

To: Councillors Stevens (Chairman), Debs  
Absolom, Lovelock, McElligott, Page,  
Stanford-Beale and Terry

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17 September 2014

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## NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE - 25 SEPTEMBER 2014

A meeting of the Audit & Governance Committee will be held on Thursday 25 September 2014 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

### AGENDA

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**AUDIT AND GOVERNANCE COMMITTEE MINUTES  
2 JULY 2014**

**Present:** Councillor Lovelock (Vice-Chair, in the chair);  
Councillors D. Absolom, Page, Stanford-Beale and Terry.

**Also in attendance:**

Alan Cross	Head of Finance
Paul Harrington	Head of Audit & Risk Management
David Moore	Committee Administrator
Steve Stimpson	Assistant Finance Officer
Ian Wardle	Managing Director

**Apologies:** Councillors Stevens (Chairman) and McElligott

**1. MINUTES**

The Minutes of the meeting of 22 April 2014 were confirmed as a correct record and signed by the Chair.

**2. HEAD OF AUDIT ANNUAL ASSURANCE REPORT**

P Harrington submitted the annual assurance report of the Head of Audit (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), which:

- Gave the Head of Audit'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;
- Drew out key themes arising from the work of the Audit Team during the 2013/2014 financial year; and
- Compared the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

The Annual Assurance report was attached at Appendix 1.

The covering report stated that detailed audit reports had 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 had been identified. In addition, quarterly reports had been issued to, and discussed with, the Corporate Management Team 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 covering report also included a summary of key issues, including details of eight audit reviews assigned limited assurance during 2013/14. All of these reviews had been reported to the Committee during the year and follow-up action would be reported back during 2014/15 as part of the Audit Plan.

Based on the work undertaken by Internal Audit over the course of the year, the Head of Audit had concluded that the Council's control environment was effective for its business

**AUDIT AND GOVERNANCE COMMITTEE MINUTES  
2 JULY 2014**

needs and operated in an effective manner. Furthermore, using assurance gained from Internal Audit's work on governance matters, he had concluded that the Council's governance, including internal control, was adequate and effective.

**Resolved:**

**That the assurance opinion given by the Head of Audit be noted.**

**3. ANNUAL GOVERNANCE STATEMENT 2013-2014**

A Cross submitted a report on the draft Annual Governance Statement for 2013/14.

The report stated that the Council was responsible for ensuring that financial management was adequate and effective and that the Council had a sound system of internal control, which facilitated the effective exercise of the Council's functions and which included arrangements for the management of risk.

Regulation 4 of the Accounts and Audit Regulations 2011 required councils to review the *"effectiveness of their system of internal control"* at least once a year and to publish an annual governance statement which accompanied the authority's financial statements. It also required the findings of the review to be considered by a committee of the Council (or the whole Council).

The Annual Governance Statement was a key measure of the overall effectiveness of governance arrangements within the Authority.

The report also stated that in December 2012, CIPFA had issued an Addendum to the Delivering Good Governance in Local Government Framework document which provided further specific guidance on how local authorities should demonstrate an increased emphasis on their strategic approach to governance. The Annual Governance Statement for 2013/14 had reflected this guidance and demonstrated how the key governance requirements had been met.

The draft Annual Governance Statement 2013/2014 was attached at Appendix 1, together with a Governance Framework at Appendix A and the Annual Governance Statement Implementation Plan for 2014/15 at Appendix B.

**Resolved:**

- (1) **That the Annual Governance Statement for 2013/2014 at Appendix 1 be received and approved for publication with the Council's accounts;**
- (2) **That the Managing Director be authorised in consultation with the Leader and the Chairman of the Audit & Governance Committee to make any minor amendments that became necessary before final publication in September 2014.**

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2 JULY 2014**

**4. INTERNAL AUDIT & CORPORATE INVESTIGATIONS QUARTERLY PROGRESS REPORT**

P Harrington submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2014.

The report aimed to:

- Report back on those audit reviews outstanding at year end (31 March 2014) which had been finalised in Q1 of this financial year;
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that had been subject to audit in Q1;
- Advise the Committee of significant issues where controls needed to improve to effectively manage risks;
- Provide details of forthcoming audit reviews and the status of programmed audits;
- Track progress on the response to audit reports and the implementation of agreed audit recommendations.

The report also provided details of the work which the Council's Corporate Investigations team and Internal Audit had undertaken since April 2014 in respect of investigations into benefit, housing tenancy fraud and other corporate investigations.

**Resolved:**

That the report be noted.

**5. BUDGET MONITORING - EMERGING VARIANCES AND RAG STATUS OF SAVINGS**

A Cross submitted a report, which had also been considered by the Policy Committee at its meeting on 23 June 2014, setting out some emerging variances in the 2014/15 Budget and the "RAG" status of the savings agreed for 2014/15, as well as those savings that had been agreed in the 2013/14 budget and had not been fully implemented by the previous report to Policy Committee (Minute 103 of the meeting held on 17 March 2014 refers).

The report noted that the 2014/15 budget included £15m of new savings, of which £10m needed to be delivered in 2014/15, the RAG status of which was set out by directorate in Appendix 1. In addition the budget included almost £2m of savings agreed in the 2013/14 budget round, and the RAG status of delivery of these remaining £2m savings, split by directorate included in the 2014/15 budget, was set out in Appendix 1.

The report explained that the Corporate Management Team had also considered whether there were other potential budget variations ahead of the first formal budget monitoring exercise which would be reported to Policy Committee in July 2014. This exercise had been substantially influenced by a consideration of variances identified in the 2013/14 budget outturn, and a consideration of whether the more significant issues were ongoing and had not been fully taken account of in setting the 2014/15 budget. The exercise had identified potential adverse variations in Culture &

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Leisure and New Directions, but these were likely to be compensated for by some potential positive variances within childcare lawyers (subject to caseloads remaining low), benefit costs and treasury management.

Policy Committee had:

- (1) Noted the emerging variances and the RAG status of savings remaining from 2013/14 and those approved in the 2014/15 budget (for 2014/15);
- (2) Agreed a budget virement of £790k between the Treasury Management Budget and Culture & Leisure and New Directions income budgets to mitigate these expected variances.

Resolved:

That the report and the decisions of Policy Committee be noted.

**6. PROVISIONAL END OF FINANCIAL YEAR ACCOUNTS, OUTSTANDING DEBT AND CAPITAL PROGRAMME FINANCING**

A Cross submitted a report, which had also been considered by Policy Committee at its meeting on 23 June 2014, summarising the financial position at the end of the 2013/14 financial year, setting out draft final budget variances, and providing a preliminary view of the accounts, including a summary of outstanding debt owed to the Council as at 31 March 2014. The report also sought approval for the financing of the Capital Programme, including the use of S106 Receipts, and for the write-off of various irrecoverable debts in excess of £10k.

Attached to the report at Appendix A were summaries for each directorate and the Housing Revenue Account, giving a comparison of the Approved Budget to outturn. The report also set out a comparison by service between the Draft Outturn and Planned Expenditure for the Capital Programme, and attached at Appendix B a schedule of S106 funding allocations for approval in line with the agreed process. The report also contained information on the Final Accounts Process, and attached at Appendix C was a document setting out the final requirements for Local Authority Accounts and in particular the formal approval process.

The report also explained that financial regulations required that Committee approval was given for write-offs above £10,000, and set out details of two irrecoverable debts totalling £55,794.88. Attached at Appendix D was a summary of the level of general debtors outstanding for more than 60 days. The most significant areas of debt related to Housing Benefit Overpayment and Community Care, where the majority of debt related to domiciliary care and older peoples residential accommodation awaiting administration of clients estates. A large proportion of the debt was being paid by instalments or awaiting legal action.

Policy Committee had:

- (1) Noted the preliminary outturn position and the main reserves, as set out in the report and Appendix A;

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- (2) Agreed funding of the Capital Programme and use of S106 receipts, as set out in the report and Appendix B;
- (3) Approved the writing-off of two irrecoverable debts totalling £55,794.88;
- (4) Authorised the Head of Finance, in consultation with the Leader, Deputy Leader and Chairman of the Audit and Governance Committee, to amend the Final Accounts where this was in the best interests of the Council.

A Cross reported at the meeting that he had “signed off” the draft Accounts on 30 June 2014, as required by the Accounts & Audit Regulations 2011, and the audited accounts would be submitted to the Audit & Governance Committee’s meeting on 25 September 2014.

**Resolved:**

**That the report and the decisions of Policy Committee be noted.**

**7. TREASURY OUTTURN REPORT FOR 2013/14 AND RELATED UPDATE**

A Cross submitted a report stating that CIPFA recommended that after the financial year end, councils produce an annual report of their treasury activities.

The report therefore had attached at Appendix 1 the outturn report for 2013/14. Included in the report was an outline of two current treasury and related issues likely to impact the Council during 2013/14, as follows:

The Council’s change of bank

The report stated that the Co-operative Bank was currently the Authority’s banker, but during the year had announced that it was leaving the local authority market. Following a tendering exercise with five other authorities led by Southampton City Council, Lloyds Bank had been selected to replace the Co-Op, and it was expected that most banking arrangements would be changed over to Lloyds during the second half of 2014/15.

Municipal Bonds Agency

The report stated that the Local Government Association (LGA) had announced its intention to establish a collective bond agency during 2013/14. As explained in the 2014/15 Treasury Strategy Statement the agency would aspire to be able to arrange local authority borrowing at market rates slightly below present PWLB rates. It was also explained that the agency would establish a clear market rate for (collective) local authority long term borrowing, which would prevent PWLB rates being increased unfairly. In the Statement it had been identified that it would be reasonable to invest 0.1% of the Council’s expected longer term borrowing costs in such an agency, which would incur a maximum initial cost of £40k. Through its Project Group for the

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prospective agency, the company the LGA had set up was now seeking investment commitments, and it was intended to publish a parallel Decision Book report to confirm the Council's £40k investment.

**Resolved:**

- (1) That the treasury outturn report for 2013/14 be noted;
- (2) That it be noted that Lloyds Bank had been selected as replacement banker following Co-operative Bank's withdrawal from the local authority market;
- (3) That it be noted that it was intended to publish a Decision Book report shortly confirming the Council's intended initial investment in the Municipal Bonds Agency.

(The meeting started at 6.30pm and closed at 6.48pm).



**READING BOROUGH COUNCIL  
REPORT BY HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	25 September 2014	<b>AGENDA ITEM:</b>	3
<b>TITLE:</b>	<b>APPROVAL OF 2013/14 ACCOUNTS, KPMG AUDIT MEMORANDUM &amp; AUDIT OPINION</b>		
<b>LEAD COUNCILLOR:</b>	CLLR STEVENS	<b>AREA COVERED:</b>	CHAIR OF AUDIT & GOVERNANCE
<b>SERVICE:</b>	FINANCIAL	<b>WARDS:</b>	BOROUGHWIDE
<b>AUTHOR:</b>	ALAN CROSS	<b>TEL:</b>	2058 / 9372058
<b>JOB TITLE:</b>	HEAD OF FINANCE	<b>E-MAIL:</b>	<a href="mailto:Alan.Cross@reading.gov.uk">Alan.Cross@reading.gov.uk</a>

## 1. PURPOSE AND SUMMARY OF REPORT

- 1.1 In accordance with the Accounts & Audit Regulations, the Committee, on behalf of Council is required to approve the Council's accounts by the end of September.
- 1.2 As part of the annual external audit process of the Council's accounts, KPMG produce an Audit Memorandum to those charged with Corporate Governance prior to issuing their opinion.
- 1.3 KPMG have indicated that subject to the approval of the accounts by the Committee, the receipt by them of a Management Representation letter, the receipt by the Committee of the Report to those Charged with Governance they will be in a position to issue an unqualified audit report on the (amended) Council's accounts, thus concluding the accounts and audit process for 2013/14. This report sets out these documents, though for reasons of size the formal accounts have not been printed as part of the agenda. KPMG will be present at the meeting to deal with questions relating to their audit.

## 2. RECOMMENDATION

### 2.1 Audit & Governance Committee are requested to note:

- a) the Management Representations letter from the Head of Finance
- b) KPMG's (ISA 260) Report to those charged with governance

**2.2 Audit & Governance Committee are requested, on behalf of Council to approve the final accounts for 2013/14, noting that in doing so KPMG will be in a position to issue an unqualified opinion.**

### **3. POLICY CONTEXT**

3.1 Each year as part of the annual external audit process the Council's External Auditor KPMG produce a report addressed to those charged with governance prior to issuing their Audit Opinion.

3.2 The Report is submitted to the Audit & Governance Committee as part of its duties on behalf of Council. Given the democratic nature of the Council it is possibly too simplistic to suggest the Committee is solely responsible for governance, and we suggest that Council as a whole as well as the Administration have some governance responsibilities too, as of course does the Corporate Management Team. To reflect this, the Annual Governance Report is signed by the Leader and Managing Director.

3.3 The general financial position was reported to the Committee at its end of June meeting, and the Council's draft accounts were signed off at the end of June by the Head of Finance and placed on the website shortly after that meeting. As is normal in the course of the audit we have agreed a small number of changes to the draft accounts. As part of the process, the Council's Section 151 Officer is required to submit a Management Representations letter to the External Auditor, and this is attached for the information of the Committee.

