

**READING BOROUGH COUNCIL
DIRECTOR OF CORPORATE RESOURCES**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	1st August 2018	AGENDA ITEM:	5
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
LEAD COUNCILLOR:	COUNCILLOR BROCK	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
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1. PURPOSE OF REPORT

1.1 The attached annual assurance report of the Chief Auditor (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), sets out:

- the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's 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 2017/2018 financial year; and
- the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

1.2 The results of individual audits have been issued to the relevant Directors, Heads of Service and Managers throughout the year. In addition, quarterly reports have been issued to, and discussed with, the Corporate Management Team (CMT) and the Audit & Governance Committee in order to report on standards of internal control, to provide appropriate focus on weaknesses and to progress remedial action where necessary.

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. In giving this opinion, it should be noted that assurance can never be absolute and, therefore the most that the Internal Audit service can provide the Council's Audit and Governance Committee with, is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes and/or to highlight shortcomings.
- 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 placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2017/18. Whilst the assurance level is the same as last year's, it should be noted that the direction of travel is one of improvement.
- 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 limited opinion in 2016/17 were the key weaknesses identified within some of the Council's financial systems. Whilst improvements have been made in 2017/18 and the direction of travel is of improvement, there has been slow resolution on issues relating to bank reconciliations, accounts payable and accounts receivable. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall assurance opinion.
- 3.5 The basis for the assurance opinion is set out in section 2 of the attached report and the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.

4. THE PROPOSAL

- 4.1 That this report forms the basis for the Audit & Governance Committee to undertake their annual review of internal control and to approve the annual governance statement for 2017/18 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 2018



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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 Standards¹ and corresponding Local Government Application Note².
- 1.1.2 The Public Sector Internal Audit Standards requires the Head of Internal Audit (Chief Auditor) to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.
- 1.1.3 Reporting the work of internal audit to the Audit and Governance Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit and Governance Committee receives quarterly reports regarding internal audit and investigations activities and outcomes during the year.

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

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

- 1.3.2 Management are also responsible for ensuring there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise; *internal control, governance, and risk management* arrangements. These three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

Internal Audit Effectiveness

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

2.0 ANNUAL ASSURANCE STATEMENT

2.1 Basis of Assurance Opinion

2.1.1 This opinion is based on an assessment of:

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

The internal audit plan for 2017/18 was developed to provide independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk. The Plan was approved by the Audit and Governance Committee in April 2017. This Plan does not include 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.

2.2 Annual Assurance Opinion for 2017/18

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

Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, the Chief Auditor has concluded that only **limited assurance** can be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2017/18. Whilst the assurance level is the same as last year's, it should be noted that the direction of travel is one of improvement.

2.2.2 The audit opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Reasonable, through to Limited and No Assurance. This opinion is reflective of the relatively high number of limited audit 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.

- 2.2.3 Of particular importance in determining the limited opinion in 2016/17 were the key weaknesses identified within some of the Council's financial systems. Whilst improvements have been made in 2017/18 and the direction of travel is encouraging, there has been slow resolution on issues relating to reconciliations, accounts payable and accounts receivable. These systems influence significant value and are exposed to risk and therefore they carry disproportionate weight in the overall assurance opinion.
- 2.2.4 Significant progress has been made since October 2017 in rectifying the issues identified in the previous audit report due to the implementation within the Council's accounting system of separation of duties between creating and approving the posting of journals and the requirement for evidence to support the creation of journals. However, the issues highlighted last financial year, i.e. lack of evidence and unclear audit trails, still applies to a large number of journals in the 2017/18 financial year created prior to October and that the lack of an audit trail has prevented assurance being given on the accuracy of financial management information based on such journals. In total the value of these journals is £25.85M (202 journals). Thus, a great deal of work is still required to retrospectively evidence and approve journals for the first half of the financial year. This exercise in turn could uncover incorrect transactions.
- 2.2.5 The new procedures brought in to enforce separation of duties initially resulted in a substantial backlog of journals awaiting approval.
- 2.2.6 Work has been continuing on the bank reconciliation, but at the time of our review (Nov 2017) the bank account reconciliation had not been kept up to date and unreconciled items still needed to be cleared. We would expect the bank reconciliation to be completed and reviewed on a monthly basis. There was still no centrally held list of control account reconciliations and no process in place to ensure these are completed in a timely way. We found that communication between services had allowed differences to remain and not being resolved on a timely basis. We would expect control accounts to be completed and reviewed on a monthly basis.
- 2.2.7 We have been informed that an agreed list of other reconciliations is now in place with regular submissions to Finance from other parts of the Council. And a quality review process is being implemented and will be finalised for the 2017/18 accounts and then carried forward into 2018/19.
- 2.2.8 Last year we reported that some corporate governance processes and policies across the Council required updating and publicising. As a result a revised officer code of conduct was launched in December 2017 through the Council's automated policy management system and is included as part of the induction process. Other policies such as the Anti Fraud and Money Laundering policy have also been revised, however a revised Corporate Governance Code of Practice has yet to be drafted.

