

To: Councillors Stevens (Chairman),  
Lovelock, McElligott, McKenna, Page,  
Steele and Terry

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7 April 2017

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### NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE - 19 APRIL 2017

A meeting of the Audit & Governance Committee will be held on Wednesday 19 April 2017 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

#### AGENDA

	<u>PAGE NO</u>
1. DECLARATIONS OF INTEREST	-
2. MINUTES OF THE COMMITTEE'S MEETING OF 26 JANUARY 2017	1
3. QUESTIONS	
4. INTERNAL AUDIT QUARTERLY PROGRESS REPORT AND ANNUAL SUMMARY OF INVESTIGATIONS FOR 2016/2017	5
This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in January 2017.	
5. 2015/2016 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN FOLLOW UP	18
This report sets out the progress made in implementing the actions which were reported in the 2015/16 Annual Governance Statement.	

*CIVIC OFFICES EMERGENCY EVACUATION: If an alarm sounds, leave by the nearest fire exit quickly and calmly and assemble on the corner of Bridge Street and Fobney Street. You will be advised when it is safe to re-enter the building.*

6.	<b>INTERNAL AUDIT CHARTER 2017-18</b>	25
	This report has been prepared in accordance with the Public Sector Internal Audit Standards, which require the Internal Audit service to produce an annual Charter setting out the purpose, authority and responsibility of the Council's Internal Audit function.	
7.	<b>INTERNAL AUDIT PLAN 2017/18</b>	37
	This report sets out the work Internal Audit plans to undertake during the financial year 2017/2018. The annual audit plan is designed to implement the internal audit strategy.	
8.	<b>PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24, REPORTED AT BUDGET COUNCIL) RECOMMENDATIONS</b>	55
	This report provides an update on the progress to implement the External Auditor's Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 recommendations, which were reported to Council on 21 February 2017 along with the Council's response addressing those recommendations.	
9.	<b>EXTERNAL AUDITOR UPDATE</b>	63
	To receive an update from the Council's external auditor EY.	

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 26 JANUARY 2017

**Present:** Councillor Stevens (Chairman), Lovelock, McElligott, McKenna, Page, Steele & Terry.

**Also in attendance:**

Simon Warren	Interim Managing Director
Rachel Musson	Strategic Finance Director
Alison Bell	Director of Environment and Neighbourhood Services
Alan Cross	Head of Finance
Paul Harrington	Chief Auditor
Maria Grindley	Director and Engagement Lead, EY LLP

### 22. MINUTES

The Minutes of the meeting of 11 November 2016 were confirmed as a correct record and signed by the Chairman.

### 23. QUESTIONS

Councillor Duveen asked the following question to the Chairman of the Audit & Governance Committee:

#### Bank Reconciliation

The recent Audit Report from Ernst & Young found that there was a £35,000 discrepancy in the bank reconciliation that was unexplained. This is a not inconsiderable amount of money to go missing.

Has the Chair of this Committee found the cause of this discrepancy and if so what is the explanation?

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

The Committee has been made aware of issues in exactly balancing the Council's Bank Reconciliation by both the previous auditor KPMG and EY, the new auditor from this year.

The Head of Finance has provided sufficient assurance to both the auditor (previous and present) and the Committee that sufficient work has been done to establish that the absence of an exact balancing is not associated with a fundamental control failure or money having been misappropriated, or gone missing.

A very large number of transactions pass through the Council's bank account daily, and whilst the vast majority flow as intended, a small number are not referenced clearly enough to be handled automatically by the Council's systems, and officers have to get involved to allocate the money properly.

The bank reconciliation process has been further complicated as the Council was required to change banker at relatively short notice when the Co-Operative Bank exited the local authority market. Last year, the Council successfully concluded the transition to Lloyds Bank. Some of the discrepancy dates back to the Co-Operative Bank days.

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 26 JANUARY 2017

As was reported to the Committee, "we have set out for EY a structured process designed to bring the main bank reconciliation back into balance (writing off unreconciled immaterial historic differences). A range of other system reconciliation controls have also recently been improved."

The Head of Finance has been advised that officers have been able to reconcile all transactions that went through the bank account in November and December with the Council's own financial records, and officers have subsequently been working through earlier months, in order to identify the unreconciled immaterial historic difference that it would be uneconomic to pursue earlier than the transfer to Lloyds. As indicated above there is no indication that any member of the public has been disadvantaged because of the difficulty in concluding this reconciliation.

### 24. AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT

The Chief Auditor submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports issued since the previous quarterly progress report in September 2016.

The report set out a summary of the audit reports in respect of:

- Information Governance & Data Protection
- Overtime
- Nursing, Residential & Supported Living Care Packages
- Integrated Discharge Scheme
- Pupil Premium Funding
- MOSAIC/Oracle Fusion End of year reconciliation
- Waste Operations
- Use of cash vouchers & petty cash accounts

The report also set out a summary of investigations work relating to Benefit Investigations, Council Tax Single Person Discount (SPD) investigations, Fraud & Error Reduction Incentive Scheme, Housing Tenancy, Housing: Right To Buy, Blue Badge investigations and ID Fraud.

The Committee noted the important issues raised in the audit of Information Governance & Data Protection and requested an update to a future meeting on the progress of implementing the audit recommendations. An update on the MOSAIC/Oracle Fusion End of year reconciliation was also suggested. Information on the total number of Right to Buy applications was requested in order to provide context for the investigations work into fraudulent applications.

**Resolved:**

- (1) That the progress of implementing the recommendations made by the audits of Information Governance & Data Protection and MOSAIC/Oracle Fusion End of year reconciliation be reported to future meetings of the Committee;
- (2) That the Chief Auditor circulate information on the total number of Right to Buy applications.

**25. STRATEGIC RISK REGISTER**

The Chief Auditor submitted a schedule updating the Committee on the Q3 status of the Council's 2016/17 Strategic Risk Register, in line with the requirements of the Council's Risk Management Strategy. The Risk Register was attached to the report at Appendix 1.

At the meeting the Committee were briefed on the current position on the risk relating to insufficient funds due to non-compliance of regulations by Clinical Commissioning Group (CCG). Members of the Committee also asked whether the increasing risk relating to the impact on staff resilience (stress and motivation) of organisational change & budget reductions was being reflected in measures such as rate of absence, and suggested that an additional risk be considered relating to the number of senior managers who were interim appointments.

**Resolved:**

- (1) That the Strategic Risk Register be noted;
- (2) That an additional risk relating to the number of senior managers who were interim appointments be considered for inclusion.

**26. PREPARING FOR THE 2017/18 BUDGET INCORPORATING DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2017/18, CONSIDERATION OF PROPERTY INVESTMENT STRATEGY AND PROPOSAL IN RELATION TO A COUNCIL ASSET**

The Head of Finance submitted a report setting out the following documents that would be relevant to the final 2017/18 Budget Report: the draft Treasury Management Strategy Statement 2017/18 (attached to the report at Appendix A), the Property Investment Strategy (attached to the report at Appendix B) and a summary of a Property Transaction Proposal (attached to the report at Appendix C).

The Treasury Management Strategy Statement was an annual statement the Council was required to approve each year of intended treasury activity, setting constraints under which that activity would (usually) operate. The Property Investment Strategy had been adopted during the closed session of the Policy Committee meeting held on 12 December 2016 (Minute 57 refers), following the purchase of a property in Central Reading. At the same meeting Policy Committee had also approved the purchase, in principle, of further investment property. The precise financial details of the proposed investment and full investment criteria were considered commercially sensitive, but Appendix B set out a summary of the Strategy without the commercially sensitive information.

The report noted that, at the Policy Committee meeting held on 16 January 2017, officers, in consultation with the Leader and the Chair of this Committee had been authorised to enter into a property transaction that would generate an immediate capital receipt. Appendix C set out non-confidential information about the proposed transaction.

**Resolved:**

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 26 JANUARY 2017

That the draft Treasury Strategy & Investment Statement, Property Investment Strategy and Property Transaction Proposal be noted.

### 15. BUDGET MONITORING REPORT

The Head of Finance submitted a report setting out the result of the detailed budget monitoring exercise undertaken for 2016/17, based on the position to the end of November 2016.

The report had also been submitted to the meeting of Policy Committee on 16 January 2017.

**Resolved:**

That it be noted that, based on the position at the end of November 2016, budget monitoring forecast an overspend of around £7.6m in 2016/17.

### 16. EXTERNAL AUDITOR UPDATE

The external auditor EY submitted the 2015/16 Audit Certificate, the Annual Audit Letter for the year ending 31 March 2016, and the Audit Plan for the year ending 31 March 2017.

Maria Grindley attended the meeting and, in answer to questions from the Committee, explained the increase in the Audit fee, and explained that actions to ensure an improved process for the next audit would begin with a joint review session with Council officers.

**Resolved:**

That the 2015/16 Audit Certificate and Annual Audit Letter, and the 2016/17 Audit Plan be noted.

(The meeting started at 6.30pm and closed at 7.27pm).

**READING BOROUGH COUNCIL  
HEAD OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>19<sup>th</sup> April 2017</b>	<b>AGENDA ITEM:</b>	<b>4</b>
<b>TITLE:</b>	<b>INTERNAL AUDIT QUARTERLY PROGRESS REPORT AND ANNUAL SUMMARY OF INVESTIGATIONS FOR 2016/2017</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 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 January 2017.

1.2 The report aims to:





- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise of significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

**2. RECOMMENDED ACTION**

2.1 The 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 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:

Substantial		<p><b>Substantial assurance</b> can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with <b>low impact on residual risk exposure</b>.</p>
Reasonable		<p>We can give <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk exposure</b> until resolved.</p>
Limited		<p><b>Limited assurance</b> can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with <b>moderate impact on residual risk exposure</b> until resolved.</p>
No assurance		<p>There is <b>no assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with <b>high impact on residual risk exposure</b> until resolved.</p>



## 3.2 Grading of recommendations

3.2.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority	Current Risk
<b>High</b>	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.
<b>Medium</b>	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration

3.2.2 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.

3.2.3 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 or 'no' assurance.

#### 4. HIGH LEVEL SUMMARY OF AUDIT FINDINGS

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##### 4.1 Bank and Cash Reconciliations



4.1.1 This audit primarily focused on the bank and cash reconciliations and is a snapshot as at January 2017.

4.1.2 At the time of our audit we reported that there was a need to improve the oversight of the key financial system reconciliations across the council so that in-year misbalances and technical issues can be identified and resolved on a timely basis. This would ensure responsibilities are understood and there is an agreed standardised approach to reconciliations, with corporate oversight to monitor the status. Reconciliation controls are fundamental to ensuring the Council maintains a sound system of internal control and therefore a centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed.

4.1.3 Detailed written procedures which are a prerequisite for describing the processes to be followed were found to be lacking in some areas.

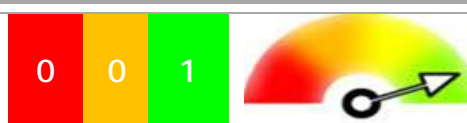
4.1.4 Although we acknowledge that a lot of work is now being done to establish and review all control account reconciliations, at the time of our audit it was found the monthly cash reconciliations carried out for each feeder system were in various stages of completion. With regards to the bank reconciliation, the first attempt at a month-end reconciliation in this financial year was January 2017. The clearance of historic unreconciled items was also proving problematic at the time of the audit, although it is not believed that this would impact the Council's revenue position.

*Manager's response: the finance service is committed to bringing the bank account reconciliation up-to-date, to be completed on a monthly basis, with brought forward unreconciled items cleared from April 2017.*

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##### 4.2 NNDR



4.2.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and reconciled monthly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with collection and recovery performance monitored.