### **4. OPINION AND AUDIT MEMORANDUM / MANAGEMENT REPRESENTATIONS LETTER**

4.1 Attached to this covering report are

- Management Representations Letter
- KPMG's Audit Memorandum to those charged with governance

#### **4.2 Implementing External Audit Recommendations**

KPMG's letter includes an update to a recommendation relating to our property system. Following last year's audit as part of the de-brief process we met with KPMG to review the final accounts and audit process. This has led to improvements in the process, which is acknowledged in the letter. We plan a further meeting shortly to consolidate this improvement for the future.

4.3 Last year, to improve the monitoring of implementation of recommendations Internal Audit incorporated a review of agreed recommendations in their audit programme and follow up procedures. We will endeavour to continue with this process.

#### **4.4 KPMG Audit Differences**

KPMG's Report sets out the more significant issues that have arisen in their audit and a small number of audit adjustments we have made to the draft accounts as a consequence of their work. The required adjustments are largely technical or presentational ones. There have been no changes to the council's available balances and resources as a consequence of KPMG's audit.

#### **5. FINANCIAL IMPLICATIONS**

5.1 None, directly from this report.

5.2 As indicated above and in KPMG's report, a number of adjustments have been made to the accounts since June, but overall these have had no significant impact on the General Fund Balance.

5.3 The final accounts with the audit report will as usual be published on the Council's website.

#### **6. LEGAL IMPLICATIONS**

6.1 The process being followed is in line with the Accounts & Audit Regulations.

#### **7. CONTRIBUTION TO STRATEGIC AIMS / COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT**

7.1 None directly from the report.

#### **8. BACKGROUND PAPERS**

8.1 None.

Managing Director: Ian Wardle



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Our reference:  
Your reference:

Date: 17 September, 2014

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Your contact is:

Alan Cross, Accountancy Section, Financial Services

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Reading Borough Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

## Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended; and
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable [ISA (UK&I) 540.22]
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed. [ISA (UK&I) 560.9]
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter. [ISA (UK&I) 450.14]

## Information provided

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - ii) The Authority has disclosed to you all information in relation to:
    - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:

- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
11. The Authority confirms that:
- The financial statements disclose all of the uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and

- approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was published in the agenda of the Council's Audit and Governance Committee for 25 September 2014 (and is therefore available on our website).

**On behalf of the Authority, I confirm the above representations, to the best of my knowledge and belief, having made such enquiries as I consider necessary for the purpose.**

Yours faithfully,

**Alan Cross**  
**Head of Finance**



cutting through complexity™

# Report to those charged with governance (ISA 260) 2013/14

Reading Borough Council

25 September 2014





**The contacts at KPMG in connection with this report are:**

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tamas Wood, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

### This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

### Scope of this report

This report summarises the key findings arising from:

- our audit work at Reading Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) conclusion.

### Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and August to September 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

### VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- reviewing the Annual Governance Statement (AGS);
- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and

- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

**This table summarises the headline messages. Sections three and four of this report provide further details on each area.**

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Audit adjustments</b>	<p>We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational or classification nature. There was no impact on the General Fund.</p> <p>For completeness, we have included a list of all non-trivial audit differences in Appendix 3. The Head of Finance has agreed that all of these will be adjusted.</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<b>VFM conclusion and risk areas</b>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.</p>

Our audit has identified a total of 5 audit adjustments to date.

The impact of these adjustments is to:

- No impact on the general fund or HRA balances;
- Increase the surplus on the provision of services for the year by £4.6 million; and
- No impact on the net worth of the authority.

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit & Governance Committee on 25 September.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any individually material misstatements. We identified a number of issues that have been adjusted by management. Our audit identified a total of 5 significant audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

The net impact on the General Fund and HRA as a result of audit adjustments is to nil.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14* ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the General Fund and HRA 2013/14			
£'000	Pre-audit	Post-audit	Ref (App.3)
Surplus on the provision of services	8,210	12,811	1, 3
Adjustments between accounting & funding basis under Regulations	(240)	(4,841)	1, 3
Transfers to earmarked reserves	(4,802)	(4,802)	
<b>Increase in General Fund and HRA balances</b>	<b>22,147</b>	<b>22,147</b>	
Balance Sheet as at 31 March 2014			
£'000	Pre-audit	Post-audit	Ref (App.3)
Property, plant and equipment	758,753	758,753	
Other long term assets	50,668	50,668	
Current assets	58,799	66,720	2, 4, 5
Current liabilities	(55,567)	(63,488)	2, 4, 5
Long term liabilities	(611,604)	(611,604)	
<b>Net worth</b>	<b>201,049</b>	<b>201,049</b>	
General Fund and HRA	(22,147)	(22,147)	
Other usable reserves	(56,718)	(56,718)	
Unusable reserves	(122,184)	(122,184)	
<b>Total reserves</b>	<b>(201,049)</b>	<b>(201,049)</b>	


**We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.**

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

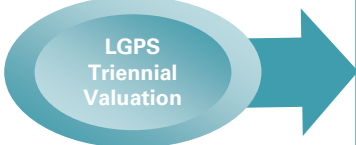

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.



Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Area of focus	Issue	Findings
	<p>The recent changes in business rate responsibilities mean that the Authority will be directly impacted by any successful challenges to rateable value arising from business appeals. While the impact in year has been slow to materialise the Council considers that it has a potential liability of around £13m. The Authority are due to use consultants to review this position at year end in order to determine an appropriate provision.</p> <p>We will review the basis of the provision including due consideration of the expertise of the consultants, the factors they have taken into account in their calculations and the robustness of the calculation in line with our audit materiality.</p>	<p>As part of our detailed testing we have reviewed the basis of the Council's provision and consider this to be reasonable erring on the cautious side. The Council has exercised an option to phase its full provision in over five years rather than recognising at once and we have confirmed that this is allowable in line with DCLG guidance.</p> <p>Our wider business rates testing has noted a number of classification errors (see Appendix 3) none of which have an impact on the bottom line general fund balance.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Area of focus	Issue	Findings
	<p>During the year the Local Government Pension Scheme for Berkshire (the Pension Fund) has undergone a triennial valuation in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>Where data provided to the actuary is inaccurate this would impact on the actuarial figures in the accounts. Most of the data is provided to the actuary by the Royal Borough of Windsor and Maidenhead who administer the pension fund.</p>	<p>We reviewed the basis of the source data supplied to the pension fund administering authority.</p> <p>We liaised with the separate KPMG team who are the auditors of the pension fund where this data was provided by the pension fund on the Authority's behalf.</p> <p>Based on the work above no issues have been identified to bring to your attention.</p>
	<p>The authority commissioned the construction of an extra care housing scheme at Cedar Court. It was nearing completion in 2012 when some apparent defects were noticed. The authority was required to return part of the grant funding for the scheme to the HCA pending the resolution of these defects, after they had been used to finance the construction, and the outstanding sum was shown as a debtor in the 2012/13 and 2013/14 accounts.</p> <p>We will review the progress that has been made in this regard and give due consideration to the recoverability of any continuing HCA debtor held at year end.</p>	<p>We have confirmed that works have been completed and that debtor amounts deemed recoverable from the HCA were subsequently received during 2014/15.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

Area of focus	Issue	Findings
 <p>Equal pay provision</p>	<p>As noted in previous years the Authority are continuing to process the backlog of cases and associated job evaluations relating to equal pay</p> <p>As in the previous year we will review the basis of the provision at year end (including the continued appropriateness of the model used) with due consideration to the basis of any in year movements.</p>	<p>The basis of provision remains largely unchanged from the prior year and is not considered to be unreasonable. We will continue to monitor this provision in the medium term as the Council move towards final resolution of outstanding case.</p>
 <p>Management Override of Controls</p>	<p>We consider management override of controls as a standard risk for all organisations.</p>	<p>Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any material issues.</p>

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the majority of the recommendations in our *ISA 260 Reports 2012/13 and 2011/12*.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority continues to have reasonable financial processes in place. There is scope to improve this further through more detailed review of the draft accounts for misstatements such as those identified in Appendix 3.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 30 June 2014.</p>
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in March 2014 and discussed with the finance team, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was variable but met the standards specified in our <i>Accounts Audit Protocol</i>. We will discuss those that could be improved in the future with management as part of our planning for the next audit year.</p>

Element	Commentary
<b>Response to audit queries</b>	<p>Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit.</p>

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13*. The exception to this is the introduction of a new asset register system which remains an ongoing project.

Appendix 1 provides further details.



**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Reading Borough Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Reading Borough Council its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit & Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the

financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

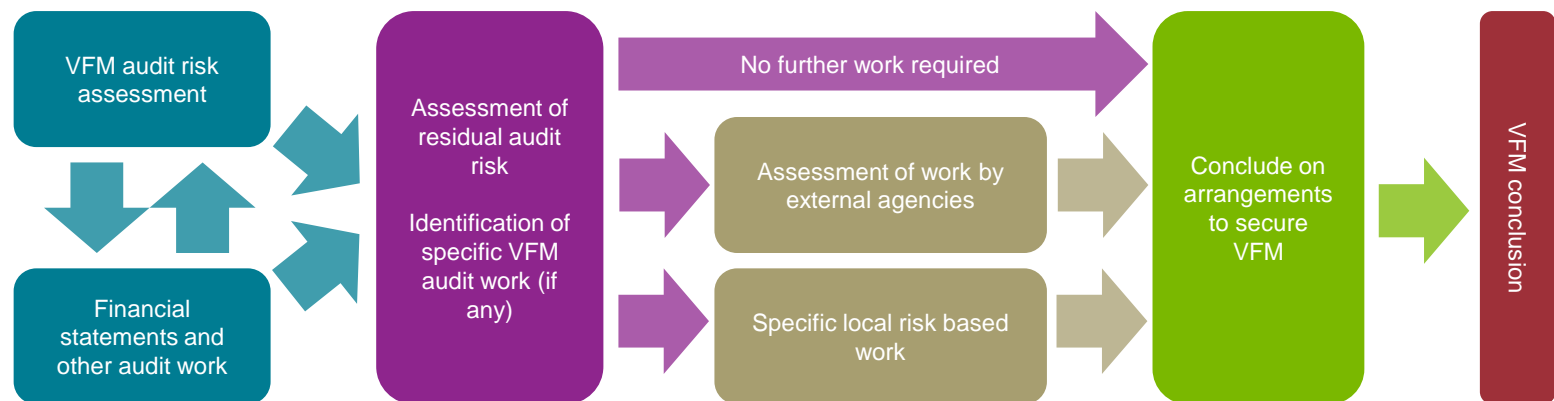
We have reviewed your Annual Governance Statement and have no issues to raise.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



## Appendix 1: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our ISA 260 Reports 2012/13 and 2011/12.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Reports 2012/13 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2014
1	2	<p><b>Maintenance and operation of the fixed asset register</b></p> <p>The fixed asset register used by the council is a complex excel spreadsheet that is difficult to understand and requires extensive knowledge of excel and the spreadsheet itself to maintain and operate. Using a spreadsheet for this raises the risk that the correct accounting entries are not produced, and that fixed asset balances can be overwritten or amended incorrectly. Part of the corporate knowledge required to maintain the spreadsheet is retained by a consultant and there are no guidance or process notes in existence, which raises the risk of this knowledge being lost to the council as insufficient information is available for an officer of the council to operate the spreadsheet if the contractor leaves. The IFRS work plan needs to consider whether the asset register will be capable of producing IAS-compliant data.</p> <p>The Authority has been considering investing in specialist asset management software and we would encourage it to do so, to reduce staff time spent managing the spreadsheet, reduce the risk of loss of knowledge and ensure greater transparency in financial reporting with a reduced risk of errors arising.</p>	<p>An asset management system has been procured which the Authority is in the process of implementing.</p> <p>This will have the effect of consolidating a number of existing systems including the excel spreadsheets used for IFRS accounting.</p> <p>Responsible: Chief Accountant</p> <p>Due date: Summer 2015</p>	<p><b>Ongoing</b></p> <p>Work on this project is underway and the Authority intend to implement this.</p>

## Appendix 2: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2014. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact £'000			Basis of audit difference
			Assets	Liabilities	Reserves	
1	Dr Academy school removals £3,468 Cr NCOS Expenditure £3,468					The Council has had one Academy school transfer in year (George Palmer). This was included within Net Cost of Services rather than disclosed separately as in previous years.
2			Dr Cash and Cash Equivalents £1,000 Cr Short Term Investments £1,000			The Council holds £1m with Lloyds Bank which was classified as a short term investment. The nature of this holding means that it is more appropriate to hold this as cash.

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact £'000			Basis of audit difference
			Assets	Liabilities	Reserves	
3	Dr Net Interest on Defined Benefit Liability £10,294 Cr Pension interest cost and return on assets £14,895 Dr Actuarial Gains £2,773 Dr Remeasurement £1,828					The Council had not updated its Comprehensive Income and Expenditure headings to reflect changes in IAS19 pension guidance and had included £4,601k of actuarial remeasurement costs within its net interest costs in error.
4			Dr Debtors £571	Cr Creditors £571		The Council had netted prepayments made to the Council from debtors rather than including these within creditors.