- 2.2.9 Key performance indicators are reported monthly to Directorate and Corporate Management Teams, however only financial performance is reported to the Policy and Audit and Governance Committees. Whilst discussed and challenged by Lead Members, we recommend that agreed key performance indicators are reported to the appropriate committee for scrutiny.
- 2.2.10 While there are good risk management processes in place, risk management practice is still not yet thoroughly embedded in all parts of the Council, with risk registers not being kept up to date at both a strategic and directorate level. The Council needs to confirm that risk and performance management continues to be managed effectively, day-to-day, by operational managers, in support of the delivery of service objectives.
- 2.2.11 We are satisfied that the procedures for developing and monitoring the implementation of the savings programme have been strengthened to both promote greater transparency and stronger scrutiny of the financial viability of savings and that there are now improvement arrangements in place to continually appraise this.
- 2.2.12 Recent events such as the challenge of closing the 2015/16 accounts, the difficulties in preparing the 2017/18 budget, and the inability to successfully close the 2016/17 accounts indicated deficiencies in the capacity and capability of the Finance Service. We note that a new structure, with new job descriptions and a robust appointment process for each post has been put into operation, which will help ensure that the service has the required capacity and capability. However, some of the more senior positions in the new structure still remain unfilled. In addition to this, we would like to see documented procedures for key business processes, such as bank reconciliation, journal control and accounts payable. Such procedures will limit reliance on key individuals and minimise the risk of single points of failure.
- 2.2.13 Some of the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed. 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).

2.3 Inherent qualifications to the opinion

- 2.3.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, not absolute, assurances of effectiveness.
- 2.3.2 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.

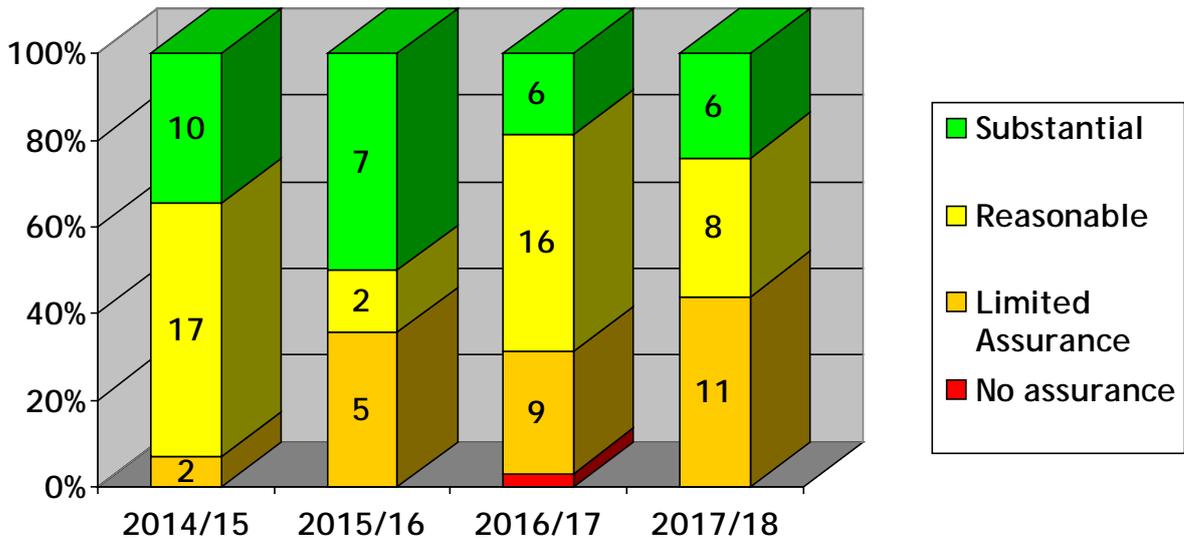
- 2.3.3 This, combined with reorganisations and turnover in a number of key services across the Council, has made the audit planning more difficult. This has resulted in several changes to the Plan and more audits than usual being cancelled or deferred during the year.
- 2.3.4 Given the risks presented 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 going forward.