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4.3 Subject Access Requests



4.3.1 Under the data Protection act 1998, individuals have a right to access information held about them by any organisation that processes personal data. This is known as the right of subject access.

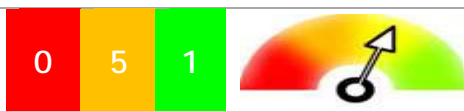
4.3.2 Our audit reviewed how members of the public were able to access personal information held on them by the Council, with particular focus on access to social services records. During the audit it became clear that there were a number of systems across the Council that dealt with social care client information. Open social care records and closed social care records requests were undertaken by the relevant adult or children's services teams and Customer Relations Team<sup>1</sup>, whilst other requests received by the Legal Department were dealt with by the Information Officer (as well as other requests which did not relate to social services). It became evident that there was a lack of a consistent policy and procedure which could be applied to all areas of subject access. We recommended as a priority 1 measure that a standard policy for all subject access requests including requests for social care data should be adopted with one single route of enquiry.

*Managers Response: the different routes of access have been merged into a single route, which will be co-ordinated and monitored via Legal Services. A new policy and procedure has been implemented, and senior managers in all directorates are being briefed on the new policy and procedure, who will also put forward key officers who would benefit from the training offered by Legal Services on the new policy and procedure.*

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4.4 Council Tax Support



4.4.1 The aim of this audit was to ensure that the systems and processes for the assessment, calculation and payment of local council tax support are effective, by ensuring that the scheme has appropriate approval, applications are supported by forms, calculations are correct and substantiated by documentary evidence and that claims are processed in a timely manner.

4.4.2 The scheme currently in operation was approved by the Policy Committee after undergoing public consultation. Proposals for amendments to the scheme for 2017/18 have also undergone public consultation and were recommended for approval by Policy Committee and ratified by Council in January 2017.

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<sup>1</sup> Recording, monitoring and preparing requests for access to 'closed' children's social care records is undertaken by the Customer Relations Team.

- 4.4.3 Policies and procedures are in place for amendment of the parameters on Academy and implementation of the current scheme.
- 4.4.4 In the majority of cases sampled, claims were processed within 5 days of receipt of all relevant information and applications were appropriately retained.
- 4.4.5 Quality checking is conducted on a 10% random sample of new Housing Benefit and Council Tax Subsidy claims, with overall accuracy and financial accuracy reported on a monthly and year to date basis.
- 4.4.6 Some minor errors in calculations were identified through our sample checks.

*Manager's response: Issues identified by audit during testing were investigated by the service and any required action has been or is in the process of being implemented.*

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4.5	Childcare Operations	0	6	1	
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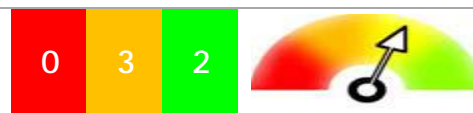
- 4.5.1 The audit encompassed a review of safeguarding policies and procedures, along with controls over income and expenditure at the Kennet Day Nursery based in the Civic Offices, The Lodge at Southcote Children's Centre and Sure Start Whitley.
- 4.5.2 On the whole the audit identified a good level of control over these functions; however each centre is run independently and we concluded that efficiencies along with improved resilience could be achieved by harmonising processes across all Council managed childcare centres. Improvements could also be made in clearly evidencing compliance with child staff ratios and also in evidencing actions taken of unplanned child absences.

*Manager's response: All RBC childcare is to be reviewed within the new financial year with the view to consolidate the provision under one management within Early Help Services.*

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4.6 Payroll

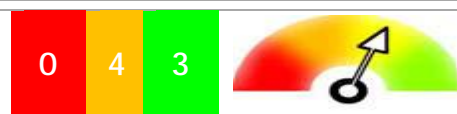


- 4.6.1 The objective of this audit was to ensure that appropriate control is being exercised over the Payroll system, and that payments made are accurate. In general, this was found to be the case, with effective controls in place to ensure that the pay run is accurate and payments and deductions are accurately applied to employee records.
- 4.6.2 Improvements have been made, following the introduction of the online recruitment process, which has been operational since June 2016. The new online system has built in authorisations and workflows, although there have been minor user problems since its launch. Subsequent recommendations were made to address these issues.
- 4.6.3 Payroll accuracy checks are performed from system/exception reports, and this process appears to be robust and complete. The process is shared between two senior staff providing some separation of duties in identifying potential anomalies and the checking and making of appropriate adjustments. This check ensures that any incorrect information is promptly updated and actioned on the employee's record; however these processes are not documented.
- 4.6.4 The payment of expenses including mileage claims is robust, with evidence to suggest appropriate checks are performed by the Payroll Team prior to processing.
- 4.6.5 The key part of the payroll process continues to be timely notification by the recruiting manager/budget holder of changes effecting pay and/or the establishment and staff submitting claims in a timely and legible fashion. This has led to overpayments for 12 staff in the current financial year totalling £14.2k from a total of more than 53,000 BACS salary payments across the year.

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4.7 Health & Safety Review



- 4.7.1 The Health & Safety Executive states that 'protecting the health and safety of employees or members of the public who may be affected by its activities is an essential part of risk management and must be led by the board.'<sup>2</sup> Reading Borough Council reflects its commitment to these responsibilities in its Health and Safety Policy and its Safety Policy Statement as well as the systems, procedures and resources in place.

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<sup>2</sup> Health & Safety Executive: Leading health and safety at work

- 4.7.2 These health and safety policies are in turn supported by a wealth of guidance material for staff and managers. Recommendations have been made to promote both the visibility and awareness of these all for staff.
- 4.7.3 Oversight for the delivery of health and safety is the responsibility of the Corporate Health & Safety Team. Based upon the information and evidence seen during the review it was evident there is good experience and expertise within the team that was well demonstrated during meetings of the directorate health & safety committees.
- 4.7.4 The directorate health & safety committees provide the link between the Corporate Health & Safety Committee and the service areas. Importantly it is these committees that are responsible for reviewing the audits undertaken by individual services. Based upon the meetings witnessed these were noted as being well structured and supported by good records. However it was also clear that there are differences in how the meetings are conducted and therefore recommendations have been made for best practice from these to be shared as well as establishing a common terms of reference for them.
- 4.7.5 All staff should have a defined level training given to them that is graded according to their position, role and responsibility. Previous reviews have highlighted that there have been weaknesses in the way that staff training on health and safety training has been recorded in the past and this has also been recognised by CMT who have determined that i-Trent<sup>3</sup> should be used as the principal record for this. Health and Safety training data analysed by the corporate Organisational and Development Workforce team showed many discrepancies in the accuracy and content of the information with no reliable record of the health and safety training delivered for all staff. Clearly for the Council to be able to meet (some of) the objectives set out in its policies then this is an issue that should be addressed and will mean an exercise needs to take place to review, correct and cleanse the data and then to ensure it is kept up to date thereafter.

*Manager's response: A working group led by the Organisational Development Manager has been established to identify potential solutions to training data integrity. An options report highlighting activity and resources required will be presented to CMT.*

#### 4.8 School Audits

4.8.1 We have completed four school reviews this quarter as follows:

Moorlands Primary School	0	2	2	
The Ridgeway Primary School	0	3	2	
Cranbury College	0	1	1	
Micklands Primary School	0	2	2	

<sup>3</sup> HR/Payroll system

## 5. AUDIT REVIEWS 2016/2017

5.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit Title	Timing	Start Date	Draft Report	Final Report
MOSAIC (Finance Payments)	Q1	Mar 16	July 16	Aug 16
Creditors (Accounts Payable)	Q1	Dec 15	Apr 16	Aug 16
Nursing & Residential Care Packages	Q1	Mar 16	June 16	Oct 16
School Places Capital programme	Q1	Mar 16	May 16	Aug 16
Right to Buy	Q1	Apr-16	Jun 16	Aug 16
Leisure (Income Collection)	Q1	Apr 16	Jun 16	Jun 16
MOSAIC/Oracle End of year reconciliation	Q1	May 16	Aug 16	Sep 16
Overtime	Q1	Jun 16	Aug 16	Sep 16
Health & Safety Review	Q1	May 16	Sep 16	Feb 17
Information Governance & Data Protection	Q1	Jun 16	Sep 16	Oct 16
Electronic Document & Records Management	Q1	Apr 16	May 16	Jun 16
Troubled Families (Grant Sign Off)	Q2	-	-	Dec 16
LTP Capital Settlement (Grant Certification)	Q2	-	-	Sep 16
Bus Subsidy (Grant Certification)	Q2	-	-	Sep 16
Integrated Discharge Scheme	Q2	Aug 16	Nov 16	Dec 16
Access to Records	Q2	May-16	Nov 16	Jan 17
Use of cash vouchers & cash accounts	Q2	Jun-16	Sep 16	Nov 16
Waste Operations	Q2	July 16	Nov 16	Dec 16
Sec 106 contributions*	Q2	Jun 16	Aug 16	Sep 16
RBC childcare settings*	Q2	Sep 16	Dec 16	Mar 16
Pupil Premium Funding	Q3	Aug 16	Nov 16	Nov 16
Caversham Nursery School	Q3	Oct 16	Nov 16	Nov 16
Cranbury College	Q3	Nov 16	Dec 16	Jan 17
Manor Primary School	Q3	Oct 16	Nov 16	Nov 16
Corporate Buildings H&S	Q3	Mar 17		
Housing & Communal areas Buildings H&S	Q3			
Bed and Breakfast Placements	Q3	Nov 16		
Key financial system reconciliations	Q3	Nov 16	Feb 17	Mar 17
Financial Assessments of Adult Care (f/up)	Q3	To be done in Q1 2017/18		
Extra Care Housing	Q3	Oct 16	Oct 16	Oct 16
Looked After Children	Q3	To be done in Q2 2017/18		

Audit Title	Timing	Start Date	Draft Report	Final Report
Troubled Families (Grant Sign Off)	Q3	Dec 16	Dec 16	Dec 16
General Ledger	Q3	Dec 16	Mar 17	
Creditors (Accounts Payable)	Q3	Dec 16	Mar 17	
Payroll	Q3	Dec 16	Mar 17	Mar 17
NNDR	Q3	Nov 16	Jan 17	Feb 17
Council Tax Support	Q3	Sep 16	Jan 17	Mar 17
eTendering	Q4	Mar 17		
Entitlement & Assessment	Q4	Dec 16		
Micklands Primary School	Q4	Feb 17	Feb 17	Mar 17
Moorlands Primary School	Q4	Jan 17	Feb 17	Mar 17
The Hill Primary School	Q4	To be done in 2017/18		
The Ridgeway Primary School	Q4	Jan 17	Jan 17	Feb 17
Corporate Governance Overview	Q4	Jan 17		
Foster Care & Adoption Allowances (f/up)	Q4	To be done in 2017/18		

\*Audits added in-year following specific request

## 6. INVESTIGATIONS (annual summary of investigations for 2016/2017)

### 6.1 Benefit Investigations

6.1.1 Whilst the Council no longer investigates Housing Benefit fraud one case has been referred back to investigations team by the DWP, the total overpaid benefit for this case was **£12,000**.

6.1.2 The investigation officers are also now looking at referrals from Council Tax in relation to possible criminal offences under the Council Tax Support regulations. Investigations receive on average 25 -30 referrals per month from the service and at present have 6 ongoing investigations.

6.1.3 The Council Tax Support (CTS) overpayment figure as at March 2017 is **£19,468**, which includes two prosecutions. In this period 14 claimants investigated have been subject to Administration Penalties<sup>4</sup>, with the total fines imposed amounting to **£8,333**.