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact £'000			Basis of audit difference
			Assets	Liabilities	Reserves	
5			Dr Debtors £7,350	Cr Creditors £4,704 Cr Provisions £2,646		Changes in accounting for business rates have resulted in the Council recognizing a provision for potential appeals to the rateable value of business premises.  The Council have exercised an option to phase the value of the provision in over a five year period.  The full value of the provision was initially included within debtors rather than recognizing the first year proportion as a provision.
	-	-	<b>Dr £7,921</b>	<b>Cr £7,921</b>	-	<b>Total impact of adjustments</b>

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit & Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of Reading Borough Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Reading Borough Council its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.





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**READING BOROUGH COUNCIL**  
**REPORT BY HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>25<sup>th</sup> September 2014</b>	<b>AGENDA ITEM:</b>	<b>4</b>
<b>TITLE:</b>	<b>STRATEGIC RISK REGISTER</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR STEVENS</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
<b>LEAD OFFICER:</b>	<b>PAUL HARRINGTON</b>	<b>TEL:</b>	<b>9372695</b>
<b>JOB TITLE:</b>	<b>CHIEF AUDITOR</b>	<b>E-MAIL:</b>	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

**1. EXECUTIVE SUMMARY**

- 1.1 The primary purpose of this report is to update the Audit & Governance Committee on the Q2 status of the Council's 2014/15 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.
- 1.2 The Council Management Team (CMT) maintains the Register on behalf of the Council, with the assistance of the Council's Chief Auditor.
- 1.3 The Register is reviewed on a quarterly basis and formally refreshed 6 monthly by CMT.
- 1.4 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in April 14.
- 1.5 The following documents are appended:  
  
Appendix 1 - the Council's Strategic Risk Register.

**2. RECOMMENDED ACTION**

- 2.1 The Audit & Governance Committee is requested to consider the Q2 status of the Council's 2014/15 Strategic Risk Register.

### 3. BACKGROUND

3.1 The revised Strategic Risk Register as at September 2014 (Q2) is reproduced at appendix 1. Arrows are used to indicate direction of change in any scores since the previous quarter.

3.2 The following key points should be noted to aid understanding:

↑↓ have been used to indicate movements in the net (residual) risk scores since the previous quarter, where a → is shown no change has occurred.

A "mitigation" column has been added for each risk so as to provide a summary of the mitigating (controls) actions in place to minimise risk.

3.3 Members are reminded that although guidance is provided to officers in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remains very much a subjective process. The primary aim of this report is to identify those key vulnerabilities that the officers consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased. Furthermore, it is possible that the likelihood can be influenced by events outside of the Council's control e.g. the economic climate and its impact on financial planning, or severe weather etc.

3.4 Directorate level risk registers generally only contain risks whose impact would not be felt wider than the directorate to which they belong should they materialise and are managed within the directorate.

3.5 The Strategic Register is compiled from risks identified at directorate level, which have been escalated along with high-level generic risks, which require strategic management. Entries within the Register reflect the risks identified by the Council Management Team thereby strengthening their strategic perspective, management response and controls.

3.6 The inclusion of risks within any level of risk register does not necessarily mean there is a problem. On the contrary, it reflects the fact that officers are aware of potential risks and have devised strategies for the implementation of mitigating controls.

3.7 Each entry within the register is scored to provide an assessment of the residual level of risk. All risks have been scored based on an assessment of their impact and likelihood. These assessments are made at two points, before any actions are in place (inherent risk) and after identified controls are in place (residual risk).

3.8 Whatever level of residual risk remains it is essential that the controls identified are appropriate, working effectively and kept under review.

3.9 Plans are in place to mitigate the risks identified in the Strategic Risk Register.

#### **4.0 CONTRIBUTION TO STRATEGIC AIMS**

- 4.1 Risk management underpins all aspects of the council strategic aims.
- 4.2 The risks within the risk registers are directly linked to the projects and work streams that are in place to deliver the strategic aims.
- 4.3 Budget risks directly influence all strategic aims.

#### **5.0 COMMUNITY ENGAGEMENT AND INFORMATION**

- 5.1 Risk management is an internal management process that is open to scrutiny from councilors and the public at the councils Audit and Governance Committee meetings.

#### **6.0 LEGAL IMPLICATIONS**

- 6.1 Local Government Acts 1999 and 2000 established a requirement of performance improvement in modernised local government. Risk management is an important element in ensuring that service delivery objectives are achieved.

#### **7.0 FINANCIAL IMPLICATIONS**

- 7.1 There are none associated with the recommendations in this report. The work recommended will be met from existing budgets.

#### **8.0 BACKGROUND PAPERS**

- 8.1 Council's Risk Management Strategy.
- 9.2 Delivering Good Governance in Local Government - Framework, CIPFA/ Solace 2012.
- 9.3 The Accounts and Audit Regulations 2011

## APPENDIX 1 - STRATEGIC RISK REGISTER - Q2 2014/15



The strategic risks are managed by the Corporate Management Team with directorate support. Strategic risks are those that can be described as presenting a:

- Significant Council wide risk
- Significant risk specific to one directorate which could impact upon the Council as a whole
- Significant risk to the Council as part of working with external organisations or its role within the community

Risk ref no	STRATEGIC RISKS	Inherent risk <i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>			Mitigation	Residual risk <i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
1	Budget risk: Unable to deliver services within the resources available to the Council to meet obligations and service standards, including keeping the current year's budget within the approved budget framework	5	4	20	<ul style="list-style-type: none"> <li>▪ Continuous development of a budget strategy and budget options to reduce spending by approximately £25m over the next 3 years</li> <li>▪ Reshaping the Council to ensure that future needs are met and opportunities taken whilst being realistic about what we can and can't do moving forward. (Reshape has delivered savings of £2m over the last 12 months)</li> <li>▪ Monthly budget monitoring within services and directorates ultimately reports to Policy Committee and Audit &amp; Governance Committee</li> <li>▪ Directorates are required by the budget framework to bring forward mitigating measures where practical to address adverse budget variances</li> </ul>	4	4	16	↑	IW/AC
2	Customers service model does not deliver expected benefits to customers and efficiency savings (including the level of cultural and behavioural change needed to achieve channel shift)	4	3	12	<ul style="list-style-type: none"> <li>▪ Programme of work established to redesign business processes, implement new organisational structure and make best use of technology to deliver service improvement.</li> <li>▪ Digital strategy agreed as framework for action to deliver channel shift whilst ensuring digital inclusion</li> <li>▪ The Digital strategy incorporates web replacement, and successful full delivery requires engagement across all Council services and putting in place arrangements to migrate customers channel use to different options</li> </ul>	3	3	9	→	ZH

3	Creation and development of commissioning plans/framework) becoming disjointed and having conflicting priorities;	4	4	16	<ul style="list-style-type: none"> <li>Develop commissioning strategy across areas of major budget spend</li> <li>Monitor staff capacity</li> <li>Establish a corporate governance framework</li> <li>Develop register of major contract/tender procurement dates</li> <li>To report progress/issues to CMT and Policy Committee</li> </ul>	3	2	6	→	AW
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Risk ref no	STRATEGIC RISKS	Inherent risk <i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>			Mitigating Actions	Residual risk <i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
4	ICT security - risk of loss of data by not preventing and minimising the impact of ICT security incidents, resulting in significant financial penalties levied by the Information Commissioners Office.	5	4	20	<ul style="list-style-type: none"> <li>Corporate ICT Security Policy implemented with clear audit trail</li> <li>Information Governance procedures</li> <li>Data Protection policy</li> <li>Document retention policy</li> <li>Information risk Management Work</li> <li>BeCrypt Implementation</li> <li>Encrypted USB Stick Introduction</li> <li>Increased Secure Email roll-out</li> <li>Introduction of Protective Document Marking</li> <li>Policy Revision</li> <li>Security Briefings</li> <li>Staff Security Booklet Issue</li> </ul>	3	4	12	↑	CB
5	Failure to maintain the fabric and services of buildings resulting in injury to individuals and/or non compliance with relevant legislation or unavailability of asset.	5	5	25	<ul style="list-style-type: none"> <li>The comprehensive review of assets has included a rolling program of condition surveys that has informed a prioritised program of works</li> <li>Asbestos - Management schemes for corporate buildings</li> <li>Legionella - Management schemes in place for each building. Full review being undertaken of management arrangements to ensure compliance with ACOP.</li> <li>a range of Business Continuity plans are in place to enable continuation of services from different buildings</li> <li>Installation &amp; Maintenance of UPS units and generators.</li> <li>Fire risk assessments</li> <li>Commissioning detailed condition surveys. Further detailed analysis to be undertaken to prioritise condition works and procure. Possible budget / resource implications depending on urgency of works.</li> <li>Moving to Plaza West during the year will reduce risk in this area</li> <li>Progressing Corporate Property review and outstanding works will also reduce this risk</li> </ul>	4	4	16	↑	AB

5a	Failure to maintain the fabric of the structure, communal areas and services related to council's housing stock resulting in injury to individuals and or noncompliance with Legislation	5	5	25	<ul style="list-style-type: none"> <li>Asset Management plan covering next 5 years in detail and funding requirements for 30 years.</li> <li>7 yearly external Planned Maintenance cycle to both individual tenanted / leasehold properties and communal area.</li> <li>7 yearly communal decs program</li> <li>Rolling stock survey revisiting all properties every 5 years</li> <li>Fire risk assessments undertaken by both surveyors and neighbourhood officers alternate years</li> <li>Compliance with Annual Gas Service</li> <li>NICEIC registered and reviewed</li> <li>Suitable training programme for trade and professional staff covering all key areas.</li> <li>Ongoing review of Asbestos Database and management process</li> <li>Ongoing review of Legionella and programme of works to remove risks</li> <li>Periodic review by external consultants on operating procedures and processes, APSE, HQN, H&amp;S. Recruitment of Asbestos officer</li> </ul>	4	2	8	↓	
Risk ref no	STRATEGIC RISKS	<b>Inherent risk</b> <i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>			Mitigating Actions	<b>Residual risk</b> <i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
6a	CHILDREN- Risk of death or injury to children, through inappropriate care or attention.	5	3	15	<ul style="list-style-type: none"> <li>Monitoring of practice at all levels, escalation process in place</li> <li>Monitor staff capacity</li> <li>Regular external audit and challenge</li> <li>Regular internal themed audits</li> <li>Deliver OFSTED action plan</li> </ul>	5	2	10	→	AW
6b	ADULTS - Risk of death or injury to young people or adults through inappropriate care or attention.	5	3	15	<ul style="list-style-type: none"> <li>Monitoring of practice at all levels, escalation process in place</li> <li>Monitor staff capacity</li> <li>Regular external audit and challenge</li> <li>Review governance mechanisms of quality group on commissioned services</li> </ul>	5	2	10	→	AW
7	Failure to manage unexpected growth which leads to increased demand upon services- In particular looked after children.	4	4	16	<ul style="list-style-type: none"> <li>Analysing and refreshing forecasts to maintain level of understanding</li> <li>Develop capacity/demand modelling in children's services</li> <li>Regular financial and service monitoring</li> </ul>	3	2	6	→	AW

8	DELETED SEPT 14 Targeting of resources to meet Public Health priorities	4	3	12	<ul style="list-style-type: none"> <li>Berkshire-wide Transition Board/finance and contracts sub-group advising on key contract issues with representation from Reading</li> <li>Workshop took place to review the published 2013-16 Health and Wellbeing Strategy, action/delivery reviewed and outcomes will be fed through the HWB Board to ensure agreed targeting of resource.</li> <li>Regularly review press coverage and ensure that the PH communication strategy is fit for purpose</li> </ul> <p>The Council's use of Public Health Grant may be subject to external scrutiny and arrangements are being put in place to ensure all usage meets the grant criteria</p>	3	3	9	→	IW
9	Failure to manage demand for school places via availability & funding for additional requirements	5	4	20	<ul style="list-style-type: none"> <li>ACE and Policy Committee agreement to support national government funding with local finance. Programme underway to deliver 2500 more permanent school places</li> </ul>	3	3	9	→	AW
10	Failure to implement new ways of working (linked risk in resources register)	4	3	12	<ul style="list-style-type: none"> <li>There is a cross party Civic Board overseeing this project to which detailed reports are made</li> <li>A communication strategy is being developed</li> <li>There are two reserves to help manage the phase in of the change in capital costs over time and the dual running costs.</li> <li>Directorate Move Champions have been identified and are actively engaged in working on the planned move to the new building including the adoption of the flexible work style model and reducing paper storage in advance of the move.</li> </ul>	3	2	6	→	IW

Risk ref no	STRATEGIC RISKS	Inherent risk <i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>			Mitigating Actions	Residual risk <i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
11	In face of major budget cuts in all funding areas which will significantly increase risk that young people disappear off the radar which in turn may impact on crime and other statistics.	4	5	20	<ul style="list-style-type: none"> <li>Work with schools/colleges on accurately identifying numbers and profile of young people concerned</li> <li>Develop 14-19 inclusion strategy</li> <li>Work with partners to develop range of training/employment opportunities</li> <li>City Deal should help mitigate the risk</li> </ul>	3	3	9	→	AW