3 SUMMARY OF THE AUDIT WORK

- 3.1 The annual 2017/18 Annual Audit Plan was developed in line with the Public Sector Internal Audit Standards for Internal Audit. Although satisfactory progress has been made against the Plan during the period, a number of audits had to be deferred, due to both resource issues and unplanned work.
- 3.2 We completed 29 planned audits (including follow ups), encompassing 4 school reviews during the year. The table below summarises the report classifications.

Report Classification (2017/18)	No. of Audits
Substantial Assurance	6
Reasonable Assurance	8
Limited Assurance	11
No Assurance	0
Assurance N/A	2
Total	29
Reports yet to be finalised	7
Grant Claims certified	4
Total	40
No of projects cancelled or deferred	11

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



3.4 Priority of Recommendations

3.4.1 At the time of writing we have made a total of 90 audit recommendations in our reports (both draft and finalised), of which 14 (16%) were classified as a high priority.

3.4.2 In the following section we have set out the high level key findings identified during our audit work for 2017/2018.

3.4.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 1.

- 4.1 Some of the key areas for improvement identified during our audit work throughout the year are set out below:
- i. **General Ledger:** Our follow up confirmed correct and appropriate working papers are now maintained and a system of approval for journals has been implemented which gives a full audit trail of actions performed on a journal. However, this did not cover the whole financial year and there is still considerable work to be completed to evidence and approve journals in the first half of the financial year. The direction of travel however, is one of improvement.*
 - ii. **Bank & Cash Reconciliations** - The bank account reconciliation had not been kept up to date and unreconciled items still needed to be cleared.*
 - iii. **Accounts receivable** - no progress has been made in centralising the accounts receivable function, and the same control deficiencies reported in 2016/2017 apply for 2017/2018. Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance.*
 - iv. **Accounts Payable** - Our audit in 2016/2017 identified inefficient processes and highlighted that the accounts payable function was incurring an unnecessary level of administrative delay, by not managing its supplier database and that corporate priorities such as purchase to pay were not being complied with. Although some of the control deficiencies still applied in 2017/2018, there is a comprehensive action plan in the place to both address audit concerns and improve business processes. In addition the supplier database has now been cleansed. Again, the direction of travel is positive, but a number of recommendations remain outstanding.*
 - v. **Direct Payments** - Quarterly monitoring and annual audit checks by staff of Direct Payment accounts are not being done on time and there are backlogs with both. In addition gaps and inconsistencies between records were identified.*
 - vi. **Public Health** - At the time of our audit we identified the need for greater clarity required of funding allocations for public health miscellaneous expenditure.*
 - vii. **Mosaic/Fusion end of year reconciliation** - No clear year end reconciliation between Mosaic and Oracle Fusion for adult social care and commitment reporting is not always up to date, thus difficult to estimate the correct position for the accounts.*
 - viii. **Child Sexual Exploitation (CSE)** - Operational processes need to be improved to oversee and track CSE cases and to (be able to) verify the completeness and accuracy of information gathered between different record sets, held by both the council and external agencies.*
 - ix. **Foster Care Recruitment** - Incomplete audit trails for the recruitment and assessment of foster carers and out of date policies and procedures covering day to day operations.*

- x. *Electronic Document and Records Management* - Progress in this area since the last audit report has been limited, with many of the previous recommendations remaining outstanding. Although a new external courier has been appointed, we believe that current internal processes to collect and manage the transportation of paper documents for scanning are in need of strengthening to protect the Council from the risk of data loss.
- xi. *Information Governance & Data Protection* - Although there has been substantial work driven by the GDPR agenda, there remain key pieces of work to be put in place to improve governance over information security and data protection.