### 6.2 CTAX Single Person Discount (SPD) investigations

6.2.1 The work on SPD has been linked mainly to the CTS investigations and no real drive has been made into SPD casework. Since April 2016 we have investigated 18 SPD cases, 12 of which resulted in an overpayment charge totalling **£2,700**

<sup>4</sup> We offer an administrative penalty in circumstances where it is felt that it would be more suitable to dispose of the matter without criminal proceedings being initiated.



### 6.3 Fraud & Error Reduction Incentive Scheme

- 6.3.1 Investigation officers are working very closely with Housing Benefit teams on the Fraud & Error Reduction Incentive Scheme (FERIS). The scheme is a DWP initiative and provides financial incentives (approximately £6.5k per month) to local authorities who reduce fraud and error in their Housing Benefit cases. A schedule of planned visits (40 per month) on current Housing Benefit claimants are undertaken to ensure claimant details held are accurate and up-to-date.
- 6.3.2 Investigation officers will look at any referrals coming from this work where the unreported change affects the rate of Council Tax support awarded.

### 6.4 Housing Tenancy

- 6.4.1 Since 1 April 2016 Investigation officers have assisted in the return to stock of 10 Council properties.
- 6.4.2 It is difficult to quantify the financial implications of these types of investigations, however the RBC agreed figure of £15,000 is considered to be the average cost for retaining a family in temporary accommodation. Using this figure (10 x £15,000) in the region of £150,000 could have been saved as a result of tenancy investigations.
- 6.4.3 If appropriate, we will seek to recover 'profits' made through illegal subletting. We are working alongside a Financial Investigator in connection to a previous Housing Tenancy fraud case in which the defendant was found guilty at trial in 2015. An application under the Proceeds of Crime Act (POCA) has progressed through initial stages and there is an application on file for hearing in April 2017 at Reading Crown Court. The application is in respect of the defendant had benefitted to the sum of £122,500. In addition to this, compensation amounts to £90,000. However this is a very complex case, the decisions on amounts and payments (if any) we will not know until the Court has considered all arguments.

### 6.5 Housing: Right To Buy (RTB)

- 6.5.2 Money laundering is a fraud risk for property transactions. Money is paid by a third party who has no obvious link with the transaction. Money launderers often use front buyers to enter into transactions on their behalf. The money for a deposit or even to pay a mortgage may have come from someone other than the customer and could very well be the proceeds of crime.
- 6.5.3 In order to reduce any such risk we work with Housing Officers to check RTB applications against council tax and other records where cash payments are being paid. We checked 22 (45 received in 2016/17) RTB applications during the year for validation and financial checks and as a result 3 applications were followed up for full disclosure of income sources.

## 6.6 Blue Badge investigations

6.6.2 In the period April 2016 through to March 2017, we have received a total of 25 referrals. As a result of this work 4 parking notices have been issued for minor Blue badge offences, 6 Blue Badges have been seized and removed from circulation and there have been 3 prosecutions for Blue Badge frauds. 1 blue badge was returned to rightful owner, 2 Blue Badges were cancelled, 1 Blue Badge application was found to be false. And warning letters were sent out to 8 Blue Badge holders.

6.6.3 It is difficult to quantify the cost associated with blue badge fraud, but there is a significant cost to the public purse. For example the offender may also avoid having to pay for a resident's parking permit and/or paying hourly on-street parking charges or congestion charges in cities such as London. In addition there is the inconvenience for genuinely disabled motorists and passengers.

## 6.7 ID Fraud

6.7.1 As previously reported to the committee an exercise was undertaken during 2016/17 to search benefit cases using predefined parameters in order to detect possible identity fraud. Following enquires and a detailed analysis of documents held, we detected nine cases of fraudulent identity being used in support of housing benefit claims. These cases were predominately Algerian nationals using false French documentation, mainly ID cards and resulted in an HB overpayment of £150,154. Housing Benefit payments were stopped immediately and the cases were referred to the DWP and National Crime Agency for investigation.

## 6.8 Section 106 Fraud

6.8.1 As previously reported to the committee the investigation officers undertook an investigation into missing sec 106 contributions, which led to the successful prosecution and conviction of a former member of staff, who fraudulently diverted Section 106 contributions for two developments, totalling £42,000, into his personal bank account.

6.8.2 The Court has agreed to an order under the Proceeds of Crime Act, which is being pursued by the Crown Prosecution Service.

## 6.9 Social Care Payments

6.9.1 This is not a new area of work for CIT however in the period April 2016 to March 2017 CIT have been actively investigating one case of alleged fraudulent use of Personal Budgets to the value in excess of £43,000.

## **7. CONTRIBUTION TO STRATEGIC AIMS**

7.1 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 contributing to the strategic aim of remaining financially sustainable.

## **8. COMMUNITY ENGAGEMENT AND INFORMATION**

8.1 N/A

## **9. LEGAL IMPLICATIONS**

9.1 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.

9.2 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.

9.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

9.4 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.

## **10. FINANCIAL IMPLICATIONS**

10.1 N/A

## **11. BACKGROUND PAPERS**

11.1 N/A

**READING BOROUGH COUNCIL  
INTERIM DIRECTOR OF FINANCE**

<b>TO:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>19 APRIL 2017</b>	<b>AGENDA ITEM:</b>	<b>5</b>
<b>TITLE:</b>	<b>2015/2016 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN FOLLOW UP</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 Accounts and Audit Regulations 2015 requires local authorities to prepare and publish an Annual Governance Statement (AGS) each financial year, which accompanies the authority's financial statements.
- 1.2 The Annual Governance Statement is a key record of the overall effectiveness of governance arrangements within the Authority. The statement reflects the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrates how the key governance requirements have been met.
- 1.3 The following pages sets out the progress made in implementing the actions which were reported in the 2015/16 Annual Governance Statement (AGS). The 2015/16 AGS was approved by the Audit and Governance Committee on 21 July 2016 with the specific request that progress is reported back to the Committee at the end of the following financial year.
- 1.4 There were 13 actions identified in the AGS, all of which have been implemented or are in the process of being implemented. There are 9 actions that need to be given consideration by CMT to be carried forward to the 2016/17 AGS (for reporting to the Audit & Governance Committee in July 2017).

2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee are required to note the progress made on implementing actions reported in the 2015/16 Annual Governance Statement.

Appendix 1 AGS Action Plan update

No	Responsible Officer	Action	Status
1	Head of Finance/ Head of Customer Services	Develop, manage and deliver a budget and financial management strategy to operate within available resources over the period to 2019/20. Draft four year financial sustainability plan to be submitted to Government.	Ongoing
	<i>Comment: A financial sustainability plan was submitted to government on 14 October 2016. It set out the process for achieving sustainability with some actions to be developed. Subsequently a lawful budget was set for 2017/18 at a meeting of the Council on 21 February 2017 but that included a requirement to identify actions to address the remaining financial gap in 2017/18 and 2019/20 by Q2 2017.</i>		
2	Head of Finance	Strengthen financial and budget management throughout Council services and provide effective financial management support considering reducing budgets and the changing nature of income.	Ongoing
	<i>Comment: Work is ongoing to further develop the financial support to the Council. Significant work has been undertaken to ensure the robustness of budgets for the 2017/18 budget to reflect the 2016/17 outturn position, especially for Children's Services. The Budget Managers Handbook has been completed and made available to budget holders. The service provided by Corporate Finance is under review to ensure customer needs can be met, including the best possible structure of staffing.</i>		
3	Director of Children, Education and Early Help Service	Delivering Children's Service Transformation Plan - ensure staffing and capacity in Children's Services.	Ongoing
	<i>Comment: The Council developed a Learning and Improvement Plan following the Ofsted Inspection in June 2016 when the Council was judged by Ofsted to be 'inadequate' in its services to children in need of help and protection, Looked After Children and Care Leavers. The plan has been implemented by the Director of Children's Services, following Full Council approval on 18<sup>th</sup> October 2016.</i>  <i>The progress and performance is monitored by the independently chaired Children's Services Improvement Board (CSIB) on a monthly basis. The Board receives a comprehensive performance dataset and highlight report (with RAG status) focused on the 18 outcome areas, as well as an update of the plan setting out the current position.</i>		

No	Responsible Officer	Action	Status
4	Head of Customer Services/ Head of Legal & Democratic Services	Map the Council's current and planned activity against a set of agreed organisational development principles and objectives, and develop a long term Organisational Development Plan taking the Council to 2020 - what we are going to do within available resources and what outcomes are expected.	Outstanding
	Superseded and incorporated into the Council's new Corporate Change Programme, which is being particularly developed over the period to 30 June 2017.		
5	Managing Director / Director (DENS)	Continue to undertake work on embedding the policy, delivery, governance and monitoring arrangements for Health and Safety.	Complete
	<i>Comment: The Council has put in place a governance structure and provided operational expertise and resource to provide for these. All staff should have a defined level training given to them that is graded according to their position, role and responsibility. There are different committees which have an oversight within and across directorates as well as there being a central Health &amp; Safety team to provide expertise and coordination. The directorate health &amp; safety committees provide the link between the Corporate Health &amp; Safety Committee and the service areas. Importantly it is these committees that are responsible for reviewing the audits undertaken by individual services. Oversight for the delivery of health and safety is the responsibility of the Corporate Health &amp; Safety Team.</i>		
6	Director of Adult Care & Health Services	Continue to develop our commissioning, procurement and contract management and DACHS transformation programme to deliver improvements.	Ongoing
	<i>Comment: Work is underway to review and revise an overarching service plan to incorporate commissioning including Public Health Commissioning, procurement and contract management to ensure a consistent approach in line with the Transformation Programme priorities. This will allow a realignment of staff to maximise the skills mix across the wellbeing, commissioning and improvement agenda within the Adult Social Care Directorate to drive ongoing improvements.</i>  <i>The ASC Transformation programme continues to evolve in line with service priorities and the financial challenges of the Council. In 2016/17 the Programme is on track to deliver approximately £1.4 million worth of savings which is an increase on the previous year. For 2017/18 the programme will be aligned to the new ASC Strategy and will form part of the overarching delivery plan. In addition we will continue to maximise any synergies with the Better Care Fund to ensure we make best use of limited resources and develop solutions to address the challenges faced across the Health and Social Care landscape.</i>		

No	Responsible Officer	Action	Status
7	Head of Legal & Democratic Services	Continue to undertake work to further improve information management and the Council's data protection policy and reduce the risk of loss of data, including N3 Health Integration and Payment Card Industry Data Security Standard (PCI DSS) compliance. Implement action plan to include appropriate staff training (see AGS 12 below) to comply fully with information governance requirements.	Actions complete but monitoring of impact ongoing
	<p><i>Comment:</i></p> <ul style="list-style-type: none"> <li>• <i>IT Policies revised for 16/17 and being issued to all staff for 17/18</i></li> <li>• <i>Information Governance Board Re-established</i></li> <li>• <i>Information Governance Support officer appointed</i></li> <li>• <i>Information Asset Owner Awareness Training held for SLG</i></li> <li>• <i>Data Protection CBT Training approved and awaiting roll-out to all staff by Learning &amp; Development</i></li> <li>• <i>Cyber Security and Cyber Crime CBT Training under review by Learning &amp; Development</i></li> <li>• <i>360 Document Marking expected roll-out to all staff March 2017</i></li> <li>• <i>Protocol Policy (IT Policy Set) awaiting impact assessments for adoption</i></li> <li>• <i>PCI DSS Compliance and N3 IGT Tool Kit Projects running</i></li> <li>• <i>Websense Data Leakage Policy for external email under monthly results review</i></li> </ul>		
8	Head of Finance/ Head of Customer Services	Given the risks presented via significant changes being delivered and further cost reduction activity across the Council, the Corporate Management Team will continue to closely monitor the operation of the Council's control environment.	Ongoing
	<i>Comment: Corporate Management Team has worked very closely with finance to ensure there is appropriate monitoring of the control environment. This has included appointing additional temporary senior finance capability to support this work. This monitoring has shown that improvements are needed in the control environment.</i>		
9	Head of Customer Services	Review and embed project management/governance gateway to improve governance over projects and ensure that they are more widely introduced across the Council.	Complete
	<i>Comment: A project gateway approach for all ICT and digital projects has been introduced via the Digital and ICT Board and a review of the governance arrangements. This is working well. Towards the end of 2016, a Delivery Unit has been set up in Corporate Support Services, which is developing a Council wide Change Programme. This will incorporate robust governance arrangements for programme and project management across the Council.</i>		