12	Failure to close the gap in school attainment	4	5	20	<ul style="list-style-type: none"> <li>Refresh 'narrowing the gap strategy'</li> <li>Monitoring of attainment levels of BME pupils and pupils in receipt of free school meals</li> <li>Challenge permanent exclusions from underachieving groups</li> <li>Develop and share good practice at school/cluster level</li> <li>Work on strategic relationship with schools to ensure that these vulnerable pupils are recognised as a priority</li> </ul> <p>Monitor use of pupil premium</p>	3	4	12	→	AW
13	DELETED JULY 14 Lack of understanding of Disaster Recovery contingencies by service managers causes Business Continuity plans to fail	3	3	9	Prioritise work on disaster recovery and business continuity planning for key service areas and provide support and training for managers	2	3	6	No Q2 score	ZH
14	Ensuring that staff comply with corporate policies and procedures and that they are appropriate to support people in their day-to-day work	4	4	16	<ul style="list-style-type: none"> <li>Review of all policies and procedures now completed</li> <li>Proposals to streamline policies and procedures to be brought forward</li> <li>New corporate approach to be introduced</li> <li>New training to be introduced</li> </ul>	3	4	12	↑	IW
15	Failure of providers around children and adult safeguarding - Closure, poor performance, change of ownership or bankruptcy of private or third sector providers necessitates mitigating action by Adult Social Care and other services/partners to ensure ongoing service provision for all service users	4	5	20	<ul style="list-style-type: none"> <li>Review contingency plans at local and sub-regional level</li> <li>Ensure sufficient capacity available to develop and monitor 'improvement plans' by provider</li> <li>Liaison with CQC and MONITOR on understanding/knowledge of quality issues at local level</li> <li>Develop market position statement</li> </ul>	4	3	12	→	AW

Risk ref no	STRATEGIC RISKS	Inherent risk			Mitigating Actions	Residual risk				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
		<i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>				<i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				

16	Impact of the Reshaping the Council proposals on service delivery and capacity within the Council	4	4	16	<ul style="list-style-type: none"> <li>Any proposals from the Reshaping that could result in policy changes will result in options being presented to the respective committee.</li> <li>Each proposed change will be subject to a 'Service Review' process which will consider, challenge and moderate proposals and be clear about impacts on services, citizens and staff. These Reviews will be considered by the respective DMT's and CMT.</li> <li>Consultation will be held for each Service Review to ensure that the proposals are robust so that staff and Trade Unions can provide suggestions.</li> <li>Each proposed change as part of the Service Review will complete an Equality Impact Assessment to be clear on potential impacts, what can be mitigated and also be clear about what cannot be mitigated.</li> <li>Delivery of the proposed Reshape proposals are monitored via highlight reports to monthly CMT performance meetings to outline progress against the timetable, any key issues that need to be addressed and next steps.</li> <li>A training needs analysis has begun to assess any potential skills shortages, single points of reliance and also staff that could be deployed in other areas of the organisation if required.</li> <li>The training needs analysis will inform a new Learning &amp; Development Menu and Workforce Development Plan to ensure that training and support is available to all staff but also particularly staff whose roles have changed or are going to change to minimise potential risks.</li> <li>Business continuity arrangements will continue to be updated that will take account of any proposals about the council's structure.</li> </ul>	3	3	9	↓	IW
17	Changes in the way children with special needs (SEN) are identified and catered for will see parents given new rights to buy help for children and fewer children labelled as having SEN in the biggest change to the system for 30 years.	5	3	15	<ul style="list-style-type: none"> <li>Develop further the Special Educational Needs (SEN) Strategy to enable special schools to meet the needs of children and young people with higher levels of need.</li> <li>Establish better controls on spend through Schools Forum</li> <li>Complete external review of existing system</li> <li>Develop accurate benchmark information with 'good' authorities</li> <li>Ensure that the voice of the child and parents are captured and used in design of new system</li> <li>Refresh SEN strategy</li> </ul>	3	2	6	↓	AW
18	Impact of the Care Act on adult social care services including increased numbers of assessments, additional duties to carers, deferred payment system and risk of the new system being underfunded by Government	5	3	15	<ul style="list-style-type: none"> <li>Establish governance through programme Board</li> <li>Establish clear work-streams and programme leads</li> <li>Regular reporting to CMT on progress</li> <li>Complete financial modelling work</li> <li>Ensure health partners are aware of the challenges that the Care Act poses and the impact on their services</li> <li>Regular reporting of Care Bill work stream to CMT &amp; ACE</li> </ul>	4	2	8	→	AW

Risk ref no	STRATEGIC RISKS	Inherent risk <i>Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur</i>			Mitigating Actions	Residual risk <i>Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.</i>				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
19	Impact on staff resilience (stress and motivation) of Reshaping and change generally.	4	5	20	<ul style="list-style-type: none"> <li>Issue guidance to staff on how workload and other concerns can be directed;</li> <li>Messages from leadership to staff giving key messages of empathy and support - cultivate a culture of openness and upward challenge;</li> <li>Work with unions and other stakeholders to identify key themes, concerns and where they are located;</li> <li>'Take the Temperature' through staff surveys and focus groups</li> <li>Ensure that managers are carrying out 1:1's, appraisal and team meetings at a local level;</li> <li>Ensure that managers know how to measure stress and carry out surveys of staff; Senior managers to model behaviours and to drive forward an operational culture of involvement and participation in change programmes.</li> </ul>	3	3	9	➔	CB
20	Impact of the Better Care Fund on health and social care economy, including the Council's savings plans and overall integration agenda	4	4	16	<ul style="list-style-type: none"> <li>Ensure bid is as resilient as possible</li> <li>Work with health partners to deliver targets established in the plan</li> <li>Risk sharing agreement on how to understand impact of not meeting payment by results targets</li> <li>Encourage neighbouring local authorities to develop shared principles around the integration agenda</li> <li>Maintain sufficient capacity within the Council to deliver system change</li> </ul>	3	2	6	NEW	AW
21	Increasing number of people becoming homeless and placing additional pressure on the Council to provide temporary accommodation.	4	4	16	<ul style="list-style-type: none"> <li>The 14-15 budget included an additional budget allowance of £88k.</li> <li>Temporary accommodation: One building has been refurbished and brought back into use and is fully occupied (14 family units); works on another are not expected to be completed until early next year, so will not have much impact on numbers needing B&amp;B this financial year.</li> <li>Proactive housing advice service seeks to prevent homelessness through negotiation and intervention at individual case level</li> <li>However, in spite of mitigations, based on current projections the level of demand presenting is likely to exceed the increased budget, due to the number of placements and the increasing cost of rooms being charged by providers.</li> <li>A strategy to try to mitigate impact and source cost effective solutions to meet the demand for emergency accommodation and ease pressure on the B&amp;B budget will be developed through September/October.</li> <li>This includes an independent review of the DGS (deposit guarantee) scheme and further landlord consultation</li> </ul>	3	3	9	NEW	AB

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	25 <sup>th</sup> SEPTEMBER 2014	AGENDA ITEM:	5
TITLE:	PUBLIC SECTOR INTERNAL AUDIT STANDARDS - Annual Self-Assessment		
LEAD COUNCILLOR:	COUNCILOR STEVENS	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	Chief Auditor	E-MAIL:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force from 1st April 2013. One of the requirements of the standards is to report the results of the quality assurance and improvement programme to senior management and the Board (i.e. Audit Committee) at least annually.
- 1.2 An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation and can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.3 The Chief auditor executive must agree the scope of external assessments with an appropriate sponsor, e.g. the Sec 151 Officer or chair of the audit committee as well as with the external assessor or assessment team.
- 1.4 The PSIAS are derived from international standards. As such, they set out clear principles for professional practice. The practical implementation of the standards for local government in the United Kingdom has been further developed by CIPFA who have published the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.
- 1.5 In order to satisfy proper internal audit practices, there is a requirement to comply with the Standards and the Local Government Application Note. The Standards and Application Note are necessarily technical and extensive. The Application Note sets out a detailed checklist of individual areas that need to be considered when coming to a view of the level of conformance with the PSIAS.

- 1.6 The checklist includes over 330 items. The internal assessment confirms that for the vast majority of items, 96%, the Authority complies in with the PSIAS and Application Note. There is full compliance for 85% and partial compliance for a further 11%.
- 1.7 Where the Authority does not comply there is a requirement to set out an improvement programme to bring the Authority into compliance, or where the Authority determines that it is not appropriate to comply, that there is an exception and the reasons for this. The quality assurance and improvement programme (QAIP) sets out the areas of non-compliance and the proposed action to be taken. The QAIP is attached as **Appendix 1**.

## 2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee notes the actions identified in the Quality Assurance and Improvement Programme (Appendix 1).

## 3. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

- 3.1 Compliance with the Public Sector Internal Audit Standards (PSIAS) is a requirement of the Audit & Accounts Regulations (2011) and should underpin the Internal Audit arrangements within the Council. The Chief Auditor is expected to report on conformance with the PSIAS annually.
- 3.2 The PSIAS and CIPFA's Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK. The CIPFA Application Note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework.
- 3.3 The PSIAS contains a detailed checklist of over 300 questions which has been used as the basis for the self-assessment. It is designed to assess the performance of internal audit against the following categories:
- a) Code of Ethics
    - Integrity,
    - objectivity
    - confidentiality
    - competency
  - b) Attribute Standards
    - Purpose, authority and responsibility
    - Independence & objectivity
    - Proficiency & due professional care
    - Quality assurance and improvement programme

- c) Performance standards
  - Managing the internal audit activity
  - Nature of work
  - Engagement planning
  - Performing the engagement
  - Communicating results
  - Monitoring progress
  - Communicating the acceptance of risks
  
- 3.4 The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' codes of ethics or those of the employing organisation. Internal auditors must also have regard to the Committee on Standards in Public Life's Seven Principles of Public Life namely Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.
  
- 3.5 The Standards define internal auditing as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*'.
  
- 3.6 The Standards refer to a "Chief Audit Executive" which, for RBC, is deemed to be the Chief Auditor. The Standards also refer to a "Board" which, for RBC, is deemed in most cases to be the Audit and Governance Committee on behalf of the Council.
  
- 3.7 The Chief Auditor must report functionally to the board. In practice this means the Audit & Governance Committee (as the Board) will be involved in:
  - approving the internal audit charter
  - approving the risk based internal audit plan
  - receiving communication from the Chief Auditor on the internal audit activity's performance relative to its plan and other matters
  - making appropriate enquiries of management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations
  - approving any significant additional (internal audit ) consulting services not already included in the audit plan, prior to any engagement being accepted.
  
- 3.8 The published PSIAS also include some examples of functional reporting to the board which are not typically seen as the responsibility of an Audit Committee in a Local Authority and would not be done by the Audit & Governance Committee e.g.:
  - approving decisions regarding the appointment and removal of the Chief Auditor;
  - approving the remuneration of the Chief Auditor; and,
  - approving the Internal Audit budget and resource plan.

#### **4. CONTRIBUTION TO STRATEGIC AIMS**

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

#### **5. COMMUNITY ENGAGEMENT AND INFORMATION**

- 5.1 N/A

#### **6. LEGAL IMPLICATIONS**

- 6.1 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.
- 6.2 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.
- 6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, 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”.
- 6.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

#### **7. FINANCIAL IMPLICATIONS**

- 7.1 N/A

#### **8. BACKGROUND PAPERS**

- 8.1 N/A

## Overview

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
Code of Ethics	Internal Auditors have regard to the Standards of Public Life's Seven Principles of Public Life?	Whilst Auditors are not directly aware of the principles, it is evident through their conduct that they do abide to the same set of standards	Internal Auditors should be briefed on the Seven Principles of Public Life.	Low

## Attribute Standards

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
1000 Purpose, Authority & Responsibility	The Internal Audit Charter should define the role of Internal Audit in any fraud related work. The Charter must also explicitly recognise the mandatory nature of the PSIAS.	The Internal Audit Charter lacks detail on the role of Internal Audit in the prevention and detection and investigation of fraud. This is particularly evident following the merger of Internal Audit and the Corporate Investigations Team.	The Internal Audit Charter should be amended and fully reflect the Internal Audit role in fraud related work. It should also recognise the mandatory nature of the standard.	Low
1110 Organisational Independence	The Chief Executive or Equivalent should be involved in the performance appraisal of the Chief Auditor, and the Chair of the Audit Committee should also provide feedback into the process	The Managing Director receives the draft performance appraisal for comment and/or additional targets. He then counter-signs the record signifying his acceptance and agreement. Currently the Chair of the Audit Committee is not involved in the performance appraisal process.	The Chair of the Audit Committee should be given the opportunity to provide feedback as part of the annual performance appraisal of the Chief Auditor	Low
1230 Continuing Professional Development	Any training and development needs that identified should be included in an appropriate ongoing development programme that is recorded, reviewed and monitored.	Predetermined skills and competences are detailed within the job descriptions. Professional CPD also required for qualified Internal Auditors. Training and CPD has been limited due to funding limitations.	In order to ensure a full range of skills is maintained and developed, a record of all training needs should be produced with individual needs prioritised.	Medium
1312 External Assessments	An external assessment must be carried out at least once every five years.	There are currently no formal plans in place for the external assessment to take place. Moreover quotations received from firms have proved prohibitive.	In order to satisfy the Standard an External Assessment or "independent validation" must be organised.	Medium