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

5.0 IMPLEMENTATION OF AUDIT RECOMMENDATIONS

- 5.1 Whether or not an audit review is scheduled for follow up is dependent 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 2016/17 we gave nine areas limited assurance and scheduled follow up reviews for 2017/18. A summary is as follows:
 - *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. New processes have been introduced to improve control, along with the implementation of a new S106 data system, which is to be linked directly to Oracle Fusion, as this will be the most efficient way of monitoring receipts.
 - *Eligibility, Risk and Quality Panel*- The Directorate has established a governance framework and has created a Quality, Performance and Finance Board to ensure robust accountability of the standards of practice and funding allocations
 - *Subject Access Requests* - A review of subject access requests last year found no coordination between the various teams to ensure that a consistent approach is taken to handling and responding to requests received. Our follow up review confirmed all agreed actions have been implemented.
 - *Bank & Cash Reconciliations* - see section 4.1(i)
 - *Accounts Receivable* - see section 4.1 (ii)
 - *General Ledger* - See section 4.1 (iii)
 - *Accounts Payable* - see section 4.1(iv)
 - *Electronic Document & Records Management Corporate Governance* - see section 4.1(x)
 - *Information Governance & Data Protection* - see section 4.1(xi)

6.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

6.1 Corporate Governance

- 6.1.1 The Internal Audit Service continues to be involved in the development of the Council's corporate governance arrangements and monitoring of the Annual Governance Statement action plan. Progress on implementing actions has been reported to CMT and the A&G Committee throughout the year. We have undertaken our own independent monitoring and as at the 31 March we confirmed 7 out of 20 (35%) actions had been complete, with the remaining work in progress and carried forward.
- 6.1.2 Our internal audit work has confirmed that the Council has taken steps to improve governance, such as more robust budget monitoring and greater scrutiny of the financial viability of savings. Key governance documents such as the staff code of conduct have been relaunched and reminders for officers to declare business interests and gifts & hospitality.
- 6.1.3 Currently only financial performance is reported to the Policy and Audit & Governance Committees respectively. The performance framework is, in effect, a summary of the key internal processes and components through which the Council sets, delivers, monitors and reports on its priorities; as such it encompasses elements of strategy, finance, performance, people and risk management, and reporting and accountability.
- 6.1.4 Our audit work has highlighted the need to strengthen information governance, with the forthcoming introduction of the new General Data Protection Regulations and also performance and risk management

6.2 Risk Management

- 6.2.1 The Corporate Management Team (CMT) manages and reviews the Council's strategic risks and reports were provided throughout the year providing status updates on corporate risks to the Audit & Governance Committee.
- 6.2.2 While risk management techniques are deployed, risk management practice is not yet thoroughly embedded in all parts of the Council. Further efforts need to be made during 2018/19 in order to improve this situation. 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, which in turn helps demonstrate that risk management an integral and explicit part of the Council's overall management arrangements.
- 6.2.3 Internal Audit have used the Council's Corporate Risk Register to inform the audit planning process and at the same time can provide assurance that appropriate measures are being taken to manage the Council's key business risks.

7.0 ASSURANCES FROM OTHER SERVICES

7.1 External Auditor

- 7.1.1 The Council's External Auditors, Ernst & Young (EY) made recommendations in February 2017 under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 by way of a letter calling for sustainable resource deployment in relation to the immediate and medium term financial position of the Council and the need for robust budget monitoring. A robust savings monitoring regime overseen by the Delivery Unit and the Corporate Programme Delivery Group (CPDG) was implemented in May 2017 and has been improved each month. There is now more independent investigation into each saving by the Delivery Unit and more scrutiny at the CPDG and at the individual Directorate Steering Groups. This has driven up the standard of scrutiny and the quality and regularity of information being supplied from directorates.
- 7.1.2 It is recognised corporately that this work has been critical to ensuring the financial sustainability of the Council. The progress of this change programme has been and will continue to be reported to Policy and Audit and Governance Committees, so that progress can be monitored effectively, including oversight by the External Auditor
- 7.1.3 At the time of writing, EY were still undertaking the audit of the 2016/17 accounts.

