes to collect and manage the transportation of paper documents for scanning do not provide sufficient guarantees that documents will be safely accounted for and are in need of strengthening to protect the Council from the risk of data loss. The Business Systems Support Team is progressing with the work to redesign the overall service provision including the arrangements for the secure transfer of hard copy documents.
- *Corporate Governance* - A review was conducted of the ownership, completeness and currency of documentation that the Council is required to hold, publicise and periodically review in relation to its own governance arrangements. This acknowledged that the Council has in place, in most areas, an appropriate set of governance arrangements yet these are not always followed leading to weaknesses in internal controls. There are also some important governance processes across the Council which require strengthening. In particular, some key policies and documents are out of date and are not being communicated to staff on commencing employment with the Council or on a regular basis during their employment.

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<sup>3</sup>PCI DSS is the Payment Card Industry Data Security Standard, that was set up to help businesses process card payments securely and reduce card fraud.

<sup>4</sup>N3 is the National Network for the NHS. Public health intelligence teams based in local authorities need to be connected to N3 in order to fulfil their function.

## 5.0 IMPLEMENTATION OF AUDIT RECOMMENDATIONS

- 5.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where “limited” assurance is given then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources and agreed recommendation target dates, but our aim is to complete the follow up within six to twelve months of completion of the audit.
- 5.2 During 2015/16 we gave four areas limited assurance and scheduled a follow up review for 2016/17. A summary is as follows:
- Our review of Adult Care income & charging in 2015/16 identified a potential loss of income to the Authority, due to the delay in assessing individual care cost contributions for non-residential care. Work was required to review the end to end process to seek to address the build-up of backlogs and improve the quality and timeliness of referrals for financial assessment. Although we haven't followed this up we have been kept informed of progress and plan to do some more testing in Q1 of 2017/2018.
  - A review of Accounts Payable in 2015/16 highlighted areas for development in respect of process improvements. This was followed up as part of the 2016/17 review of Accounts Payable, with limited progress found to have been made (Paragraph 4.1).
  - A review of Foster Care & Adoption Allowances highlighted the continued dependency upon high cost independent Foster Agencies. Recommendations were made to strengthen operational procedures, incorporating the governance arrangements of the Access to Resource Panel. This follow-up was postponed following the Ofsted inspection in the summer of 2016 and has been rescheduled for Q2 of this year's audit plan.
  - Reading Girls School was given limited assurance in 2015/16, but was not followed up in 2016/17 due to its planned conversion to academy status. The Head of Education was however informed of our concerns.

## 6.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

### 6.1 Corporate Governance

- 6.1.1 Although the Council has in place, in most areas, an appropriate set of governance arrangements we have identified gaps in processes and policies. An occurring theme is a lack of compliance, be it through lack of awareness or understanding, which in part could be due to governance documents being out of date, not directly accessible and/or not regularly communicated to staff. This produces a heightened risk of processes not being followed, either accidentally or deliberately, with the consequent negative reputational impact. During 2017/18 attention needs to be paid to professional practice and compliance to drive up standards.
- 6.1.2 In response, the Chief Executive has established a corporate governance group, whose task will be to review implementation of governance actions highlighted in the AGS and audit.

### 6.2 Risk Management

- 6.2.1 The Corporate Management Team (CMT) manages and reviews the Council's strategic risks and regular reports are provided through the year providing status updates on corporate risks to the Council's Audit & Governance Committee.
- 6.2.2 Internal Audit have used the Council's strategic 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.
- 6.2.3 While risk management techniques are deployed, they have been less than robust at the strategic level throughout 2016/17, and need to be improved going forward. Risks have always been managed, but risk registers need to be updated more frequently at directorate and CMT level. This helps maintain transparency, in line with the principles of corporate governance. This in turn helps demonstrate that risk management an integral and explicit part of the Council's overall management arrangements.

## 7.0 ASSURANCES FROM OTHER SERVICES

### 7.1 External Auditor

- 7.1.1 Ernst & Young's (EY) 2015/16 opinion stated that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year. However they issued an adverse value for money arrangements conclusion for the financial year 2015/16 on 17 November 2016. This means that they had concerns over the Council's arrangements for

securing financial resilience and for how it secures value for money in its use of resources.

- 7.1.2 Although they did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about, they found that some of the basic financial controls were not working as expected. In particular, the regular completion of reconciliations was not timely. This increases the risk of fraud errors remaining undetected.
- 7.1.3 They highlighted that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making and that planned action had not been taken to achieve sustainable savings during 2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2017/18 budget.
- 7.1.4 EY made further recommendations in February 2017 under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 for sustainable resource deployment in relation to the immediate and medium term financial position of the Council and the need for robust budget monitoring.
- 7.1.5 We acknowledge a revised and strengthened monitoring process was put in place from 1<sup>st</sup> April 2017, which will ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.