Performance Standards

<u>PSIAS Ref.</u>	<u>Requirement</u>	<u>Comments</u>	<u>Required Action</u>	<u>Priority</u>
2050 Coordination	The Chief Auditor should carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance.	The Council has not developed an Assurance Framework and so it is difficult for the Chief Auditor to know exactly what other forms of Assurance are available. As part of setting the Annual Audit Plan, other forms of assurance are identified and considered during the scoping of the review.	The Council should develop an Assurance Framework, identifying all forms of external assurance. The Audit plan / universe should be mapped against this framework and assignments prioritised accordingly.	Medium
2050 Coordination	The Chief Auditor should share information and coordinate activities with other internal and external providers of assurance and consulting services. He should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.	The Chief Auditor meets with external audit at least annually, however there is little to no actual coordination in terms of respective audit plans,. Internal Audit share information with External Audit, however this is not always reciprocated	The Chief Auditor should attempt to better coordinate Internal and External Audit work. This could include quarterly meetings to discuss upcoming assignments, discuss requirements and share knowledge	Low
2120 Risk Management	Internal Audit has evaluated the effectiveness of the organisation's risk management processes	Whilst internal audit consider the risk management arrangements in place within individual service / units, there has been no assessment of the robustness of the risk management culture and strategy of the organisation	Audit should undertake a review of the organisations risk management culture and strategy to ensure that they are suitably robust and capture and manage risk	Medium
2210 Engagement Objectives	Internal Audit has ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished	Performance management issues are considered as part of individual assignments during the annual plan, however these consider the service objectives and delivery, rather than the corporate strategy and its objectives.	Internal Audit have not undertaken a corporate review of performance management for a number of years, and given the business transformation currently taking place, there is a good argument that a full strategic performance management review is required. IA will look to undertake a post	Medium

			implementation review of the Council's reshape programme.	
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PSIAS Ref.	Requirement	Comments	Required Action	Priority
2210 Engagement Objectives	The objectives set for consulting engagements address governance, risk management and control processes as agreed with the client. Moreover they are consistent with the organisation's own values, strategies and objectives?	Consulting arrangements are not always formally planned, recorded or monitored. There is a risk that these are not consistent, and do not identify key issues.	A standard methodology should be developed and followed for consulting arrangements. These should replicate the detail required for the standard engagement process	Medium
2240 Engagement Work Programme	Work programmes must include procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.	There is an inconsistent approach to setting assignment work programmes across the department. Whilst Terms of Reference are signed off, the work programme itself is not, but rather left to Auditor discursion. Moreover there is no formal process for extending Audits or altering the scope.	A standard Audit methodology should be considered, particularly with regards to creating assignment work programmes. Work programmes should be approved prior to the commencement of the review, and any alterations or extensions must be formally approved and documented.	Medium
2340 Engagement Supervision	Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.	Principal Auditor review is ongoing throughout the engagement process and sign-off is required at key stages of each review. It is acknowledged however that this could be improved to better manage project slippage and overspend	Improvements to the current supervision arrangements should be considered, and could include formal assignment gateways at monthly intervals and/or greater challenge of assignment progress	Low

2430/31 Conformance with PSIAS	Auditors should report whether engagements have been conducted in conformance with the PSIAS. Where non-conformance is reported, the impact of this should also be detailed.	We do not currently report on individual conformance with the PSIAS. It is my subjective view that the above areas of non-compliance do not impact on individual engagements and therefore conformance can and should be reported.	Where applicable in accordance with the PSIAS Internal Auditors should report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".	Low
2440 Disseminating Results	The Chief Auditor has determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	A distribution list has previously been in use, however due to organisational changes this no longer remains up-to-date. Informally Auditors know who Audit reports should be sent to.	An agreed distribution list should be compiled outlining to whom Terms of Reference, Draft and Final reports should be distributed.	Low

PSIAS Ref.	Requirement	Comments	Required Action	Priority
2450 Overall Opinion	The annual report must incorporate a statement on the conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme (QAIP)	We do not currently report on the conformance with the PSIAS. Moreover the self-assessment has not previously been timetabled around the annual assurance report and so the QAIP has not been reported	The self-assessment should be undertaken in conjunction with the annual assurance report and a statement of conformance should be documented along with the QAIP.	Low
2500 Monitoring Progress	The Chief Auditor has established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action	The current follow up process captures high risk recommendations or limited assurance reviews. A full follow up assignment is programmed in the following year audit plan. A full programme of follow ups is not undertaken, nor are recommendations followed up as part of subsequent service reviews.	A formal recommendation follow up process should be considered. At the very least recommendations should be followed up at subsequent service reviews, or if possible a system of live follow ups upon the deadline for implementation.	Low

**READING BOROUGH COUNCIL**  
**REPORT BY HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>25<sup>th</sup> September 2014</b>	<b>AGENDA ITEM:</b>	<b>6</b>
<b>TITLE:</b>	<b>INTERNAL AUDIT &amp; CORPORATE INVESTIGATIONS TEAM QUARTERLY PROGRESS REPORT</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR STEVENS</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
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**1. EXECUTIVE SUMMARY**

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in June 2014.

1.2 The report aims to:

- Report back on those audit reviews outstanding at year end (31<sup>st</sup> March 2014) which have been finalised in Q2 of this financial year.
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit in Q1 and Q2.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Provide details of forthcoming audit reviews and the status of programmed audits
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

1.3 In addition the report provides details of the work the Council's corporate investigations team and internal audit have undertaken since April 2014 with respect of investigations into benefit, housing tenancy fraud and other corporate investigations.

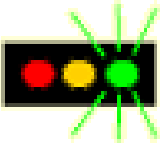
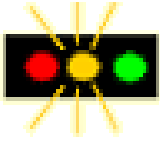
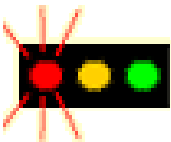
**2. RECOMMENDED ACTION**

2.1 The Audit & Governance Committee are requested to consider the report

### 3. ASSURANCE FRAMEWORK

- 3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

#### Definition

<b>Substantial</b>		A Substantial opinion will be given where controls are generally operating effectively, however minor control weaknesses may have been identified. There are however, no high risk (priority 1) recommendations being made.
<b>Conditional</b>		A conditional opinion will only be given if the areas where the controls are missing or not consistently applied do not represent a significant risk to the system as a whole. Where a conditional opinion is given the report should clearly explain the area or areas to which the conditional opinion relates.
<b>Limited</b>		Risk that objectives will not be met, or are being met without achieving efficiency, effectiveness and/or value for money. A limited opinion will only be given where controls are not applied, consistently and effectively

- 3.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.
- 3.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited assurance.

#### 4. SUMMARY OF AUDIT FINDINGS

	Draft	Final	RECS			Assurance	
4.1	Asset Planning	June 14	June 14	0	2	1	

4.1.1 Although the principles set out in the existing corporate Asset Management Plan (AMP) remain valid and are still used as the basis for asset reviews, the plan itself is due for an update. It is anticipated that the outcomes of the reshape programme and move to Plaza West will be considered as part of the updated Asset Management Plan. A formal review and update of the targets set out in the Asset Management Plan was not found to have been reported on an annual basis and a recommendation was made to ensure this is undertaken.

4.1.2 There has been an ongoing commitment towards the implementation of an Asset Management system. Whilst the software has been procured, the data was in the process of being input onto the new system and therefore it could yet be another 18 months before the software is being fully utilised.

4.1.3 A sample of property valuations undertaken during 2013/14 was reviewed and it was confirmed that there was adequate information to support each valuation, including the basis on which the valuation was undertaken.

4.1.4 The documentation supporting disposals completed during 2013/14 found that an assessment process had been undertaken to ensure that the best price was received for the property and the income due had been received.


4.1.5 There was evidence within CMT minutes of the corporate direction being taken to consider assets as part of a strategy of reshaping of services and ongoing projects with other local public sector organisations to review the use of these assets by location and to rationalise them, where appropriate.

	Draft	Final	RECS			Assurance	
4.2	Supported Living	July 14	Sep 14	0	8	2	

4.2.1 Supported Living aims to help vulnerable people with a physical or learning disability or mental health problem to live more independently. It provides day to day support to help people live independently in their own accommodation. The nature of support provided includes help to access Welfare Benefits, helping people develop the skills they need to live alone and manage their housing and providing advice and advocacy.


4.2.2 The audit review looked to ensure that authorised care plans for each client detailing expected outcomes were in place and services are appropriately commissioned, monitored and assessed for effectiveness and value for money.

- 4.2.3 A total of £3.8m was spent on external supported living services within Mental Health and Learning Disability services, of which three providers were found to be delivering 46% of supported living package (28% of the spend value).
- 4.2.4 A good contract monitoring framework was found to be in place which actively focusses resources on a risk basis and the methodology used was assessed as fair and appropriate. We did however make recommendations to improve the control framework over the processing of payments to suppliers, particularly if there was evidence of a client who is in receipt of less supported living services than that authorised on the care plan.
- 4.2.5 Although a new process to procure supported living services was introduced in April 2013, at the time of the audit there was still work to be done to embed the new procedures consistently and ensure commissioning decisions are fully evidenced.
- 4.2.6 Following the implementation of Frameworki not all client data had been migrated to the new system, resulting in the continuing use of stand-alone excel spreadsheets to manage payments to providers. At the time of the audit the system was not being used to make provider payments for supported living services, although there are plans to rectify this.
- 4.2.7 The service has agreed to the audit recommendations with an action plan to implement by the 31 March 2015.

	Draft	Final	RECS			Assurance	
4.3	Looked After Children	Jun 14	Sep 14	0	6	5	

- 4.3.1 This audit review evaluated the robustness of the recruitment process for in-house foster care and evaluated placements for external foster care to ensure they had been properly contracted.
- 4.3.2 At the time of the audit the Foster Care Recruitment strategy was being developed. The recruitment campaign for new foster carers is supported by a significant number of events, although the success of these events is not analysed to be able to better inform future campaigns. Likewise whilst the profile of the existing Looked after Children base is known, further work needs to be undertaken in predicting the likely number and profile(s) of future service demand.
- 4.3.2 Information is available to prospective carers that gives them a good insight not only into the process of becoming a foster carer, but also into the Council's expectations of them.


- 4.3.3 Once the assessment report is finalised applications are presented to the foster panel (made up of independent panel members and some Reading Social Services staff) for consideration and approval. Job descriptions are provided for Panel Members and the Chair and although the Panel Member job descriptions exactly matched the guidance for this role, the Chair's job description did not reflect the responsibilities specific to this position. A revised job description was to be actioned immediately by the service following the audit review.
- 4.3.4 Recording of the assessment process is managed by an excel database and colour coded to give an immediate status overview of carer assessments. Testing found the process to be generally compliant with standard target timescales, although an inconsistency was noted about where and how assessment evidence was recorded and that this needs to be standardised.
- 4.3.6 Testing of case files generally established compliance with the foster carer approval process. Moreover testing found that overall the placement process is also working well. Evidence was found to show that wherever possible family and friend placements are considered and in-house placements are always searched for.
- 4.3.7 A matching grid system is used to prioritise identified needs although it was not always clear how each need was ranked or weighted.
- 4.3.8 With the implementation of Frameworki the manual process to authorise a placement to a framework agreement has recently changed, providing a better, clearer and easily accessible record.

	Draft	Final	RECS			Assurance
4.4 Children Leaving Care	May 14	Aug 14	0	4	3	

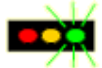
- 4.4.1 Local authorities are responsible for the accommodation and maintenance of looked after children and care leavers until the age of 18. After this they have duties to provide assistance with education, training and employment and general assistance to the extent that their welfare requires it.
- 4.4.2 The purpose of this audit was to ensure payments are legitimate, case load capacity is monitored and to review the process for care leavers aged 18-24.
- 4.4.1 The control processes to ensure allowance payments are appropriate, substantiated and authorised in accordance with the Leaving Care Policy were found to be satisfactory, although some minor improvements could be made and subsequent recommendations were made to address these.



- 4.4.2 Due to the nature of the rental market, the service has to negotiate room rates for rented accommodation on a regular basis with an administrative cost associated with this. We recommended that the team should work with Housing to examine if more proactive work could be done to help manage this potential financial risk.
- 4.4.3 Recommendations were also made to assist in providing accurate budget forecasts for some service areas, in particular accommodation, subsistence and setting up allowances and where appropriate we have advised that subsistence allowances are paid into the young person's bank account to reduce cash handling.

	Draft	Final	RECS			Assurance
4.5 Overtime	July 14	-	0	3	2	

- 4.5.1 The review found a small overall increase of 1% in payment of overtime across the Council, although this was not evenly reflected across directorates and ranged from a reduction of 26% in Culture and Sports to an increase of 21% in Corporate Support Services. A cross service sample of overtime payments was tested to determine the reason(s) for these, which varied from having to cover both planned and unplanned staff absence and fulfilling contractual obligations.
- 4.5.2 The first two rounds of VRS do not appear to have adversely effected overtime payments made to the end of 2013/14.
- 4.5.3 There were isolated instances of staff being paid overtime in lieu of accrued flexi hours without evidence of prior agreement(s) and a small number of incidents of staff working occasionally in excess of EU working time directives
- 4.5.4 It was found that authorised overtime claim forms were not always being submitted promptly on a monthly basis, but saved up and submitted for several months at a time.
- 4.5.5 The Payroll Services team maintains a register of authorising managers and specimen signatures; however this was found to be out of date in some instances, although given the Council's reshape programme this is somewhat understandable. The service will undertake a review to update the register to capture changes in responsibilities etc.