No	Responsible Officer	Action	Status
10	Managing Director	Succession Planning - introduce and monitor arrangements to ensure an efficient and effective handover for senior management, particularly related to the role of Managing Director during 2016/17.	Ongoing
	<p data-bbox="286 416 1899 448"><i>Plans or completed actions for a phased replacement of CMT interim and acting up personnel are as follows:</i></p> <p data-bbox="286 507 427 539"><i>Comment:</i></p> <ul data-bbox="454 485 1917 660" style="list-style-type: none"> <li>• <i>The recruitment of a full time CEO was completed by mid-March 17</i></li> <li>• <i>The timetable for the recruitment of a full time DASS is being renewed by the incoming CEO</i></li> <li>• <i>The acting up DCS will remain in post for at least one year, commencing April 2017</i></li> <li>• <i>The interim FD post holder was replaced in March 17 by a suitably qualified individual for a year, to provide sufficient time for the future structure of senior management to be determined</i></li> </ul>		
11	Director of Adult Care & Health Services / Director of Children, Education & Early Help Services	Continue with both Adult and Children's Social Care resource panels to manage demand and ensure appropriate service provision, delivering services within statutory requirements and operating within budget.	Complete and impacts being monitored
	<p data-bbox="286 967 427 999"><i>Comment:</i></p> <ul data-bbox="454 879 1968 1091" style="list-style-type: none"> <li>• <i>Resource panel in place (weekly) Service Managers from operations teams and commissioning attend and review all requests for expenditure.</i></li> <li>• <i>Senior managers check that alternative provision has been explored</i></li> <li>• <i>Senior managers quality assure assessments, ensure Care Act compliance and that provision is proportionate</i></li> <li>• <i>Spreadsheet maintained recording decisions and expenditure</i></li> <li>• <i>Spreadsheet identifies areas where further input with regard to practice and management oversight is required</i></li> </ul>		

No	Responsible Officer	Action	Status
12	Head of Legal & Democratic Services	Development of a staff on line training programme for Information Security, Finance and HR Management, supported by up to date policies and procedures, subject to annual review in 2016/17.	Ongoing
	<p><i>Comment:</i></p> <ul style="list-style-type: none"> <li>• <i>ICT Policies revised for 16-17 and issued to Staff via NetConsent</i></li> <li>• <i>Protocol Policy IT Policy set awaiting review and adoption</i></li> <li>• <i>On-line Induction and Security Training for new staff</i></li> <li>• <i>Learning &amp; Development CBT Training for Data Protection, Cyber security, Cyber-crime awaiting adoption and roll-out</i></li> </ul>		
13	Director of Adult Care & Health Services	For the purpose of care integration and the sharing of person identifiable data with NHS systems, we are undertaking a self-assessment using the Department of Health IG Toolkit and an improvement plan is in place to ensure requirements are complied with.	Ongoing
		<p><i>Comment: An officer led "Task and finish" group is being implemented to ensure that the Information Governance toolkit is completed within the required timescales. This will ensure that revisions to policy and data sharing agreements, are made as required, ensuring lawful handling and sharing of data. This will ensure that the timescales required by the overall connected care project can be met, including the implementation of ICT (N3) connectivity to the wider Connected Care systems across Berkshire.</i></p>	

## READING BOROUGH COUNCIL

### REPORT BY INTERIM DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 <sup>th</sup> April 2017	AGENDA ITEM:	6
TITLE:	INTERNAL AUDIT CHARTER 2017-18		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	79390695
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 In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Internal Audit service is required to produce an annual Charter setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the PSIAS.
- 1.2 The following document is attached to this report:
  - Internal Audit Charter 2017/2018 (appendix 1)

#### 2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee is required to note the contents of the Internal Audit Charter.

#### 3. BACKGROUND

- 3.1 A relevant authority must undertake an effective **internal audit** to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector **internal auditing** standards or guidance.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013. These are the first internal audit standards to apply across the whole public sector and are supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CMIIA).
- 3.3 The unified standards intend to ensure sound corporate governance and set out roles and responsibilities with regard to the delivery of internal audit services. The PSIAS require an Internal Audit Charter to be in place which will be reviewed periodically and presented to the Corporate Governance and Audit Committee for approval.

3.4 The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurance in relation to internal control and overall governance arrangements.

3.5 The PSIAS recognises that Internal Audit's remit extends to the entire control environment of the organisation and not just financial controls.

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

4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

#### **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 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".

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

7.1 N/A

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

8.1 N/A

# Internal Audit Charter

(2017/2018)



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## 1. Background

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- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires that an Internal Audit Charter is in place for each local authority. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.
- 1.2 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Reading Borough Council (RBC) and has been drawn up in line with the PSIAS requirements and is further informed by the CIPFA Local Government Application Note (April 2013) published to assist in the implementation of the PSIAS.
- 1.3 This Internal Audit Charter is subject to approval by the Audit and Governance Committee of Reading Borough Council (RBC) on an annual basis, in line with PSIAS requirements.

## 2. Role

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- 2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Reading Borough Council ("RBC" or "the Council"). It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- 2.2 The Internal Audit function's main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in.
- 2.3 This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Chief Auditor's opinion is a key element of the framework of assurance that the Chief Executive and Leader of the Council needs to inform the completion of the Annual Governance Statement.

### 3. Purpose, Responsibilities and Objectives of Internal Audit

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- 3.1 Internal Audit is an independent appraisal function established within the authority - as part of the Corporate Support Services Directorate - with the following objectives<sup>1</sup>:
- To provide an effective Internal Audit Service, on behalf of the Director of Finance (sec 151 officer), in line with legislation and the appropriate audit standards;
  - To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
  - To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 3.3 The Chief Auditor reports to the Audit and Governance Committee on a regular basis in line with the agreed work programme for the Committee. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment and regular updates on reports issued. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.
- 3.4 Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.
- 3.5 Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to affect personal gain.

### 4. Scope of Internal Audit Activities

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- 4.1 The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to other bodies. This description shows the wide potential scope of Internal Audit. In order to translate this description into individual audit reviews, a risk assessment methodology is applied that allows high-risk review areas to be prioritised (also see Section 8.)

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<sup>1</sup> Financial Regulations -Section 2.8 'Internal Audit'

- 4.2 To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:
- review of controls within existing systems and systems under development
  - compliance with policies and procedures including Financial Regulations
  - transactions testing to ensure accuracy of processing
  - contract audit
  - establishment reviews
  - computer audit including data analytics
  - anti-fraud work
  - investigation of suspected fraud and irregularities
  - value for money reviews and transactions testing
  - provision of advice to Directorates and services including consulting services
  - provision of audit services to external clients.

## 5. Definition of Consulting Services

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- 5.1 The PSIAS defines consulting services as follows: *“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”*
- 5.2 The PSIAS requires that approval must be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.).

## 6. Arrangements for Appropriate Resourcing

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- 6.1 As stated in the CIPFA Application Note, *“No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage.”*
- 6.2 The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.
- 6.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.



- 6.4 In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Auditor will identify the shortfall and advise the Director of Finance followed by the Audit & Governance Committee as required to assess the associated risks or to recommend additional resources are identified.
- 6.5 The audit plan will include a contingency allocation to address unplanned work including responding to specific control issues highlighted by senior management during the year.
- 6.6 Internal audit work is prioritised according to risk, through the judgement of the Chief Auditor, informed by the Council's risk registers and in consultation with senior management and External Audit.
- 6.7 Internal audit activity is subject to annual review by External Audit.
- 6.8 Progress on the annual plan is reported to the Audit & Governance Committee on a regular basis throughout the year. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Auditor will advise the Director and Head of Finance and the Audit & Governance Committee.

## 7. Organisational Independence of Internal Audit

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- 7.1 The PSIAS requires that reporting and management arrangements must be put in place that preserve the Chief Auditor's independence and objectivity, in particular with regard to the principle that the Chief Auditor must be independent of the audited activities.
- 7.2 PSIAS Standard 1110 requires that the Chief Auditor reports to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. CIPFA and the Chartered Institute of Internal Auditors expect that the Chief Auditor should report to at least corporate management team level.
- 7.3 Within RBC, the Chief Auditor reports functionally to the Audit & Governance Committee and administratively to the Director of Finance (Sec 151 Officer) and has direct right of access to the Chief Executive.
- 7.4 The Internal Audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.
- 7.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the Chief Auditor and reported to the Section 151 officer as appropriate.

- 7.6 Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.
- 7.7 The Chief Auditor will confirm to the Audit and Governance Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.
- 7.8 The Chief Auditor will report audit findings to the Council's Corporate Management Team and Audit & Governance Committee.

## 8. Planning

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- 8.1 The annual audit plan will be submitted to the Audit and Governance Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Chief Executive, the Director of Finance, individual Directors and other senior officers as appropriate.
- 8.2 The risk-based plan will outline the audit assignments to be carried out.
- 8.3 The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment covering the impact and likelihood of the inherent risk for each auditable area. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.
- 8.4 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.
- 8.5 As part of the planning process, the Chief Auditor will identify other potential sources of assurance and will include in the risk based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 8.6 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management, including risk of fraud and control processes.

## 9. Reporting and Follow Up

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- 9.1 A written report will be prepared by the appropriate auditor for every audit review and distributed in line with established and agreed reporting protocols. This will include an opinion on the adequacy of controls in the area that has been audited.
- 9.2 The draft report will be discussed with the auditees and a response obtained for each recommendation stating their response to each recommendation along with a timescale for implementation. The final report will include the management responses and will be issued to the relevant Director and other officers in line with directorate protocols.
- 9.3 Any reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment will be subject to a follow up review to determine whether the recommendations made have been implemented.
- 9.4 Regular update reports to Audit and Governance Committee will show the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings.
- 9.5 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP.)
- 9.6 The PSIAS also requires the Chief Auditor to establish a follow up process to monitor and ensure actions have been effectively implemented. This is an established process within RBC, with a follow up review being undertaken on any assignments with limited assurance/no assurance, to ensure recommendations have been adopted and suggested controls are working well in practice.

## 10. Assurance to external organisations

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- 10.1 The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms/service level agreement or equivalent. The work carried out to provide such assurances will be conducted in accordance with Internal Audit's quality procedures and service standards. These will be included in the annual audit plan.