7.2 Ofsted

- 7.2.1 Reading Borough Council Children's Services were inspected by Ofsted in June 2016 and rated "Inadequate". A Commissioner was appointed and an Improvement Board with an independent Chair was put in place. Regular monitoring visits are undertaken by Ofsted; the Ofsted monitoring visit in October 2017 acknowledged that the Council is making purposeful progress in key areas i.e. Early Help, MASH and assessment teams. The subsequent monitoring visit in February 2018 concluded that slow progress has been made in the areas of child in need and child protection work. The improvement work is focussed on these key areas.

8.0 Resource availability, allocation & jobs completed

8.1 For 2017/2018, 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.

Table A Resource (Planned v Actual)

	Planned Totals	Actual Totals	Gain (+) Against
Resource Available	1506	1492	14
Non-audit time			
Annual & other leave	197	200	3
Sickness	36	11	-25
Training (1)	49	60	11
Supervision & appraisal (2)	63	61	-2
Management	46	65	19
Administration (3)	66	73	7
Other (4)	49	24	-25
Sub-Total:	506	494	-12
Non Audit Related Work			
Risk Management (5)	6	11	5
Emergency Planning & Business Continuity (6)	8	11	3
Corporate Investigations Team (7)	43	30	-13
Insurance (8)	22	22	0
Elections (9)	0	3	3
Sub-Total:	79	77	-2
Audit time available:	921	921	28
Time Allocated to Audit Work			
	Planned Days	Actual Days	Variance Days
Audit Reviews	761	793	32
Other Assurance work	0	0	0
Contingency	100	76	-24
Audit Planning & Reporting	60	52	-8
Total	921	921	0

- 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 table B below: -

Table B: Key performance Indicators for internal audit

Key Performance Indicators	Target	Actual	
		2016/17	2017/18
Client Satisfaction	90% or above	91.4%	89%
Annual survey average score (lower the better)	2.0	1.7	1.4
Production of final report within 2 weeks of receipt of management responses	90%	86%	86%
Management responses received within 3 weeks of issue of draft report	90%	36%	29%
Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	39%	54%
Number of audit projects completed relative to those in the (revised) plan	80%	88%	71%
Actual spending of controllable budget	100%	98%	99.5%
% Of working days lost to sickness	2.0%	0.81%	0.78%

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 March 2018 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 26 questions against 6 service areas; the summaries of the findings are detailed in table C below on a scale of either 1 to 4 (where 1 is excellent and 4 is poor) or 1 to 5 (where 1 is strongly agree and 5 is strongly disagree).

Table C: Annual Quality Review

Average rating	Service area
1.8	Relationships with Management
1.8	Audit Staff
1.7	Audit Scope
1.8	Audit Testing and Reporting
1.6	Internal Audit Management
1.8	Value Added
1.7	Average

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

9.0 Counter Fraud Activity

- 9.1 Best practice advises that the results of corporate investigations, including the number and types of investigations undertaken should be reported annually. Progress on investigations is reported every six months to the A & G Committee with a summary on the types of investigations in progress. Table D provides a high level overview of investigations undertaken compared to previous financial years. The counter fraud resource consists of three experienced investigators and was increased to four officers in February 2018.
- 9.2 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.