	Draft	Final	RECS			Assurance	
4.6	Payment Card Industry Data Security Standards	May 14	July 14	0	3	2	

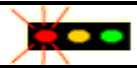
- 4.6.1 The Payment Card Industry Data Security Standards were created to increase controls around cardholder data to reduce credit card fraud via its exposure and is a security standard for organisations that handle cardholder information for the major debit, credit, prepaid and other cards.
- 4.6.2 The overall finding was that the control environment ensuring compliance with the standards is good and is in line with the Council's Information Security Policy.
- 4.6.3 The audit identified some areas for improvement in respect of existing practices and these comprise of a lack of historical audit trails for activity undertaken by users, a lack of proactive threat assessment and assurance that threats are controlled, and the need for review and update of the Information Security Policy on an annual basis to reflect changes in technology and business practices.
- 4.6.4 There is also a need for a corporate overview of credit card processing to ensure that compliance with PCI DSS is achieved across a number of business streams. A recommendation was made to address the need for a record to be maintained of persons and equipment being used where credit card processing takes place.
- 4.6.5 Following on from any central recording of activity the audit recommended that a decision be taken as to whether persons involved in credit card processing are required to sign a separate code of practice which the new PCI guidance recommends, alongside any corporate Information Security Policy. The new requirements seem designed to allow for greater ease in ensuring that anyone involved in credit card processing is fully aware and has signed up to best practice in respect of processing eliminating the defence of not understanding what was required and has not been properly trained. Audit recommended that signing up on this basis was advisable but can only be done if there is a consistent approach taken corporately across the business streams currently undertaking processing.
- 4.6.6 The Head of Finance has recognised that this is an important issue and will be updating and will be updating procedures to incorporate the new requirements when the Council moves over to the Lloyds Bank.

	Draft	Final	RECS			Assurance	
4.7	Register of Births, Deaths & Marriages	July 14	Aug 14	0	0	6	

- 4.7.1 A detailed business continuity plan is in place for the service, which has been recently reviewed, although the plan itself had not been tested for some time, and some of the arrangements had not been reconfirmed.
- 4.7.3 Robust stock security arrangements were noted as being in place to prevent the loss or misappropriation of stock or income. All stock is held securely in fireproof safes, with key access restricted to authorised personnel only. Testing confirmed daily reconciliations are performed to ensure that stock issued reconciles to income received.
- 4.7.4 Suitable banking arrangements are in place to minimise the risk of loss and robust application and inspection arrangements are in place to govern the approval of premises as a marriage venue.
- 4.7.6 A review of appointment allocation by the General Registry Office in February 2013 identified concerns over the e-diary system, particularly with regards to its efficiency. Whilst this audit did not re-perform this testing, the ongoing e-diary issues were discussed with the Superintendent Registrar. Some improvements have been made to ensure that appointment allocation is driven by the Registry Office rather than the Customer, which should have improved efficiency. Nonetheless the current e-diary system remains administratively burdensome and its continued use requires review.

	Draft	Final	RECS			Assurance	
4.8	Rent Accounting	Jul 14	Aug 14	0	0	0	

- 4.8.1 The audit review found strong systems and procedures relating to the administration and management of Housing Rents.
- 4.8.2 System property records are regularly reconciled to the stock records maintained by Accountancy.
- 4.8.3 Income collection performance was noted as having steadily improved with the latest performance levels noted at 98.4%. It was also noted that controls over and records governing the daily reconciliation of cash and periodic reconciliations with the general ledger were accurate and up to date. Similarly it was found that account monitoring is well evidenced and effective with arrears showing a 10.84% improvement over the same period in 2013-14.
- 4.8.4 Audit testing of refunds and write offs found these had been appropriately authorised, processed and evidenced.

	Draft	Final	RECS			Assurance
4.9 Patron Edge in Leisure Centres	May 14	Aug 14	0	0	0	

4.9.1 Patron Edge is the Council's software system to manage theatres and its use was extended in November 2012 to Leisure Centre sites being run by RSL (Reading Sports & Leisure) as well as to libraries. The purpose was to enable more efficient running of leisure services and to extend the capability to administer the YRP (Your Reading Passport) discount scheme to external sites to make enrolling for the scheme easier. It was also going to replace an out of date legacy system for finance called FLEX that had passed its operational life.

4.9.2 The review was carried out at the specific request of management to provide it with an independent and objective assessment of the efficiency and effectiveness of the Patron Edge system.

4.9.3 The overall conclusion regarding the use of Patron Edge within leisure centres is that it does not offer good value for money in respect of financial control, financial information and customer management. In particular the review noted that the booking and reporting functions were not fit for purpose with a consequent need to continue to rely on and use the FLEX system to perform certain functions, despite this system itself being slow and out of date.

4.9.4 No recommendations were made to address the shortcomings identified as this is subject to a separate exercise within RBC. The audit report is being considered by management as part of its review of operations across the service and options are being explored to replace Patron Edge.

#### 4.10 Grant Reviews

4.10.1 Expenditure was reviewed against the relevant conditions set down for the grants listed below and was certified to the appropriate government department as having been spent appropriately.

- Local Bus Subsidy Grant
- Carbon Reduction Commitment
- Community Capacity (Capital Grant)
- Turnaround Families (interim)

## 5. PLANNED AUDIT FOLLOW UP REVIEWS

- 5.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 - 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). Audit areas given limited assurance which we have planned to follow up are as follows:

Audit Title	Date of audit	Follow up start date	Draft Report	Final Report	Status
Agency Staffing Contracts	Dec 13	June 14			
Learning Disabilities Commissioning Budget	Oct 13	July 14			
Corporate Procurement	Jul 13				
Coley Primary School	Apr-13	July 14	July 14	July 14	☺
Children & Adults Commissioning	Jan-13				
Deputyship & Appointeeship	Jun-13				

Key: ☺ - Implemented ☹ - Partly implemented ☹ - Not implemented

## 6. INVESTIGATIONS

- 6.1 Housing & Council Tax Benefits - Since 1 April 2014 the Corporate Investigations Team (CIT) has received 214 referrals of benefit fraud. Of these there have been 14 sanctions made up of 7 prosecutions and 7 administrative penalties. Total benefit overpayment on the sanctioned cases is to the value of £196,723. This figure shows all sanctioned cases and does not count any case where a decision not to sanction has been made.
- 6.2 Housing/Tenancy Fraud Investigations - Since 1 April 2014 the CIT has received 11 referrals of Housing/tenancy Fraud. There are currently 6 ongoing investigations, with one case listed for a Court hearing in September 2014.
- 6.3 Blue Badges - Since 1 April 2014 the CIT has received 6 referrals of Blue Badge Fraud. At present there are 2 ongoing investigations.

## **7. SINGLE FRAUD INVESTIGATIONS SERVICE**

- 7.1 As part of Welfare Reform, the Government have created a Single Fraud Investigation Service (SFIS) nationally and have begun to transfer local authority investigation work on Housing and Council Tax Benefit investigations to the new body. The transfer day to the SFIS for RBC is the 1 December 2014 and from this day the investigation of Housing Benefit and historical Council Tax Benefit fraud will move to the DWP.
- 7.2 The amendment of Housing Benefit and Council Tax Benefit claims will remain with Councils along with the calculation and recovery of any Housing Benefit and Council Tax Benefit overpayments.
- 7.3 The SFIS will not be responsible for investigating non-benefit and local taxation fraud such as Council Tax Single Persons Discount or Tenancy Fraud. Local Council Tax Support will not be included in SFIS and the responsibility for protecting this fund will remain with the Council. The Corporate Management Team has agreed to retain a reduced corporate investigations resource going forward, albeit at a reduced size.

## **8. CONTRIBUTION TO STRATEGIC AIMS**

- 8.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **9. COMMUNITY ENGAGEMENT AND INFORMATION**

- 9.1 N/A

## **10. LEGAL IMPLICATIONS**

- 10.1 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.
- 10.2 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.
- 10.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, 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”.

10.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards Issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

## **11. FINANCIAL IMPLICATIONS**

11.1 N/A

## **12. BACKGROUND PAPERS**

12.1 N/A

**READING BOROUGH COUNCIL  
REPORT BY HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>25 SEPTEMBER 2014</b>	<b>AGENDA ITEM:</b>	<b>7</b>
<b>TITLE:</b>	<b>TREASURY MANAGEMENT 2014/15 ACTIVITY TO AUGUST</b>		
<b>LEAD COUNCILLOR:</b>	<b>CLLR STEVENS</b>	<b>AREA COVERED:</b>	<b>CHAIR OF AUDIT &amp; GOVERNANCE</b>
<b>SERVICE:</b>	<b>FINANCIAL</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
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**1. EXECUTIVE SUMMARY**

- 1.1 This report sets out for the Committee information about the Council's treasury activities to the end of August in 2014/15. The report is based on a template provided by Arlingclose, the Council's treasury advisor, for Q1 activity updated to cover developments in July & August. There will be a short presentation at the Committee meeting to accompany this report.

**2. RECOMMENDED ACTION**

- 2.1 Audit & Governance Committee is asked to note progress in implementing the 2014/15 treasury strategy.

**3. Background**

- 3.1 The Council's Treasury Management Strategy for 2014/15 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement for:
- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
  - The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
  - The receipt by the authority of an annual strategy report for the year ahead and an annual review report of the previous year.



- The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

### 3.2 Treasury management in this context is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

In addition to the annual strategy and annual review reports, the Code of Practice recommends that councillors should receive at least one interim report during the year.

Practically in Reading we meet these requirements by providing a brief update as part of each budget monitoring report, and this “mid year” report, presented at the end of September, reporting activity to the end of August. This report therefore ensures the Council meets CIPFA’s recommendations.

### 3.3 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk and is intended to explain how, so far during 2014/15

- the Council tried to minimise net borrowing costs over the medium term
- we ensured we had enough money available to meet our commitments
- we ensured reasonable security of money we have lent and invested
- we maintained an element of flexibility to respond to changes in interest rates
- we managed treasury risk overall

The remainder of this report has been prepared based on a template provided by Arlingclose Limited, the Council’s treasury advisor.

### 3.4 External Context

**Growth:** The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014. Although confirming that the UK has one of the fastest rates of economic growth in the western world, the breakdown did not provide any support towards the rebalancing of the economy, which remains a key plank of the government’s economic strategy. House prices continued on their upward trend but there were some signs of cooling in the housing market evident from the fall in the number of housing transactions and new mortgage lending due to tighter

lending standards following the introduction of the Mortgage Market Review in March.

- 3.5 **Unemployment:** The labour market continued to improve, with job growth strong and the headline unemployment rate falling to 6.4%. However, earnings growth weakened with total pay slowing to just 0.7% yearly growth in the three months to April and employment growth was masked by a large number on zero-hour contracts and working part-time involuntarily.
- 3.6 **Inflation:** CPI inflation for August fell to 1.5% year-on-year. Even though inflation is expected to tick marginally higher in coming months, it is still expected to remain just below the Bank's 2% target.
- 3.7 **UK Monetary Policy:** The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. The minutes of the MPC's June meeting outlined the Bank's central view that whilst wage growth and inflation had been weak, economic activity had been stronger than expected and the policy decision had therefore become more 'balanced' for some members on the Committee than earlier in the year.
- 3.8 The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.
- 3.9 In June the European Central Bank announced interest rate cuts along with a raft of non-conventional measures to head off the growing threat of deflation in the Eurozone. The ECB cut main policy rates (refinancing rate) from 0.25% to 0.15% and, to encourage banks to lend to businesses and generate economic growth, it also cut the deposit rate to -0.10% which in effect means that commercial banks must pay for the privilege of depositing their funds at the central bank.
- 3.10 There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion to \$35 billion per month. The sharp downward revision to US GDP in Q1 to -2.9% annualised was strongly influenced by severe weather

detering consumers from going out and spending. GDP in Q2 of 2014 is expected to rebound, taking the annual average rate of growth over the last four quarters ending in Q2 to a more sustainable level of 2%.

**3.11 Market reaction:** 2- and 3-year gilt yields rose by 0.15% over the quarter to June to 0.86% and 1.25% respectively, 5-year yields rose by a more muted 0.06% to 2.03%, 10- year and 20-year yields fell by 0.06% to 2.67% and 2.28% respectively whilst the 20-year gilt yield was down 0.1% to 3.35%.

### **3.12 Local Context**

At 31/3/2014 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £438.3m (including £34m associated with PFI liabilities), while usable reserves and working capital which are the underlying resources available for investment were around £80m.

**3.13** At 31/3/2014, the Authority had £320.4m of borrowing and £30.9m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to normally holding a minimum investment balance of £10m (for cash flow purposes).

**3.14** The Authority has an increasing CFR over the next 3 years due to the capital programme, but minimal investments and will therefore be required to borrow up to £100m over the forecast period.

### **3.15 Borrowing Strategy**

The Authority has not borrowed and does not expect to borrow in 2014/15, but towards the end of the year may pre-fund future years' requirements, and in doing so will not exceed the authorised limit for borrowing of £400m. The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

**3.16** Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are

likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.