## 11. Fraud and Corruption

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- 11.1 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.
- 11.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.
- 11.3 In line with Financial Regulations (Section 6.5 - Preventing Fraud and Corruption), whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Chief Auditor. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

## 12. Authority of Internal Audit

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- 12.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 which came into force on the 1st April 2015 state that:
- (i) *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*
  - (ii) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
    - (a) *make available such documents and records; and*
    - (b) *supply such information and explanations; as are considered necessary by those conducting the internal audit.*
  - (iii) *In this regulation “documents and records” includes information recorded in an electronic form.*

- 12.2 The statutory role is recognised and endorsed within the Council's Financial Regulations<sup>2</sup>, which provides the authority for access as follows:

*Directors must ensure that Internal Audit is allowed to:*

- (i) Enter any council premises or land at all reasonable times;*
- (ii) Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties;*
- (iii) Receive such explanations as are necessary concerning any matter under examination.*
- (iv) Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee's duties.*

### 13. Code of Ethics

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- 13.1 All our Internal Auditors must conform to the Chartered Institute of Internal Auditors Code of Ethics. The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.
- 13.2 The Code of Ethics includes 2 essential components - the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications.)
- 13.3 Internal Auditors will adhere to RBC relevant policies and procedures (including the Employee Code of Conduct) and local Internal Audit procedures.
- 13.4 All Internal Auditors will be qualified by experience, hold a professional qualification, or be training towards a professional qualification.
- 13.5 In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

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<sup>2</sup> Financial Regulations - Section 2.8 'Internal Audit'

## 14. Review of the Effectiveness of Internal Audit

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- 14.1 The Accounts and Audit (England) Regulations 2011 required councils to conduct, at least once a year, a review of the effectiveness of its internal audit. Within RBC, the internal audit annual report and opinion provides an overview of the work and performance of Internal Audit throughout each year. The annual report, along with independent reviews by the external auditors, provides an assurance of the effectiveness of the Internal Audit service during the year.
- 14.2 These 2011 regulations have now been superseded by the Accounts and Audit Regulations 2015 which maintain the requirement for an effective internal audit function and state that:

*A relevant authority must, each financial year—*

*(a) conduct a review of the effectiveness of the system of internal control*

- 14.3 Internal Audit will continue to provide assurance on the effectiveness of the function through the annual reporting process.

## 15. Quality Assurance and Improvement Programme (QAIP)

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- 15.1 The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.
- 15.2 The Chief Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to the Director of Finance and the Audit and Governance Committee.
- 15.3 Internal Audit issues a customer satisfaction questionnaire following each audit assignment. The results are used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.

READING BOROUGH COUNCIL

REPORT BY INTERIM DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 <sup>th</sup> April 2017	AGENDA ITEM:	7
TITLE:	INTERNAL AUDIT PLAN 2017-18		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	79390695
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 This report sets out the work Internal Audit plans to undertake during the financial year 2017/2018. The annual audit plan is designed to implement the internal audit strategy.
- 1.2 It is internal audit's responsibility to form opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. In the context of the Public Sector Internal Audit Standards<sup>1</sup>, 'opinion' does not simply mean 'view', 'comment' or 'observation'; it means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the Council's activities that we have examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work). The attached audit plan will allow for the effective discharge of this responsibility.
- 1.3 The following document is attached to this report:
- Internal audit plan 2017/2018 (appendix 1)

**2. RECOMMENDED ACTION**

- 2.1 That the Audit & Governance Committee approves the audit plan for the period April 2017 to March 2018.

<sup>1</sup> The Public Sector Internal Audit standards - Applying the IIA International Standards to the UK Public Sector 2013

### **3. INTERNAL AUDIT PLAN**

- 3.1 The Chief Auditor must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities of the Council.
- 3.2 The audit strategy sets out how Internal Audit contributes to the Council achieving its objectives and includes:
- a) Internal Audit objectives and outcomes
  - b) How the Chief Auditor will form and evidence his opinion on the control environment to support the Annual Governance Statement
  - c) How internal audit's work will identify and address issues and risks
  - d) The resources and skills required to deliver the strategy.
- 3.3 The risk-based plan is designed to implement the audit strategy. In preparing the plan I have taken account of the adequacy and outcomes of the Council's risk management, performance management and other assurance processes. I have consulted with stakeholders, such as Directors and Heads of Service, the Head of Finance and the Council's external auditors.
- 3.4 The audit plan is fixed for a period of one year; however it must at the same time be fluid, kept under continuous review and amended to take into account emerging risks and areas where assurance work is required to be provided. Any significant changes will be reported back to the Audit & Governance Committee.
- 3.5 CMT and the Audit and Governance Committee will also be advised of performance against the audit plan and be kept informed of the results of those audit reviews undertaken.

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

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

### **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 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”.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 N/A

## **8. BACKGROUND PAPERS**

- 8.1 N/A

Appendix 1

# Internal Audit Plan

(2017/2018)



[www.reading.gov.uk](http://www.reading.gov.uk)



**Reading**  
Borough Council  
Working better with you

## Internal Audit Plan

### 1. Background

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- 1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): *“Internal auditing is 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.”*
- 1.2 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.
- 1.3 Internal audit also supports the Director of Finance in discharging her statutory duties. The following are two key pieces of legislation that internal audit supports the Interim Director of Finance to comply with:
  - i. Section 151 of the Local Government Act 1972. The Director of Finance, as the council’s Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority’s financial affairs. The work of internal audit is an important source of information for the Director of in exercising his responsibility for financial administration.
  - ii. The Accounts and Audit Regulations 2015. The regulations state that ‘A relevant authority must undertake an effective internal audit<sup>1</sup> to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. The work of internal audit provides a substantial element of this requirement.
- 1.4 ‘Effective internal audit’ is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note for the PSIAS.
- 1.5 The PSIAS came into force on 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within the Council, the Audit & Governance Committee fulfils the key duties of the Board laid out in the PSIAS. This document sets out the proposed plan for 2017-18.

## 2. The Planning Process

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- 2.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources and a yardstick for measuring audit performance.
- 2.2 The PSIAS Performance Standard 2010 - Planning states that: '*The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.*' Within Reading Borough Council (RBC), the role of Chief Audit Executive is undertaken by the Chief Auditor.
- 2.3 The standards refer to the need for the risk-based plan to take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight.)
- 2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach. The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Council's Strategic risk register, Corporate Plan and minutes of officer and Council meetings. Directors and Heads of Service were consulted for areas to be included in the audit plan and our own knowledge and experience of Council services was also used to inform our subsequent risk assessment. This information is used to inform and design the audit plan.

## 3. The Internal Audit Plan

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- 3.1 The outputs from the planning process have been prioritised to produce a plan that balances the following:
- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
  - the time required for anti-fraud and corruption activity
  - the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
  - the need to retain a contingency element to remain responsive to emerging risks; and
  - the resource and skill mix available to undertake the work.

- 3.2 Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required, i.e. the audit of schools.
- 3.3 The Chief Auditor in liaison with the Director/Head of Finance will keep progress against the audit plan, and the content of the plan itself under review. The Corporate Management Team and the Audit and Governance Committee will also be advised of performance against the Audit Plan and be kept informed of the audits undertaken.
- 3.4 The indicative Internal Audit programme for 2017-2018 which is shown from page 7 to 14 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 3.5 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year.

#### **4. Resources**

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- 4.1 The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year. Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Director/Head of Finance.

#### **5. Individual Audits**

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- 5.1 When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard. Where revisions are required we will obtain approval from the appropriate Corporate Director prior to commencing fieldwork.
- 5.2 In determining the timing of our individual audits we will seek to agree a date which is convenient and ensures the availability of key management and staff.
- 5.3 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

- 5.4 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the terms of reference or within two weeks of completion of the audit fieldwork, whichever is the sooner.
- 5.5 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.
- 5.6 Following discussion of the draft report the auditor will draft a clear, concise and constructive report, following a standard format, outlining:
- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
  - audit recommendations, along with management response and implementation date
  - an executive summary of the key findings and conclusions
  - Details of findings, to include an explanation of the risk and the identified control weaknesses.
  - The final report will be issued in the name of the auditor conducting the review and the Chief Auditor.

## **6. Follow up Reviews**

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- 6.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but our aim to complete the follow up within six to twelve months of completion of the audit.

## **7. Reports to C.M.T. and the Audit & Governance Committee**

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- 7.1 A status report on internal audit work will be presented to CMT and the Audit and Governance Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues.

## 8. Annual Assurance Report

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8.1 A formal annual report to the Audit & Governance Committee and CMT, presenting the Chief Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Annual Governance Statement. The format of the Chief Auditor's report will follow that set out in the Public Sectors Standards for Internal Audit and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- Comment on compliance with the Public Sector Standards on Internal Audit and internal audit's quality assurance programme.

## INDICATIVE INTERNAL AUDIT PLAN 2017-2018

### Providing the best life through education, early help and healthy living

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Arts & Theatres income collection	This audit will review fees and charges, with regards to cost recovery and ensure controls and processes are sound and transparent. Town Hall & Museum to make sure we have good processes in place ready to grow income. New Directions as we have numerous income streams and different methods of receipts. Art Venues for the volume and value of cash handling, stock plus the different arrangements for fees.			●	
NHS CHC	NHS continuing healthcare is the name given to a package of care which is arranged and funded solely by the NHS for individuals outside of hospital who have ongoing health care needs. The audit will test a sample of high cost placements to ensure NHS CHC have been appropriately considered and if an application has been rejected by the NHS the Council has appealed (as appropriate). The audit will also ensure training is available to all adult social care staff covering statutory duties and legislation with regard to Continuing Health Care together with the values and principles of carrying out a good assessment, key issues, the process, completing the checklist & decision support tool and informing service users.	●			
School Audits	Visit a small sample of maintained schools to give the Head of Finance adequate assurance over their standards of financial management and the regularity and propriety of their spending.			●	●



### Keeping the town clean, safe, green and active

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Public Health Grant	The Public Health ring-fenced grant funding conditions include specific reporting requirements to the Department of Health. They also require the Chief Executive or S151 Officer to provide a signed statement confirming that the grant has been used to discharge the public health functions set out in Section 73B(2) of the National Health Service Act 2006. The audit will provide assurance over the data quality arrangements relating to the reporting arrangements for public health. The audit will also review the appropriateness of expenditure and that it is supported by documented results.	●			

### Providing homes for those in most need

Homes for Reading	Homes for Reading - is a new housing company owned by RBC to help people who are living in temporary or unsuitable housing or in bed and breakfast accommodation. The company buys properties to let at a mix of market rates and at discounted rents. The financial modelling is based on purchasing a further 100 properties per year for the next 5 years giving a total portfolio of 500 homes (resulting in a portfolio value of circa £130m - £150m depending on property inflation). The housing company is fully financed by the Council through a combination of loan and equity funding. This audit will review the procedures and policies for financial tasks (bank rec/business resilience etc.), monitoring, reporting and processes to ensure there is clarity about roles and responsibilities and suitable checks and balances in place.				●
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## Safeguarding and protecting those that are most vulnerable

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Administration of Looked After Children	The audit will review the effectiveness of controls in the following areas: accuracy and completeness of information held; timely completion of assessments and reviews; budget monitoring; and authorisation for spend on placements, based upon a sample of (e.g. 20 Children Looked After), excluding "fostered", "fostered by IFA" and "placed for Adoption". Predominately focusing on (high cost) external packages. Our audit will verify that processes are in place to ensure packages represent best value for money; funding options are robustly costed, monitored and there is robust challenge over the placement identification process and cost. We will also carry out substantive testing on payments to ensure placements are still in existence.			●	
Children's Services Improvement Plan	We will work with the Director & Head of Service to help triangulate validation of data to substantiate improvement. We will follow up specific and agreed areas to provide independent assurance that improvement actions are embedded and improving outcomes for children and young people.		●	●	
Child Exploitation & Missing Children	This audit will review governance arrangements and the data and intelligence gathering arrangements in place between key providers to ensure a joined-up response in dealing with children at risk of sex exploitation, as outlined in the local CSE strategy and action plan. Confirm that RBC complies with its statutory requirements in relation to missing children. The audit will look to provide assurance over the processes in place for the monitoring and escalation of missing children, including children missing from school.	●			
Safeguarding Adults Review	To provide assurance that an appropriate framework exists to quality assure all work in relation to vulnerable adults and therefore manage risks to their health, safety and wellbeing. The audit will review supervision; voice of the service user; MCA monitored application; risk assessments; compliance with joint working procedures.	●			
Deputyship and Appointeeship	The audit will review the procedures in place to manage and safeguard funds held on behalf of vulnerable clients.		●		