## 7.2 Ofsted

- 7.2.1 Following an inspection in 2016, Ofsted concluded that Children's Services in Reading were inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The inspection found that children are left too long in situations of unknown and acute risk. The report also found leadership, management and governance to be inadequate and that instability in the senior leadership team had impeded progress in addressing identified weaknesses in services for children and families.
- 7.2.2 It should be noted that the Council accepted the findings of the Inspection and developed an improvement plan as a response to it, supported by the appointment of a Commissioner for Children's Services.

## 8.0 Resource availability, allocation & jobs completed

8.1 For 2016/2017, the planned and actual resource availability is summarised in table A below. This set out the requirement of 972 planned audit days. The actual resource availability for the year for planned reviews was 1030 days.

	Planned Totals	Actual Totals	Gain (+) Against
<b>Resource Available</b>	<b>1530</b>	<b>1530</b>	<b>0</b>
<b>Non-audit time</b>			
Annual & other leave	185	191	-6
Sickness	30	11	19
Training (1)	51	36	15
Supervision & appraisal (2)	91	96	-5
Administration (3)	56	49	7
Other (4)	32	17	15
<b>Sub-Total:</b>	<b>445</b>	<b>400</b>	<b>45</b>
<b>Non Audit Related Work</b>			
Risk Management (5)	18	16	2
Emergency Planning & Business Continuity (6)	12	4	8
Corporate Investigations Team (7)	46	42	4
Insurance (8)	29	28	1
Elections (9)	8	8	0
<b>Sub-Total:</b>	<b>113</b>	<b>98</b>	<b>15</b>
<b>Audit time available:</b>	<b>972</b>	<b>1032</b>	<b>60</b>
<b>Time Allocated to Audit Work</b>			
	Planned Days	Actual Days	Variance Days
Audit Reviews	636	800	164
Other Assurance work	94	75	-19
Contingency	100	80	-20
Audit Planning & Reporting	60	44	-16
External Clients	82	33	-49
<b>Total</b>	<b>972</b>	<b>1032</b>	<b>60</b>

- 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 (local election & referendum)

## 8.2 Performance of the Internal audit Service

8.2.1 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.

8.2.2 Our performance during the year in relation to the performance indicators agreed for the internal audit service are shown in the table below: -

Key Performance Indicators	Target	Actual
Client Satisfaction	90% or above	91.4%
Production of final report within 2 weeks of receipt of management responses	90%	86%
Management responses received within 3 weeks of issue of draft report	90%	36%
Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	39%
Number of audit projects completed relative to those in the (revised) plan	80%	88%
Actual spending of controllable budget	100%	98%
% Of working days lost to sickness	2.0%	0.81%

8.2.3 As mentioned in the report, it has been harder to get audits started and doubly difficult to get timely replies and engagement with the reports. This in turn has led to audits being delayed, taking longer than originally planned, which has subsequently impacted upon internal audit performance statistic.

### 8.3 Annual Quality Review

- 8.3.1 We undertook an annual survey in May 2017 asking Directors, Heads of Service and senior managers to assess the importance and quality of the service provided.
- 8.3.2 Managers were asked to rate a total of 41 questions against 6 service areas; the summaries of the findings are detailed below on a scale of 1 to 4 (where 1 is very important/excellent and 4 is unimportant/poor).

Average Importance Rating	Service Area	Average Satisfaction Rating
1.9	Audit Service	1.6
1.2	Audit Staff	1.2
1.2	Conduct of Audits	1.1
1.2	Audit Reporting	1.3
1.4	Customer Service	1.2
1.2	Overall Rating	1.3
1.4	Average	1.3

- 8.3.3 In addition to the set questions, three free text fields were made available for individuals to provide further comments.

## 9.0 Counter Fraud Activity

- 9.1 The Investigations Team that deals with benefit, housing tenancy, blue badge and internal fraud etc., have had a successful year and have once again demonstrated the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified £405k from both overpayments and savings. The deterrent of this activity should not be underestimated.
- 9.2 The table on the following page contains details of successful outcomes by the Investigations Team.