3.17 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis.

### Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	New Borrowing £m	Balance on 31/08/2014 £m	Avg Rate % and Avg Life (yrs)
Short Term Borrowing <sup>1</sup>	0.5	0.0	0.0	0.5	<0.5/<1yr
Long Term Borrowing - PWLB	289.9	0.0	0.0	289.9	3.55/29.7yrs
Long Term Borrowing - Market	30.0	0.0	0.0	30.0	4.18/55.8yrs
<b>TOTAL BORROWING</b>	320.4	0.0	0.0	320.4	3.60/32.1yrs
Other Long Term Liabilities	34.0	0.0	0.0	34.0	
<b>TOTAL EXTERNAL DEBT</b>	354.4	0.0	0.0	354.4	

There has been no change in borrowing over the period.

**PWLB Certainty Rate and Project Rate Update:** The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2013. In April the Authority submitted its application to DCLG along with the 2014/15 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2014.

**LOBOs:** The Authority holds £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £15m of these LOBOS had options during the quarter, none of which were exercised by the lender. £30m of LOBOS have options during 2014/15 (some twice), so there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

#### **Debt Rescheduling:**

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for

<sup>1</sup> Loans with maturities less than 1 year.

debt rescheduling activity. No rescheduling activity was undertaken as a consequence. No change in the debt portfolio has occurred in the year to date.

### Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2014/15 the Authority's investment balances would range between £20 and £80 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

### Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/08/2014 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments - Deposits - Banks and Building Societies with ratings of A or higher	21.0	35.0	15.0	41.0	0.8%/0.4yr
Short term Investments - Call Accounts - Banks and Building Societies with ratings of A or higher	8.0	Changes Daily		7.7	0.4%
Money Market Funds	0.0	Changes Daily		10.0	0.4%
- Bonds issued by Multilateral Development Banks - Corporate Bonds	4.9	0.0	0.0	4.9	3.4%/0.3yr
<b>TOTAL INVESTMENTS</b>	33.9	35.0	15.0	63.6	
Increase/ (Decrease) in Investments £m				29.7	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is [A-] across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

## Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2014	5.36	A+	4.12	AA-
30/06/2014	5.46	A+	5.78	A

### Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1      - D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

In the 5 month period in our investment activity we have mainly placed money in call accounts (with instant access), but made various longer term deposits at higher rates of interest for up to 12 months.

## Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish within its two-year rating horizon for investment-grade entities, in April Standard & Poor's revised the Outlook of Barclays, Deutsche Bank, Credit Suisse and ING Bank from Stable to Negative. In May, Moody's also changed the outlook from stable to negative for 82 European banks and from positive to stable for two European banks. The only institutions affected on the Authority's prudent lending list is the Nationwide Building Society.

Moody's downgraded the long-term rating of Co-op Bank from Caa1 to Caa2 reflecting the agency's view that the ongoing deleveraging process at the Co-op will lead to a smaller and less systemically important institution, with the result there is a much reduced likelihood the UK government would commit taxpayer's money to inject capital into the bank if required. The Authority does not use the Co-op Bank as an investment counterparty. The Council keeps the balance in each current account as close to zero at the close of each business day/week. Lloyds bank has been selected to replace Co-Op and we will be transferring over in the second half of the year.

## Budgeted Income and Outturn

The average short term cash balances were £10.9 m during the year to August. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in

Appendix 2). New longer term deposits were made at an average rate of about 0.8%. Investments in Money Market Funds generated an average rate of 0.4%. The Council's investment income for the year to date is currently £450k.

### Prudential Indicators

We have complied with its Prudential Indicators for 2014/15 which are legal limits, and all indicators except for our interest rate exposure have been within the limit set. Our interest rate exposure (which ranged between 111% and 125% during 2013/14 had been expected to fall below 120%, but owing to capital programme slippage (and consequent reduced borrowing in 2013/14 and strong cash flows in 2014/15) has been a little above the 120% indicator limit for most of July/August, but is expected to fall during the second half of the year following the normal September debt repayment.

### Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	120%	120%	120%
Actual	122% ave 128% peak		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	-13.7%		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	25%	0%	8.3%
12 months and within 24 months	25%	0%	3.7%
24 months and within 5 years	25%	0%	8.6%
5 years and within 10 years	25%	0%	8.3%
10 years & above	100%	40%	74.7%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£20m	£10m	£10m
Actual	£5m	£0m	£0m

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	<7.0	5.86 (=A)

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£10m	£10.9m average



### Investment Training

Officers have attended some seminars/events provided by Arlingclose (and one by CIPFA) to keep up to date with current treasury issue, or have plans to do so during the autumn.

### Outlook for the remainder of 2014/15

The stronger economic growth seen in the UK over the past six months is likely to use up spare capacity more quickly than previously assumed. Arlingclose has brought forward the timing for the first rise in Bank Rate to Q3 2015.

The rhetoric from MPC members has certainly become more hawkish, but the lack of inflationary signals is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. However, the near-term risk is that the Bank Rate could rise sooner than anticipated, which is captured in the 'upside risk' range of our forecast table below.

The focus is now on the rate of increase and the medium-term peak and, in this respect, expects that rates will rise slowly and to a lower level than in the past.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate											
Upside risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50	0.75	0.75
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
Downside risk					0.25	0.25	0.50	0.50	0.75	0.75	1.00

### Prudential Indicators 2014/15

The Local Government Act 2003 requires the Authority to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

**Estimates of Capital Expenditure:** The Authority's current planned capital expenditure and financing is summarised as follows. The estimates below reflect the position at the end of August. The future years capital programme will be updated in the autumn for the budget in February.

Capital Expenditure and Financing	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	54.3	67.0	66.0	27.0
HRA	5.7	11.4	10.0	6.9
<b>Total Expenditure</b>	<b>59.0</b>	<b>78.4</b>	<b>76.0</b>	<b>33.9</b>
Capital Receipts/S106/MRA	13.5	20.3	16.1	8.2
Government Grants	18.4	31.9	8.5	4.2
Borrowing	27.1	26.2	51.4	21.5
<b>Total Financing</b>	<b>59.0</b>	<b>78.4</b>	<b>76.0</b>	<b>33.9</b>

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.14 Actual £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
General Fund	207.6	221.5	265.2	265.7
HRA	230.7	230.6	235.6	237.6
<b>Total CFR</b>	<b>438.3</b>	<b>452.1</b>	<b>490.8</b>	<b>503.3</b>

The CFR is forecast to rise by 65m over the next three years as capital expenditure financed by debt, mainly arising from the schools expansion programme outweighs resources put aside for debt repayment.

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.14 Actual £m	31.08.14 Actual £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	320.4	320.4	314.1	355.0	370.0
Finance leases	0.0	0.0	0.8	0.8	0.8
PFI liabilities	34.0	(Est)33.8	33.4	32.6	31.9
<b>Total Debt</b>	<b>354.4</b>	<b>354.2</b>	<b>348.3</b>	<b>388.4</b>	<b>401.7</b>

Total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

**Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	390	390	400	410
Other long-term liabilities	40	40	40	40
<b>Total Debt</b>	<b>430</b>	<b>430</b>	<b>440</b>	<b>450</b>

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	390	390	400	410
Other long-term liabilities	40	40	40	40
<b>Total Debt</b>	<b>430</b>	<b>430</b>	<b>440</b>	<b>450</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	8.7	9.3	12.3	14.7
HRA	27.2	26.6	27.0	27.0

**Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme as set out above.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - Increase in Band D Council Tax (in year)	7.40	15.50	7.80
General Fund - increase in annual Band D Council Tax	31.26	65.10	32.93
HRA - increase in average weekly rents	0.28	0.32	0.05

## Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
29/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
Average	0.50	0.36	0.41	0.43	0.49	0.67	0.91	1.20	1.57	2.24
Maximum	0.50	0.41	0.50	0.43	0.50	0.81	0.98	1.38	1.77	2.42
Minimum	0.50	0.31	0.36	0.42	0.46	0.56	0.84	1.00	1.36	2.05
Spread	--	0.10	0.14	0.01	0.04	0.25	0.14	0.38	0.41	0.37

**Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
29/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93

**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
29/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95

**Table 4: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
29/08/2014	0.58	0.61	0.72	1.48	1.52	1.62

READING BOROUGH COUNCIL  
REPORT BY HEAD OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	22 SEPTEMBER 2014	AGENDA ITEM:	14
TITLE:	BUDGET MONITORING 2014/15		
LEAD COUNCILLOR:	COUNCILLORS LOVELOCK/ PAGE	PORTFOLIO:	FINANCE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
LEAD OFFICER:	ALAN CROSS	TEL:	01189372058 (x72058)
JOB TITLE:	HEAD OF FINANCE	E-MAIL:	Alan.Cross@reading.gov.uk

### 1. EXECUTIVE SUMMARY

1.1 This report sets out the result of the detailed budget monitoring exercise undertaken for 2014/15, based mainly on the position to the end of July 2014.

### 2. RECOMMENDED ACTION

2.1 POLICY COMMITTEE is requested to note the report, and the implementation of measures to keep overall net expenditure within the Approved Budget and Budget Framework.

### 3. BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are set out in Appendices 1(A-D). A summary of the results of the exercise is as follows:

	Emerging Variances £000	Remedial Action £000	Net Variation £000	% Variation to Budget
Environment & Neighbourhood Services	820	30	790	2.6
Education, Adult & Children's Services	1244	1244	0	0
Corporate Support Services	-239	0	-239	-1.9
<b>Directorate Sub total</b>	<b>1825</b>	<b>1274</b>	<b>551</b>	<b>0.5</b>
Treasury	-245	0	-245	
<b>Total</b>	<b>1580</b>	<b>1274</b>	<b>306</b>	<b>0.2</b>

3.2 This report follows the pattern of recent reports with the main focus being on the estimated budget variance at year end. The summaries are included as follows:

Education, Adult and Children's Services -	Appendix 1A
Environment & Neighbourhood Services -	Appendix 1B
Corporate Support Services -	Appendix 1C
Housing Revenue Account (see below) -	Appendix 1D

### 3.3 Education Adult & Children's Services

Within the Children's Services area there is a net pressure of £257k flowing from residential placements relating to a small number of children. Within Adult Services there are increasing pressures across all services with a year-end forecast of around £900k overspend. Reviews are underway to determine the reasons for the growth in apparent demand compared with the outturn for 13/14. Both of these overspends are likely to fluctuate considerably over the next 6 months. The Directorate will manage these pressures by taking money from the strategic reserve. As the pressure can be contained within the reserve no net variance has been shown for the Directorate as a whole.

### 3.4 Environment & Neighbourhood Services

The Directorate is currently forecasting a potential net overspend of £790k at year end, mainly due to increased waste disposal tonnage, declining number of traffic regulation infringements (notably bus lanes) and unachievable savings proposals in relation to reduced accommodation and storage costs. Action is being investigated in order to minimise the pressures arising from this overspend where possible.

### 3.5 Corporate Support Services

Corporate Support Services anticipates under spending by £239k because of the childcare lawyers saving being realised earlier than anticipated due to a reduction in care proceedings together with a range of other small (net) variances.

## 4. FORECAST GENERAL FUND BALANCE

The final General Fund Balance at the end of 2013/14 was £5.5m. As indicated in the table above, assuming remedial action highlighted in the Directorate commentaries is carried out, there is now expected to be an overspend on revenue budgets of £306k. Cost pressures in Environment & Neighbourhood Services are offset by Corporate Support Services and Treasury, leaving the General Fund balance at its £5m minimum level (taking account of the planned use of balances).



## 5. CAPITAL PROGRAMME 2014/15

- 5.1 The current Capital programme is set out in the table below. The forecast capital expenditure for the year is just below £79m including slippage from 2013/14, and recognising some re-phasing of the programme based on the latest information available.
- 5.2 The table shows the expenditure by priority area and its current estimated funding.

<b>CAPITAL PROGRAMME</b>	<b>£m</b>
Creating and Sharing Prosperity	12.362
People are Supported and Protected when they need to be and/or are Healthy and can Thrive in their Community	4.437
An Attractive well-kept Town	36.283
Good Quality Public Services	25.348
<b>Total</b>	<b><u>78.430</u></b>

<b>FORECAST FUNDING</b>	<b>£m</b>
Grants	31.875
Receipts (inc. S106 and HRA Major Repairs Reserve)	20.315
Borrowing	26.240
<b>Total Funding</b>	<b><u>78.430</u></b>

- 5.3 At 31 July 2014, £9.9m of the programme (excluding HRA) had been spent against total projected General Fund expenditure for the year of £65.5m.
- 5.4 Much of the planned spend is skewed towards the end of the financial year, in particular on Transport projects totalling £23m. All such expenditure is reviewed on a monthly basis. Many factors affect progress (or otherwise) including due legal and procurement process with a significant number of external partners also involved. There are some challenges involved in spending within timeframes required by grant conditions.
- 5.5 The £13.5m in respect of schools is in line with the most up to date projection of likely spend. The challenges associated with completing the grant-funded (Targeted Basic Need) by August 2015 have now been fully shared with the Education Funding Agency.
- 5.6 The Civic Centre relocation project, which carries a 2014/15 budget of £14.8m when energy saving measures are included, remains on time and within budget and shows expenditure of £3.3m to date.
- 5.7 Recent approval of £1.15m for essential works at Rivermead should soon begin to become evident and work is underway to procure the new fleet refuse freighters through a framework agreement at a cost of c£2m during this financial year.