## Remaining financially sustainable to deliver these service priorities

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Council Wide Savings	Risk and control assessment of the measures in place to monitor and achieve planned budget reductions. Provide scrutiny over high value and high risk savings plans.		●	●	
Entitlement & Assessment	Review of the Council's arrangements for administration of the local Housing Benefit and CTS. Verify percentage of claims are reviewed by managers and CiC entered by officer and HB system is posted and reconciled on a regular basis to GL. Ensure that the systems and processes for the assessment, calculation and payment of local council tax support are effective. The audit will verify the "means-test" calculation function is correct, applied consistently and there is documentary evidence to substantiate both the claimant's and partner's income and capital.				●
Business Rates	Tax database reconciled back to VO listing on weekly basis. System reconciled to VO listing on weekly basis (reconciliation between VO listing & CTAX properties)		●		
Sundry Debtors	This audit will verify Systems, controls and responsibilities are documented, payments are auto-matched to debtor accounts and receipts without a valid reference are posted to and cleared from a suspense account on a regular basis. Unpaid invoices are monitored and chased appropriately. Bad debts are appropriately authorised and accounted for before being written off. Collection performance is monitored and reported. Collection activity is focused and less priority is given to accounts with ageing balances which may not be 'real' receivables			●	
General Ledger	Using data analytics we will carry out checks to test the appropriateness of journal entries recorded in the general ledger. This will include trend analysis, high-value amounts, splitting of journal voucher entries, posted outside office hours, multiple debits or credits to the same GL account and fraud detection tests. We will verify that Journal transactions are transparent with a clear description, there is detailed supporting documentation and appropriate authorisation, there is an appropriate audit trail within Oracle Fusion and relevant "supporting papers" (possibly in electronic format) are held by the journal originator and there is appropriate separation of duties between the staff inputting the journal and those requesting/authorising the transaction.			●	

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Bank & Cash Rec	The review will consider cash collection, banking arrangements and assess the adequacy of the cash/bank reconciliations. Ensure key controls over cash receipting systems within key service areas are effective. This will include Purchase ledger to general ledger reconciliation, Debtors ledger to general ledger reconciliation and monthly bank reconciliations for all bank accounts. The audit will ensure a centrally held list of the control account reconciliations is completed and there is a process in place to ensure these are completed in a timely way.		●		
creditors (Accounts Payable)	Using a data analytics we will undertake trend analysis, sampling, duplication detection and fraud detection tests on live Accounts Payable Data. We will review amendments to supplier details and verify they are appropriately authorised and inactive suppliers are periodically removed. Ensure payments are correctly coded, made promptly, in full and only in respect of authorised invoices and that orders for goods and services are placed in advance and appropriately authorised.				●
Payroll	The audit will verify the monthly payroll process is administered and controlled in a timely fashion. Every change or amendment to an employee's pay is properly supported by evidence, is appropriately authorised and securely held. Only genuine employees are paid, and at their contracted rates. There are controls in place to detect inputting and system errors arising from increased data entry by staff. Exception reports are produced to ensure that changes are highlighted and agreed. Payments and expenses paid to staff are timely, accurate and comply with statutory requirements.		●		
Commercial property acquisitions and management	The Council is increasing its commercial property portfolio and acquiring commercial properties to generate income, through rent charges. This audit will review decisions/calculations to invest in property, how property records are maintained and the systems for setting and collecting rents and how the property portfolio is monitored.				●

## Providing infrastructure to support the economy

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Highways Network Asset	The Council has a legal duty to prepare its financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). The Code requires the Council to measure highways infrastructure at Depreciated Replacement Cost (DRC) compared to the current requirement for measuring these assets at depreciated historic cost and to establish a separate asset class, the highways network asset. This will require the Council to disaggregate the highways network assets from the current infrastructure class of assets. The CFO will need to gain assurances that both the inventory and condition information is materially accurate and measured in accordance with the methodologies in the Highways Code. The audit will verify that systems are working correctly, that information is able to be input with accuracy and any relevant interfaces with the financial systems are operating appropriately.		●		
Network Infrastructure Security	Cyber security is a key governance issue and is crucial to protecting digital assets. The government has rated cyber-attacks as one of the top four risks to UK national security. This audit will assess existing processes to monitor network performance, penetration testing, including intrusion detection and prevention.				●

## Governance

Corporate Governance Review	Review of ownership, completeness and currency of documentation the Council is required to hold, publicise and periodically review setting out its governance arrangements. As part of this review we will follow up actions in the Council's Annual Governance Statement (AGS) and facilitate and review the completion of directorate governance self assessments.			●	
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**Follow up reviews** - The previous audit review for the areas listed below concluded that the existing processes required enhancement. We will therefore undertake follow up reviews to provide assurance that the actions taken by management put forward to address the recommendations made, have been implemented.

Audit Title	Q1	Q2	Q3	Q4
Sec 106 Agreements	●			
Right to Buy				●
Foster Care				●
MOSAIC / Oracle Fusion end of year reconciliation	●			
Access to records (Adults & Children)				●
Information Governance & Data Protection		●		
Electronic Document and Records Management (EDRM)		●		
Financial Assessments for Adult Care	●			

**Grant Sign offs**

Audit Title	Scope of Audit Work	Q1	Q2	Q3	Q4
Local Transport Plan Capital Settlement	This audit will provide assurance to the Managing Director and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with		●		
Pothole action fund	This audit will provide assurance to the Managing Director and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with (Grant sign off by Sept 2017)		●		
Bus Subsidy Grant	The Bus Service Operators Grant (BSOG) for both commercial and non-commercial bus routes is administered centrally by the Department for Transport. The BSOG is the partial refund on fuel duty received from the government by operators of local bus services in England. The grant claim requires Head of Internal Audit certification. (Grant sign off by Sept 2017)		●		
Troubled Families Grant Sign Off	In accordance with the DCLG funding framework we will check and verify at least a representative sample (at least 10%) of results before each claim is made. Internal audit will verify the families' eligibility for the expanded Troubled Families Programme and whether the progress measures have been achieved, with supporting evidence.				●

**Audits in reserve**

Audit Title	Scope of Audit Work
Payment card Industry Data Security Standard	Ensure appropriate processes are in place to ensure adherence to industry standards relating to the use of payment card technology and systems
Safeguarding (Deprivation of Liberty Safeguards)	There is a suitable system in place for processing Deprivation of Liberty cases. There are sufficient resources to complete the increased number Deprivation of Liberty cases
Pre-employment verification	Assess the processes and controls in place to ensure that satisfactory disclosure checks have been obtained for permanent and agency staff
System Access Controls	This audit will review access controls across the key systems of the authority (Academy, Oracle Fusion, MOSAIC, OHMS etc). It will also review the process for removing and deleting system access for leavers.
Disabled Facilities Grant	The service is being brought back in-house and will administer the private sector DFG's. this audit will assess well the resources meet the needs of residents now and would continue to do so the future with the additional work load and establish that there are clear procedures in place for the processing of DFGs and allocation of grants
Use of CCTV	The audit will ensure the CCTV operation is provided in accordance with recognised industry standards or codes of practice and that risks (IT security/surveillance) associated with the provision of CCTV services are identified and managed. The audit will assess the CCTV operation against PCI DSS standards and ensure measures have been taken to ensure network security; disaster Recovery and business continuity risks are managed.
Personalised Budgets	Following the introduction of the Care Act and Children's & Families Act, significant reforms for both Adults and Children's social work included changes to Local Authority duties to provide personal budgets for people with eligible needs. This audit will seek to establish how well the Council is doing at managing the significant risks it is exposed to in relation to this system. It will review arrangements in place for providing advice to clients and their carers. The audit will also ensure that appropriate arrangements are in place for the administration and monitoring of direct payments and personal budgets.



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

<b>TO:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>19 APRIL 2017</b>	<b>AGENDA ITEM:</b>	<b>8</b>
<b>TITLE:</b>	<b>PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24) RECOMMENDATIONS REPORTED AT BUDGET COUNCIL</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLORS LOVELOCK / PAGE</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCIAL</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
<b>LEAD OFFICER:</b>	<b>ALAN CROSS</b>	<b>TEL:</b>	<b>01189372058 (x72058)</b>
<b>JOB TITLE:</b>	<b>HEAD OF FINANCE</b>	<b>E-MAIL:</b>	<b>Alan.Cross@reading.gov.uk</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 This report provides the first progress report on the implementation of actions in response to the letter issued by EY, the Council's External Auditor and reported at February Council.

## **2. RECOMMENDED ACTION**

- 2.1 Audit & Governance Committee is asked to note the initial progress and note that the Committee will receive an update at each meeting until further notice.

## **3. BACKGROUND AND PROCESS**

The Auditor wrote a formal letter, which was considered at Council along with our approach and responses. Below is an update on progress:

- 3.1 On 2 February the Council received a letter from Ernst & Young LLP in its capacity as appointed auditor making recommendations under Section 24 of the Local Audit and Accountability Act 2014. The law requires such letters to be considered at a Council meeting and the letter was considered as part of the budget report (as it largely related to corporate finance issues), and Council considered and endorsed an officer response.
- 3.2 In responding to EY, the Council said: "The progress of this change programme will be reported to Policy Committee and Audit and Governance, so that progress can be monitored effectively, including oversight by the

External Auditor". The format of reporting to Policy Committee has yet to be determined but the approach likely to be followed is to include an update to those Policy Committee meetings where the budget monitoring report is also received by Audit & Governance, (with the option of a more frequent update if it emerges a significant change has arisen that necessitates an earlier report).

- 3.3 The table below sets out the recommendations, the initial responses and details of the current position.

Recommended Action	Original Management Response	Current Position end of March 2017
<p>1. Funding for the 2016/17 £7.6m overspend must be identified as a matter of urgency.</p> <p>2. The unfunded savings required to balance the 2017/18 budget (£1.6m) must be identified before the budget is approved on 21 February 2017.</p> <p>3. The £10.4m identified savings in the Council's report 'Budget Proposals 2017-2020 narrow the budget gap' must in all cases be supported by detailed plans showing exactly how they will be achieved.</p>	<p>Agreed</p>	<p>Recommendations met at Budget Council February 2017 which set out in detail revised estimates of the 2016/17 "probable" position, and the 2017/18 budget and the proposals for funding both years. The position is being kept under review, with the first significant key action being to finance the actual 2016/17 overspend. The Council provided a delegation to the Director to do this.</p>
<p>4. The remaining savings required for the years 2018/19 (£3m) and 2019/20 (£3.3m) must be identified as part of the February budget review in relation to the medium term financial position and savings plan.</p>	<p>Agreed</p>	<p>The budget report identified that the estimated savings in 2018/19 were now £13.7m and £5m in 2019/20. Work is ongoing through Member and Officer workshops to validate (or change) the forecast gap and then review/develop robust and deliverable budget proposals from 2017/18 to 2019/20. The Budget Sub-Group (made up of senior elected Members) has agreed that the proposals will be presented to the Policy Committee in July 2017.</p>
<p>5. Savings included in the 2017/18 budget must be fully supported by detailed savings plans that are profiled across the financial year. One off, non-recurrent, solutions should be avoided.</p>	<p>Partly agreed: It is agreed that further work will be undertaken to review these processes and improvement made wherever necessary to the supporting plans to the 2017/18 budget by 31/3/17, but the process to ensure detailed savings plans will be put in place for the development of ongoing budget proposals.</p>	<p>As reported to Council, the then Director of Finance completed a resilience review as part of concluding the budget, which led to a £7.7m savings contingency (£2.3m of which is not specifically allocated) funded by reserves. As above, work is ongoing through Member and Officer workshops to review/develop robust and deliverable budget proposals from 2017/18 to 2019/20. The Budget Sub-Group (made up of senior elected Members) has agreed that the proposals will be presented to the Policy Committee in July 2017.</p>
<p>6. Robust budget monitoring</p>	<p>Agreed: As identified in the Budget Report</p>	<p>For the most significant savings proposals, the CMT is meeting</p>