	2016/17	2015/16	2014/15
<b>Housing tenancy Fraud</b>			
No. Housing Tenancy Referrals (inc. RTB checks) investigated	86	67	35
Properties Recovered	10	3	3
Estimated saving from Recoveries <sup>*</sup>	£150,000	£45,000	£45,000
Prosecutions Secured	0	2	1
Application under the Proceeds of Crime Act	1	1	1
Value of POCA	43,000	£212,500**	£32,000***
<b>Council Tax Reduction Scheme</b>			
No. CTAX Referrals investigated	112	220	207
Prosecutions	2	0	17
add pens	14	34	0
value of fraudulent overpayments identified	£19,468	£48,089	£21,467
Value of add pens	£8,333	£22,590	0
<b>Parking Fraud</b>			
Blue badge referrals	25	47	
Blue Badges recovered	6	10	2
prosecutions secured	3	3	1
PCN's issued	4	17	2
estimated annual savings****	£400	£1,000	£200
<b>Social Care</b>			
No. Social Care Referrals investigated	1	1	6
Number	1	0	1
Value	£61,000	0	£30,000
<b>ID Fraud</b>			
Number of cases	7		
Value*****	£150,000		
<b>Internal Investigations</b>			
No. Internal Referrals	4	9	5
Number of cases investigated	1	2	3
Value*****	£43,000k	0	0

\* Based on Finance's assessment that on average it costs the Council £15,000 per year to place a family in temporary accommodation.

\*\* This is a very complex case, the decisions on amounts and payments (if any) we will not know until the Court has considered all arguments. Court hearings have been deferred a number of times with the new date scheduled for the September 2017.

\*\*\* Settled out of court and payment received.

\*\*\*\* This is based on the average Penalty Charge Notice fee and does not take into account potential lost income through residential and other parking charges.

\*\*\*\*\* Referred to DWP for investigation. Will only recover all monies if fraud is proven (prosecutions). However 40% can be reclaimed via HB subsidy

\*\*\*\*\* Courts have ruled in the Council's favour and the defendant has been instructed to pay

**ANNEX 1: Detailed analysis of internal audit reviews 2016/17**

**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
NNDR	Nov-16	Jan-17	Feb-17	0	0	1
Moorlands Primary School	Jan-17	Feb-17	Mar-17	0	2	2
Integrated Discharge Scheme	Aug-16	Nov-16	Dec-16	0	0	0
Pupil Premium Funding	Aug-16	Oct-16	Nov-16	0	0	3
Micklands Primary School	Feb-17	Mar-17	Apr-17	0	2	2
Cranbury College	Nov-16	Dec-16	Jan-17	0	1	1

**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
MOSAIC (Finance Payments)	Apr-16	Jun-16	Aug-16	0	2	0
Payroll	Dec-16	Mar-17	Apr-17	0	3	2
Overtime	Jun-16	Jul-16	Aug-16	0	3	3
Childcare	Oct-16	Jan-17	Mar-17	0	6	1
Waste Operations	Jul-16	Nov-16	Dec-16	0	7	2
School Places Expansion Programme	Apr-16	May-16	Jul-16	0	7	4
Right to Buy	Apr-16	Jun-16	Jul-16	1	3	4
Bed and Breakfast Placements	Nov-16	Apr-17	May-17	0	6	2
MOSAIC/Oracle Fusion End of year reconciliation	Jun-16	Aug-16	Oct-16	0	6	0
Council Tax Support	Aug-16	Jan-17	Mar-17	0	5	1
Manor Primary School	Oct-16	Nov-16	Nov-16	0	7	1
The Ridgeway Primary School	Jan-17	Jan-17	Feb-17	0	3	2
Health & Safety Review	May-16	Dec-16	Feb-17	0	4	3
Leisure (Income Collection)	Apr-16	Jun-16	Jun-16	0	6	3
Caversham Nursery School	Oct-16	Nov-16	Nov-16	0	2	8
Use of cash vouchers & cash accounts	Jun-16	Aug-16	Nov-16	0	3	3

**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
General Ledger	Oct-16	Mar-17	May-17	3	2	1
Creditors (Accounts Payable)	Oct-16	Mar-17	May-17	0	8	4
Information Governance & Data Protection	Jun-16	Aug-16	Oct-16	1	6	4
Nursing & Residential Care Packages	Mar-16	Jun-16	Oct-16	2	3	3
Access to Records	May-16	Oct-16	Jan-17	3	3	2
Debtors Accounts Receivable	Dec-17	Mar-17	May-17	0	6	4
Key financial system reconciliations	Nov-16	Feb-17	May-17	3	3	0
EDRM	Apr-16	May-16	Jun-16	1	5	1
S106 Income	Jun-16	Aug-16	Oct-16	2	2	0

**NO ASSURANCE** - 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.

Title	Start	Draft	Final	Recs		
				H	M	L
NIL						

Planned audit reviews cancelled or deferred:

Title	Start	Draft	Final
eTendering	Mar-17	May-17	Jul-17
Foster Care & Adoption Allowances (follow up audit)	Jul-17		
Entitlement & Assessment			
Corporate Buildings H&S Statutory Compliance Regimes	May-17		
Financial Assessments of Adult Care (follow up audit)	Mar-17		
Reading Girls School			