5.9 The other most financially significant areas of spend relate to ICT and investment in buildings with approved spend over £5m between them; these are broadly on target.

## **6. TREASURY MANAGEMENT**

6.1 No new long term borrowing has been arranged or is immediately planned in 2014/15. Between 1 April 2014 and the 30 July 2014, the net borrowing of the Council varied between £249.6m & £282.0m averaging £263.8m. As indicated in the table above, because of the Council's cashflow and wider treasury position, a budget underspend of £245k is currently forecast.

## **7. HRA**

7.1 As indicated above the results of the HRA budget monitoring exercise is set out in Appendix 1D. The Supervision & Management budgets are currently projecting a £100k underspend due to vacant posts within the service.

## **8. RISK ASSESSMENT**

8.1 There are risks associated with delivering the Council's budget and this was subject to an overall budget risk assessment which was set out in the February report. At the current time those risks have not significantly changed given that we currently expect to end the financial year with the minimum general fund balance, as planned. From the detailed service monitoring, key service risks that are leading to adverse budget pressures, or remaining risks causing further budget pressure in the current year include:

- Demand for adult social care;
- Demand for children's social care;
- Homelessness, and the potential need for additional bed & breakfast accommodation;
- The level of income from traffic enforcement, as motorists appear to becoming more compliant;
- Growth in waste disposal tonnage, arising from economic recovery;
- Income risks in the leisure and theatre services;
- Increasing service demands being met by a reducing workforce not being matched by appropriate process changes;
- Not complying fully with grant conditions for capital projects by spending the required money during the current financial year.

## 9. BUDGET SAVINGS RAG STATUS

9.1 The RAG status of savings and income generation proposals included in the 2014/15 budget is set out below.

9.2 The RAG status for 13/14 savings going into 14/15 is summarised below:

	£000	%
Red	150	8
Amber	747	38
Green	1,061	54
<b>Total</b>	<b><u>1,958</u></b>	<b><u>100</u></b>

The RAG status for 14/15 savings is summarised below:

	£000	%
Red	362	4
Amber	2823	28
Green	6,817	68
<b>Total</b>	<b><u>10,002</u></b>	<b><u>100</u></b>

Red risk savings overall total £512k. The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to those shown above.

## 10. COUNCIL TAX & BUSINESS RATE INCOME

10.1 We have set targets for tax collection, and the end of July position is:

Council Tax	2014/15 £000	Previous Year's Arrears £000	Total £000
Target	30,075	655	30,730
Actual	29,845	790	30,635
<b>Variance</b>	<b>230 below</b>	<b>135 above</b>	<b>95 below</b>

10.2 For 2014/15 as a whole the minimum target for Council Tax is 96.5%, (2013/14 collection rate 97.13%). At the end of July, collection for the year was 38.35% compared to a target of 38.40%, although collection remains slightly behind 2013/14 (38.44% by end of July 2013).

10.3 Business Rates Income to the end of July 2014

Business Rates	2014/15 £000	2014/15 %
Target	39,959	39.20
Actual	39,552	36.44
<b>Variance</b>	<b>407 below</b>	<b>2.76% below</b>

The target for 2014/15 is 98.50%. By comparison, at the end of July 2013, 37.36% of rates had been collected, implying that collection is slightly slower than last year.

## **11. OUTSTANDING GENERAL DEBTS**

- 11.1 The Council's outstanding debt total as at 31 July 2014 stood at £3,655k in comparison to the 31<sup>st</sup> March figure of £3,510k. This shows an increase of £145k.
- 11.2 The position with older debt is being monitored and a plan is being developed to tackle the adverse trend.

## **12. CONTRIBUTION TO STRATEGIC AIMS**

- 12.1 The delivery of the Council's net expenditure within budget overall is essential to ensure the Council meets its strategic aims.

## **13. COMMUNITY ENGAGEMENT AND INFORMATION**

- 13.1 None arising directly from this report.

## **14. LEGAL IMPLICATIONS**

- 14.1 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves.
- 14.2 With regard to Budget Monitoring, the Act requires that the Authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring. Currently Budget Monitoring reports are submitted to Policy Committee regularly throughout the year and therefore we comply with this requirement.

## **15. FINANCIAL IMPLICATIONS**

- 15.1 The main financial implications are included in the report. The overall budget is broadly on target.

## **16. EQUALITY IMPACT ASSESSMENT**

- 16.1 None arising directly from the report. An Equality Impact Assessments was undertaken and published for the 2014/15 budget as a whole, and such assessments are undertaken in respect of individual service proposals as appropriate.

## **17. BACKGROUND PAPERS**

- 17.1 Budget Working & budget monitoring papers, save confidential/protected items.

<b>DEACS Summary</b>
<b>Budget Monitoring Overview for the Period: July 2014</b>

This overview provides the key results of the budget monitoring exercise undertaken during July 2014

<b>Approved Budget</b>
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The Approved budget for the directorate is £77.1m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projected Year End Variance
	£'000	£'000	£'000	£'000	£'000
Employee Costs	87,870	31,451	30,619	-832	0
Running Costs	97,371	36,510	32,325	-4,185	0
Gross Expenditure	185,241	67,961	62,944	-5,017	0
Income	-108,124	-38,970	-37,753	1,217	0
Net Expenditure	77,117	28,991	22,199	-6,792	0
<b>Summary Projection of Year end Position</b>					
					0
					0.0%

<b>Directorate Commentary on Budget Monitoring for the Period</b>
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Whilst in Children's Services there are pressures of £400k on external residential placement and other pressures on agency of £220k. Some initial benchmarking work on the overall resilience of the service indicates pressures of £205k, mainly in the adoption and fostering area. There are offsetting underspends from CATS and Treatment Foster Care bringing the net pressure down to £257k. The Interim Head of Service remains focussed on addressing external placement costs and agency pressures within the service. Adult services is currently forecasting significant pressures across all services where there have been increased demand pressures on care budgets and some issues with delivery of all the savings for 14/15. The pressure overall has increased from £0.4m last month to £0.9m this month with large increases in Learning Disabilities, Adult Safeguarding, Older People and Physical Disabilities. Within Education services there is a £55k pressure on post 16 responsibilities flowing from the demise of the post participation partnership. For Commissioning and Improvement a small underspend has been reported however the cross council savings on agency, procurement and training and are held against this service area and this may be an emerging budget pressure. These are currently being reviewed and there may be a need to report a pressure against other service areas across the Council in future months. The overall net pressure of £1.2m is expected to be met from the DEACS strategic reserve so no net pressure has been shown for the Directorate as a whole.

To support unexpected increases in client demand across Adult and Children Social Care, the Directorate has a strategic reserve budget. The aim is to use the reserve on a non re-current basis to meet pressures across the Directorate. However this requires work to be done on an ongoing basis to identify in year, long term sustainable savings to contain these pressures in a way that will not compromise developing budget plans for 2015/16 and subsequent years. At the current time the overall pressure on the service is mainly in Adult Services and it is likely at this stage that £1.2m of the reserve will be required. However this is subject to the usual caveats on the demand nature within the services and the possible developing pressures.

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Children's Service	257	
Adult Services	932	
Education & Early Years	55	
Commissioning & Improvement		28
Funded by DEACS strategic reserve		1,216
<b>Total</b>	<b>1,244</b>	<b>1,244</b>
<b>Forecast Net Position (over/-underspend)</b>		<b>0</b>

## Budget Monitoring Overview for the Period: July 2014

This overview provides the key results of the budget monitoring exercise undertaken during July 2014

## Approved Budget

The approved budget for the directorate as shown is £29.971m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projection to Year End
	£'000	£'000	£'000	£'000	£'000
Employee Costs	32,037	10,640	10,019	-621	-
Running Costs	84,420	18,002	16,190	-1,813	280
Gross Expenditure	116,457	28,642	26,209	-2,434	280
Income	-86,486	-25,474	-23,582	1,893	510
Net Expenditure	29,971	3,168	2,627	-541	790

## Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net overspend of

£790k

2.6%

## Directorate Commentary on Budget Monitoring for the Period

The Directorate is currently forecasting a potential net overspend of £790k at year end, mainly due to increased waste disposal tonnage, declining number of traffic regulation infringements (notably bus lanes) and unachievable savings proposals in relation to reduced accommodation and storage costs. Action is being investigated in order to minimise the pressures overspend where possible.

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Transportation and Street Care: Waste Disposal - additional costs due to increased tonnage.	120	
Declining number of traffic regulation infringements (notably bus lanes)	500	
Unachievable savings proposals in connection with lease for Fountain House and reduced storage requirements.	150	
Other minor variances	50	30
<b>Total</b>	<b>820</b>	<b>30</b>
<b>Forecast Net Position (over/-underspend)</b>		<b>790</b>

## Budget Monitoring Overview for the Period: July 2014

This overview provides the key results of the budget monitoring exercise undertaken during July 2014

## Approved Budget

The Approved budget for the directorate is £12.5m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projection to Year End
	£'000	£'000	£'000	£'000	£'000
Employee Costs	15,342	5,147	3,531	-1,616	
Running Costs	19,286	6,364	5,699	-665	-44
Gross Expenditure	34,628	11,511	9,230	-2,281	-44
Income	-22,130	-5,475	-769	4,706	-145
Net Expenditure	12,498	6,036	8,461	2,425	-189

## Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net underspend of	£-239k
	-1.9%

## Directorate Commentary on Budget Monitoring for the Period

Across the Corporate Support Services budgets a review of salaries currently suggests a mixed variance picture, but overall we would expect to be operating at, or very close to budget for the year as a whole

Two savings (IT £250k & e-billing £50k) originally identified in 2013/14 are not now likely to deliver in full, though across Customer Services & IT c.£100k of likely one off underspends are being identified. Three Savings for 2014/15 are running late or not now going to be achieved but there is additional income from the Registrar and Bereavement Services.

Childcare Lawyers - the caseload has recently been at its lowest level ever, and although it is now rising; at current forecast levels we would expect to achieve the agreed budget reductions in Reading's share of costs which was originally planned to be phased in over 2 years - so would have a £145k underspend in 2013/14.

Land charges is expected to deliver at £60k income better than budget

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Unachievable savings in Northgate contract and cross council public service network procurement	100	
Ebilling - Income & recovery, Admin & Control	50	
Underspends across various budgets		150
Post Office Review	10	
Interpretation & Translation income	16	
Registrar net income		55
Cems & Crems overachievement of income		30
Electronic documentation for meetings	25	
Childcare Lawyers - Reading Share of Costs		145
Land charges additional income		60
<b>Total</b>	<b>201</b>	<b>440</b>
<b>Forecast Net Position (over/-underspend)</b>		<b>-239</b>

## Budget Monitoring Overview for the Period: July 2014

This overview provides the key results of the budget monitoring exercise undertaken during July 2014

## Approved Budget

The Approved budget is £43.9 m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projected Year End Variance
	£'000	£'000	£'000	£'000	£'000
Employee Costs	2,809	910	708	-203	-100
Running Costs	14,344	2,688	2,168	-521	0
Total Supervision & Management	17,152	3,599	2,876	-723	-100
Repairs - (Revenue)	5,655	3,069	2,049	-1,020	0
Repairs - (Capital)	10,260	843	101	-743	-1,295
Capital Financing	10,825	0	0	0	1,295
Gross Expenditure	43,892	7,511	5,025	-2,485	-100
Income	-43,892	-7,511	-5,025	2,485	0
Net Expenditure	0	0	0	0	-100

## Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net underspend of

£-100k

## Directorate Commentary on Budget Monitoring for the Period

Supervision & Management (the cost of managing the Council's housing)- A projected underspend of £100k for vacant posts which have been held during the first quarter (Apr- Jun), pending the outcome of the Housing restructure, have been included in Managers View. Running Costs expenditure across the HRA is lower across all services than profiled budget. This is as a result of delays on identified projects through the period of restructure whilst vacancies have been held.

Repairs - (Revenue) This includes a mix of day to day and planned maintenance works. Some tenders are still outstanding for planned repairs works and progress is at an early stage for those works which have commenced, therefore no variance to Budgets have been determined by the end of July. Any pressures will be covered from existing Budgets to ensure a balanced budget at year end.

Repairs - (Capital) Results of Tenders are still outstanding for some Capital repairs projects and once the final programme of works has been determined any projects anticipated to vary from the Budget will be identified. Any pressures will be covered from existing Budgets to ensure a balanced budget at year end. Within the Repairs - Capital budget there is £2.2m for the Hexham Rd project of which slippage of £1.1m into 15/16 is now anticipated, so the money will need to be held as an HRA capital reserve at this financial year end.

DFG - The DFG identified works projected spend for 14/15 is £195k, which if it remains at this level would give an underspend of £195k at 31/3/15. This will not impact on the Revenue budgets as this is Capital funding.

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Supervision & Management		100
Repairs		1,295
Capital Financing (including transfer of HRA funded slippage to an HRA capital reserve)	1,295	
Income		
<b>Total</b>	<b>1,295</b>	<b>1,395</b>
<b>Forecast Net Position (over/-underspend)</b>		<b>-100</b>