<p>arrangements need to be put in place to ensure that any adverse variance is identified in sufficient time to allow remedial action to be taken.</p>	<p>Appendix 4, the need for strengthening monitoring arrangements has been identified. An improved process will be established by 31/3/17 to ensure enhanced and robust monitoring is in place for the full year 2017/18 and beyond. This revised process will include ownership by the Corporate Management Team and further Member governance. Some initial improvements are due to be presented to CMT before the end of February. {This is mainly about compliance with the full agreed system and ensuring full CMT awareness of information that is available}.</p>	<p>as the Corporate Programme Delivery Group, which then reports to the (member) Budget Sub-Group. The CPDG will, each fortnight, review progress against delivery of the savings programme and deal with challenges accordingly.</p> <p>In addition, each Head of Service is required to prepare (with assistance from their service accountant) a monthly monitoring report. The detailed report is considered by Directorate Management Teams for each Directorate and the Corporate Management Team via budget reports. Lead Councillors are being regularly briefed on the budget position in their area.</p> <p>In accordance with the timetable monitoring information is then presented to Policy Committee three times a year and to Audit &amp; Governance Committee. The use of a reporting template at Officer level has been enforced more strongly since February, with the intention of improving monitoring in all service areas.</p>
<p>7. The budget monitoring arrangements should be detailed and include for example the allocation of plans to specific individuals and directors, individual plans should be risk assessed with high value and high risk savings plans subject to more frequent scrutiny. Trends in income, expenditure and activity should also be reviewed to ensure that potential problems are identified sooner rather than later.</p>	<p>Agreed in principle: When budget savings are agreed at Council / Policy Committee, they are incorporated in budgets (as well as savings to be delivered being captured in the processes outlined above). We will strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.</p>	<p>Between Finance and the Delivery Unit (which supports the CPDG) there is in place a process for managing both the management actions necessary and the delivery of agreed budget savings (described above). Some savings recently agreed took some time to bring into the monitoring arrangements, but they are now there, and are reported alongside budget monitoring.</p>
<p>8. Regular reports on savings achieved against profile should be produced to enable trends to be identified.</p>	<p>Agreed in principle: When budget savings are agreed at Council / Policy Committee, they are incorporated in budgets (as well as savings to be delivered being captured in the processes outlined above). We will</p>	<p>Covered by 7</p>

	strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.	
9. The Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed.	Agreed	A central list of reconciliations has now been created and is being managed, with completion of all-year reconciliations by end of May 2017.
10. The bank account reconciliation should be brought up to date and completed on a monthly basis with brought forward unreconciled items cleared.	Agreed	Significant progress has been made on these reconciliations. It is intended to complete the end-January reconciliation by the end of April, with the all-year reconciliation before the final accounts are prepared (around end May 2017).
11. Children's Services - It is vital for the successful completion of the Red rated actions in the Improvement Plan that the Council's financial position becomes sustainable and that the Council decides on and delivers the appropriate level of resources to be allocated to this service in February 2017. The Council must ensure there are processes in place to monitor the resource allocated to the service and the achievement of the service improvements required.	There has been a considerable amount of work undertaken between Finance and Children's Services, to establish the appropriate level of budget for 2017/18. Significant additional monies to address the known budget pressures and to provide contingency against budget proposals previously agreed by Policy Committee which are now considered to be at high risk of delivery in 2017/18, have been fully provided for within the budget setting process. This means the 2017/18 baseline is higher than the actual spend in 2016/17, as this is currently deemed to be the necessary level of resource required to ensure Children's Services can meet the necessary improvement plan, and is	At the time of producing the "original management response" it was believed that the 2017/18 baseline would be higher than the actual spend in 2016/17. However, it is now known that the actual spend in 2016/17 is slightly greater than the base budget for 2017/18. It is anticipated that the gap will be reduced as permanent staff are recruited instead of agency workers.  At the time of preparing the budget for 2017/18, the necessary resources to address the then current improvement plan were in place. However, since then some new requirements have been identified by OfSTED and the financial consequences of these are being assessed.

	<p>recognised to be significantly higher than our statistical neighbours. It is expected that Children's Services will need to redesign services to ensure maximum efficiency, with which corporate support will assist and therefore we would expect the required resources from 2018/19 to reduce so we become more aligned to statistical neighbours. However further work is required to achieve this through the Change Programme which is due to launch in March 2017.</p>	
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3.4 Other than the first three recommendations where the response was dealt with at the budget council the remaining actions are “work in progress” and on a RAG basis are Amber.

**4. Contribution to Strategic Aims**

4.1 Progressing the recommendations will support the financial sustainability strategic aim.

**5. Community Engagement and Information and Legal Implications**

5.1 None directly from this report.

**6. Financial Implications**

6.1 As indicated above.

**7. Background Papers**

7.1 S24 letter and response (in February Council Report)

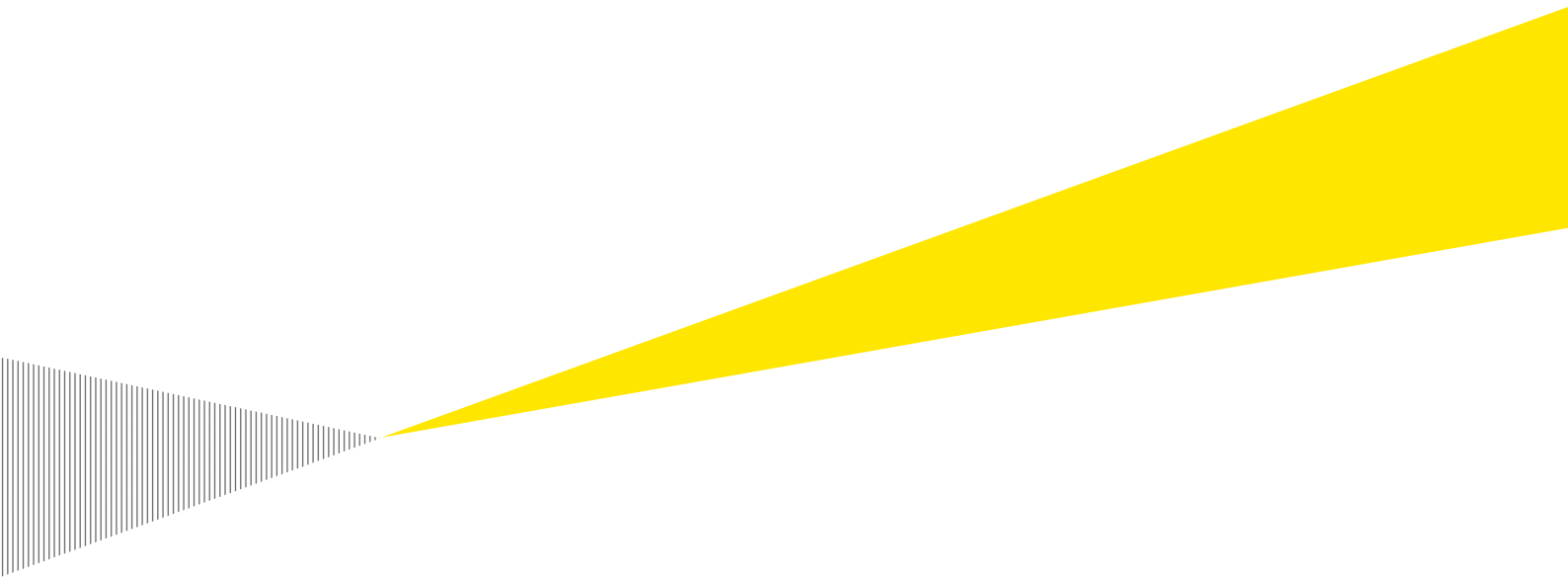




# Reading Borough Council

Audit and Governance Committee Progress Report

April 2017



Audit and Governance Committee  
Reading Borough Council  
Civic Offices  
Bridge Street  
Reading  
Berkshire  
RG1 2LU

5 April 2017

Dear Committee Member

## **Audit Progress Report**

We are pleased to attach our audit progress report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the audit plan or the audit results report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
Executive Director  
For and behalf of Ernst & Young LLP  
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 2016/17 Audit

### **Audit Plan**

We presented our 2016/17 updated audit plan to the Audit and Governance Committee in January 2017. We will keep the plan under review and will inform you of any changes to our risk assessments and planned work. Our initial review of the controls confirms our initial assessments and we will take a substantive testing approach.

### **Meetings and progress to date**

We continue to have regular meetings with key officers as part of our ongoing audit process.

These have proved beneficial as these have kept us informed of the financial position of the Council and progress on the issues and recommendations in our 2015/16 Audit Results Report. We had concerns on the progress being made by the Council to improve its financial position and controls and as a consequence issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 on 2 February 2017.

The Council responded to our recommendations on 13 February 2017. We have agreed with Officers that we would start our follow up of these recommendations in mid-April.

We are in the process of completing our interim work and are reporting our queries and findings on a tracker to Officers on a weekly basis. This enables both Officers and auditors to track progress on issues and queries.

Officers are working on the bank reconciliation but we have not yet been given a version to review. Whilst we acknowledge that the absence of an experienced member of the finance team has caused delays in progressing the bank reconciliation it also highlighted that working papers were not kept on the Councils systems and therefore were not accessible to other Officers of the Council.

The Council have appointed a Chief Executive and an interim Director of Finance to replace the interims whose contracts came to an end in March 2017. We look forward to working with them.

We have had an initial discussion to set up our HB work and are currently considering the response that the Council have made to reduce the number of errors that we found in the 2015/16 claim. We will report progress on the claim as part of our regular meetings with Officers.

### **Audit and Governance Committee**

If members of the Audit and Governance Committee have any particular issues they want to discuss with us we would be pleased to discuss these with you.

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Audit and Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	April 2016	Completed
Risk assessment and setting of scope of audit	<b>Dec 2016 - January 2017</b>	Audit Plan	January 2017	Completed
Testing of routine processes and controls	<b>Feb – April 2017</b>	Progress Report	April 2017	Completed
Year-end audit	<b>July - September 2017</b>	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources). Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate.	September 2017	Work is planned to start the week commencing 17 July and aim to complete our audit work by 18 August 2017.
Reporting	<b>October 2017</b>	Annual Audit letter	October 2017	Not yet due
Housing benefit	<b>June - October 2017</b>	Certification of claim	November 2017	Not yet due
Grant claims report	<b>December 2017</b>	Grant claims report	December 2017	Not yet due

EY | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

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# Certification of claims and returns annual report 2015/16

Reading Borough Council

March 2017

Ernst & Young LLP



Audit & Governance Committee  
Reading Borough Council  
Civic Offices  
Bridge St  
Reading  
Berkshire  
RG1 2LU

5 April 2017  
Ref: HB1

Direct line: 0776 993 2604  
Email: MGrindley@uk.ey.com

Dear Committee Members,

## **Certification of claims and returns annual report 2015-16 Reading Borough Council**

We are pleased to report on our certification work. This report summarises the results of our work on Reading Borough Council's 2015-16 claim.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Public Sector Audit Appointments Ltd (PSAA) made arrangements for certifying claims and returns in respect of the 2015-16 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Context**

This has been a time consuming claim to complete due to the large number of errors identified in both 2015-16 and 2014-15; which resulted in the completion of many 40+ workbooks (when errors are found the DWP require that an additional sample of 40 cases is selected for further testing) , we then have to review these on a sample basis. Officers at the Council spent time from June – October completing these workbooks with the help of an external contractor. As a result we have had to spend a substantial amount of time on the claim which has led to an additional cost of £14,404. We plan to work with the Council to find ways to improve the process however as errors are recurring this will take time from both sides. This year the Council has the potential to exceed the upper subsidy threshold (if the DWP choose to claim back overpaid benefits; a response from DWP is pending) which will lead to a reduction in subsidy received and there is a possibility that the DWP may require additional work on areas covered by our qualification letter. We recognise that the Council does have a high case load of over 10,000 active claims at any one time with a high number of claimants in work which creates more complicated calculations and frequent changes of circumstances.