Table D Annual Summary of Investigations

	2015/16	2016/17	2017/18
Housing tenancy Fraud			
No. Housing Tenancy Referrals investigated	67	86	34
Properties Recovered	3	10	16
Estimated saving from Recoveries	£45,000	£150,000	£240,000
Prosecutions Secured	2	0	3
Application under the Proceeds of Crime Act	1	1	0
Value of POCA	0	£21,000	£0
Succession / Accession tenancy applications:			
No. Succession / Accession tenancy applications investigated			12
Properties Recovered			2
Estimated saving from Recoveries			£30,000
Compensation payment received			£46,817
Right to Buy Fraud			
No. RTB applications investigated			11
No RTB applications refused as a result of investigation			3
Estimated savings from Recoveries			£255,879
Residual Housing Benefit			
Prosecutions	15	3	1
value of fraudulent overpayments identified	£118,816	£1,518	£12,169
Council Tax Reduction Scheme			
No. CTAX Referrals investigated	220	112	90
Prosecutions	0	2	1
add pens	34	14	2
value of fraudulent overpayments identified	£48,089	£19,468	£4,772
Value of add pens	£22,590	£8,333	£2,386
Parking Fraud			
Blue badge referrals	47	25	13
Blue Badges recovered	10	6	1
prosecutions secured	3	3	0
PCN's issued	17	4	3
estimated annual savings	£1,000	£400	£300
Social Care			
No. Social Care Referrals investigated	1	2	1
Financial value of cases		£1,500	£68,000
Internal Investigations			
No. Internal Referrals	9	4	3
Number of cases investigated	2	1	3
Cases prosecuted	0	1	2
Financial value of cases	£0	£43,000	£12,000

ANNEX 1: Detailed analysis of internal audit reviews 2017/18

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
e-Tendering system (C/Forward)	23-Mar-17	24-May-17	28-Jun-17	0	0	2
Subject Access Requests (Follow Up)	30-Jan-18	15-Mar-18	15-Mar-18	0	0	0
N3 Accreditation	01-Oct-17	19-Oct-17	30-Oct-17	0	0	0
Business Rates	18-Sep-17	10-Oct-17	21-Nov-17	0	0	4
Geoffrey Field Junior School	6-Nov-17	29-Nov-17	14-Dec-17	0	0	6
Oxford Road Community School	25-Oct-17	30-Oct-17	21-Nov-17	0	0	5

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

Title	Start	Draft	Final	Recs		
				H	M	L
Sec 106 Agreements (follow up)	3-May-17	30-Jun-17	14-Jul-17	0	0	0
Safeguarding (Adults)	10-Jul-17	24-Aug-17	18-Sep-17	0	5	1
Deputyship and Appointeeship	15-Nov-17	25-Jan-18	16-Feb-18	0	6	4
Payroll	14-Sep-17	7-Dec-17	17-Jan-18	0	2	2
Council Wide Savings - Governance	30-Jun-17	15-Sep-17	6-Oct-17	0	2	2
Arts & Theatres income collection	13-Oct-17	13-Mar-18	12-Apr-18	0	2	1
Emmer Green Primary School	9-Nov-17	24-Nov-17	17-Jan-18	0	1	1
Blagdon Nursery School	8-Mar-18	13-Mar-18	23-Mar-18	0	7	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
Bank & Cash Rec	6-Sep-17	4-Oct-17		2	3	1
Direct Payments	18-Jul-17	24-Oct-17	24-Nov-17	3	4	2
MOSAIC / Oracle Fusion end of year reconciliation (follow up)	22-May-17	29-Aug-17	1-Nov-17	4	3	1
Creditors (Accounts Payable)	11-Jan-18	23-Mar-18	1-May-18	1	2	0
General Ledger	17-Jan-18	1-May-18		0	2	0
Information Governance & Data Protection (follow up)	31-Jan-18	1-Feb-18	9-Apr-18	1	6	3
Public Health Grant	9-May-17	29-Aug-17	29-Sep-17	1	1	1
Electronic Document and Records Management (follow up)	21-Dec-17	12-Feb-18	13-Mar-18	1	5	1
Foster care (inc follow up)	27-Jul-17	5-Dec-17	5-Mar-18	2	6	1
Child Sexual Exploitation	3-Apr-17	6-Jul-17	1-Sep-17	3	8	2
Sundry Debtors	6-Oct-17	23-Jan-18	7-Feb-18	0	6	5

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.

Planned audits cancelled or deferred during the year as previously reported to the Committee include

Title	
MASH (Multi-Agency Safeguarding Hub)	Homes for Reading
Financial Assessments for Adult Care	NHS CHC
Corporate Buildings H&S Statutory Compliance Regimes	Right to Buy
Commercial property acquisitions and management	Delayed Transfer of Care
Administration of Looked After Children	