It will take time for the Council to reduce the level of errors, the errors we found in 2015-16 are likely to occur in 2016-17. More details of our findings can be found in section 1 of this report. The Council needs to take urgent action to put in place improved procedures.



We recommend that the Council:

- ▶ undertakes an adequate (minimum 5%) sample checks of claims on a regular basis with greater emphasis on known problem areas;

Response from the Income and Assessment Manager - we have been proactive in taking action for some time to address known problem areas and this has included increased checking of overpayment classifications and providing training to all assessors, in particular on overpayments.

- ▶ report the outcomes of the sample checking to senior management and Members on a regular basis to enable remedial action to be taken if necessary;

Response from the Income and Assessment Manager -We also provide a subsidy highlight report to management each month.

- ▶ remind assessors of the errors found in our Housing Benefit claim work and provide additional training and monitoring of work on a regular basis;

Response from the Income and Assessment Manager - we do feedback to assessors and monitor performance and quality of them. and

- ▶ set improvement targets for bringing down the error rate and reducing the amount of subsidy lost

Response from the Income and Assessment Manager - As a consequence of the actions we have taken we expect an improvement on last year's audit and subsequent loss.

### **Statement of responsibilities**

The 'Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns', issued by PSAA, serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

We checked and certified the housing benefits subsidy claim with a total value of £78,183,804. We met the submission deadline.

Fees for certification work are summarised in section 2. The fees for 2015-16 are available on the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee on 18 April 2017.

Yours faithfully



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Maria Grindley  
Executive Director  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£78,183,804
Amended/Not amended	Amended – amendments made to the claim to adjust for errors identified. The amendment resulted in a £121 reduction to subsidy claimed.
Qualification letter	Yes
Fee – 2015-16	£20,187*

\*Original fee subject to scale fee variation

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

Our testing identified several errors in the calculation and classification of benefits awarded to claimant during the year, as presented in the subsidy claim, the findings are summarised below.

### Rent Allowances

Testing of the initial rent allowances sample identified several errors, these have been outlined below:

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 114) rather than local authority error/administrative delay (cell 113). Additional testing of cell 114 was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case where the Authority had incorrectly classified an overpayment as a prior year eligible overpayment (cell 121) rather than prior year local authority error/administrative delay (cell 120). Given the nature of the population and the error found, an additional random sample of 40 cases was selected from a sub-population of cell 121 cases.

One case was identified where benefit has been underpaid due to a rent increase not being applied. However this was not classified as an error for subsidy purposes.

One case was identified which had the incorrect date of birth for a dependant. Although this had no impact on subsidy for the case in question there is potential for an overpayment to be created. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases including dependants.

One case was identified where benefit has been overpaid due to incorrect water rates being applied to rent and wrong gross rent figure being used. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a subpopulation of all cases including a gross rent balance.

One case was identified where benefit has been overpaid due to incorrect LHA rates being used. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cell 103 cases.

One case was identified where benefit has been overpaid due to a one-off payment of child tax credit not being input. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of Child Tax Credit cases.

One case was identified where benefit has been overpaid due to incorrect NI & Pension figures being input. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case was identified where benefit has been overpaid due to incorrect start date of claim. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all new cases.

One case was identified where benefit has been underpaid due to claimant holding assessed income figure (AIF) without any Savings Credit. Although this had led to an underpayment of subsidy there is a potential for an overpayment to be created. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases including AIF.

One case was identified as a failure due to cell 102 standard verification test one being incorrect. The landlord is Berkshire Women's Aid (BWA), which has been classed as a registered provider but in fact should be treated as supported exempt accommodation as BWA is a registered charity providing support to its tenants. As such expenditure should be subject to rent officer referral. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of cell 102 cases.

One case was identified where a Backdate should have been classified as pensioner take-on. Cell 31 was overstated but no impact on expenditure (cell 94 or cell 103). As cell 31 is a nil subsidy cell we have not carried out further testing on this error.

One case was identified where benefit has been overpaid due to non-dependant deduction taking effect from the wrong date. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases with non-dependants.

### **Non HRA Rent Rebates**

Testing of the initial non HRA rent rebate sample identified several errors, these have been outlined below:

One case was identified where benefit has been overpaid due to the last week of extended payment being put through as normal expenditure. There was no impact on the subsidy claimed; therefore no additional 40+ testing was carried out.

Four cases were identified where cell 11 and 27 were understated due to incorrect offsetting of overpayments due to a change of address. As the errors identified do not affect subsidy they have not been classified as an error for subsidy purposes. As this was a recurring issue a procedural change should be put in place to ensure it does not continue.

One case was identified where benefit has been overpaid due to incorrect National Insurance contribution in earnings and one case where benefit has been overpaid due to incorrect calculation of earnings. This has led to an overstatement of benefit within cells 11 and 13. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors were extrapolated accordingly.

One case where benefit has been overpaid due being assessed without homeless indicator originally and then on amendment was incorrectly classified between cells 12, 13 and 23. Additional testing has been carried out to assess that the split of subsidy between cells 12, 13 and 23 is correct.

One case where benefit has been overpaid due to an error with earnings and self-employed income being incorrectly applied. This had no impact on benefit paid, however as this could

lead to an overstatement error all cases were tested. One additional fail was identified but again this had no impact on subsidy therefore no amendment of the claim form was required.

### **HRA Rent Rebate**

Testing of the initial rent rebate sample identified several errors, these have been outlined below:

One case where cell 67 has been overstated due to incorrect classification of universal credit, the overpayment should have been classified as DWP error (cell 68). All cases with universal credit were checked and the claim form was amended accordingly. Cell 67 was overstated by £277 and cell 63 was understated by £277.

One case was identified where the impact on benefit could not be identified due to earned income being incorrectly calculated. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case was identified where benefit has been overpaid due to occupational pension being applied from the wrong date. Given the nature of the population and the error found, an additional random sample of 40 cases was selected from a sub-population of occupational pension cases.

One case was identified where benefit has been overpaid due to wrong start date of entitlement. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing.

One case was identified where benefit has been underpaid due to taking a non-dependant deduction from the wrong date. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been underpaid due to child tax credit not being removed when it had stopped. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been underpaid due to duplication of self-employed income. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been overpaid due to incorrect date of birth which means that a child was actually a non-dependant. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing using a sub population of cases with dependants.

### **Modified Schemes**

#### **HRA Rent Rebate**

Errors were identified in the initial sample of two; these errors were in relation to occupational pension and war disablement pension. We therefore tested the entire population and the claim has been amended.

#### **Rent Allowance**

One error was identified in the initial sample of two; this error was in relation to the Comforts Allowance component of War Pension being input as Constant Attendance Allowance. We verified that there were no other cases with Comforts Allowance therefore the claim was amended based on the initial error identified.

## **2014/15 CAKE Testing**

### **Cell 11 Non-HRA Rent Rebate – Total expenditure (Benefit Granted)**

Testing was carried out based on errors identified in 2014/15 which had not been actioned by the Authority, these have been outlined below:

Errors were identified around earned income (mistyping of earnings including tax figures) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Non HRA Rent Rebates.

An error was identified due to wrong amount of child tax credit being used, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with child tax credit.

An error was identified due to incorrect occupational pension being used, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with occupational pension.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 28) rather than local authority error/administrative delay (cell 26). Two cases were also identified which had been incorrectly classified an overpayment as an eligible overpayment (cell 28) rather than technical overpayment (cell 27). As no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cell 28 cases.

One case where the split between the amount above and below the one bedroom self-contained local housing allowance (LHA) rate was incorrectly calculated. A 100% check was completed of all cases with amounts up to and over the LHA cap and this was reviewed by EY therefore we are satisfied that this is not going to be a recurring issue. To confirm this view no issues were identified as part of initial testing in 2015-16.

For all cell 23 cases it was identified that they should have been classified within Rent Rebates (cell 61) as opposed to Non HRA Rent Rebates. The claim form was corrected in 2015-16 and per guidance within Module 1, as the transfer is between two cells with the same subsidy value no additional testing was required.

### **Cell 55 Rent Rebates – Total expenditure (Benefit Granted)**

Input errors were identified around incorrect birth dates, this impacted on the classification of dependants and non-dependants, and however no errors were identified in prior year 40+ testing. As this was a typing error no specific training could be carried out to address this issue however a similar issue has arisen in 15-16 therefore additional testing was been carried out.

Errors were identified around earned income (payslips being received but not input, wages input as monthly instead of 4-weekly, tax refund input as tax paid and wrong amount of earnings used) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Rent Rebates.

An error was identified around savings credit being removed from the wrong date, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with Savings Credit.

An error was identified due to the wrong amount of Job Seekers Allowance (JSA) (contribution based) being input, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with JSA (contribution based).

An error was identified due to Premium bonds not input which would have increased tariff income, as no action was taken by the authority to rectify this issue additional testing was carried out.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 67) rather than local authority error/administrative delay (cell 65). As no action was taken by the Authority to rectify this issue additional testing was carried out based on a subpopulation of cell 67 cases.

Errors were identified due to no/ incorrect uprating of Benefit income codes. Based on our Module 2 testing no issues were noted with regard to uprating of benefits. We were able to target our testing based on the specific issue identified in 2014-15; the relevant income codes were Bereavement Allowance, Guardian's Allowance, and Incapacity Benefit; as such the uprating was checked for these remaining cases. As there were 40 claims all have been checked and the claim has been amended accordingly.

#### **Cell 094: Rent Allowance – Total expenditure (Benefit Granted)**

Errors were identified around earned income (wrong amount of earnings used, payslips missed, wrong periods) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Rent Allowances.

An error was identified due to incorrect self-employed income being used and NI not being calculated correctly, as no action was taken by the Authority to rectify this issue additional testing was carried out based on a subpopulation of cases with self-employed income. One case was identified where the impact cannot be determined as the required information was not kept for the full retention period of 6 years and was deleted after 6 months.

One case where DLA ceased but was not removed from the claim; however as the claim form was amended no additional CAKE testing was required in 2015-16.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 114) rather than local authority error/administrative delay (cell 113). As no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cell 114 cases. This issue was also identified as part of initial testing.

Errors were identified due to no or incorrect uprating of Benefit income codes. Based on our Module 2 testing no issues were noted with regard to uprating of benefits. We were able to target our testing based on the specific issue identified in 2014-15; the relevant income codes were Bereavement Allowance, Guardian's Allowance, Incapacity Benefit; as such the uprating was checked for these remaining cases. As there were 40 claims all have been checked and the claim has been amended accordingly.

We have reported these observations to the DWP in a qualification letter.



## 2. 2015-16 certification fees

Public Sector Audit Appointments (PSAA) determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the PSAA in April 2015 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	16,610	20,187	34,591*

\*Additional fee subject to approval by PSAA.

### 3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £12,458. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17.

Details of individual indicative fees are available at the following web address:  
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Finance and Resources before seeking any such variation.