


To: Councillor Stevens (Chairman)
Councillors Davies, Edwards, Emberson,
Gittings, McKenna, Robinson and J Williams

Direct 
michael.popham@reading.gov.uk

22 January 2020

Your contact is: **Michael Popham - Democratic Services Manager**

NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE 30 JANUARY 2020

A meeting of the Audit and Governance Committee will be held on Thursday, 30 January 2020 at 6.30 pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

	<u>WARDS AFFECTED</u>	<u>Page No</u>
1. DECLARATIONS OF INTEREST		
2. MINUTES OF THE PREVIOUS MEETING HELD ON 19 SEPTEMBER 2019		5 - 8
3. QUESTIONS		
4. INTERNAL AUDIT QUARTERLY PROGRESS REPORT		9 - 44
This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report.		
5. DRAFT INDICATIVE INTERNAL AUDIT PLAN 2020 - 2021		45 - 68
This report sets out the work Internal Audit plans to undertake during the financial year 2020/2021.		
6. STRATEGIC RISK REGISTER Q3	BOROUGH WIDE	69 - 90
This report provides an update on the Council's 2019/20 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.		

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.

7.	IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER	BOROUGH WIDE	91 - 110
	This report sets out a summary of those high and medium risk Internal Audit recommendations which remain outstanding together with an updated management response.		
8.	TREASURY MANAGEMENT STRATEGY STATEMENT (2020/21); MINIMUM REVENUE PROVISION POLICY (2020/21); ANNUAL INVESTMENT STRATEGY (2020/21)	BOROUGH WIDE	111 - 146
	This report provides an update on the Treasury Management Strategy Statement (2020/21); Minimum Revenue Provision Policy (2020/21); Annual Investment Strategy (2020/21).		
9.	CLOSURE OF ACCOUNTS UPDATE	BOROUGH WIDE	147 - 150
	To provide an update on progress with the completion of the 2017/18 and 2018/19 accounts.		
10.	EXTERNAL AUDITOR UPDATE		151 - 196
	To receive a report from the Council's External Auditors.		
11.	EXCLUSION OF THE PRESS AND PUBLIC		
	The following motion will be moved by the Chair:		
	"That, pursuant to Section 100A of the Local Government Act 1972 (as amended) members of the press and public be excluded during consideration of the following item on the agenda, as it is likely that there would be disclosure of exempt information as defined in the relevant Paragraphs of Part 1 of Schedule 12A (as amended) of that Act"		
12.	HOUSING BENEFIT & COUNCIL TAX SUPPORT SCHEME - RISK BASED VERIFICATION POLICY 2020/21	BOROUGH WIDE	197 - 204

WEBCASTING NOTICE

Please note that this meeting may be filmed for live and/or subsequent broadcast via the Council's website. At the start of the meeting the Chair will confirm if all or part of the meeting is being filmed. You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during a webcast will be retained in accordance with the Council's published policy.

Members of the public seated in the public gallery will not ordinarily be filmed by the automated camera system. However, please be aware that by moving forward of the pillar, or in the unlikely event of a technical malfunction or other unforeseen circumstances, your image may be captured. **Therefore, by entering the meeting room, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes.**

Members of the public who participate in the meeting will be able to speak at an on-camera or off-camera microphone, according to their preference.

Please speak to a member of staff if you have any queries or concerns.

This page is intentionally left blank

Agenda Item 2

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 SEPTEMBER 2019

Present: Councillors Stevens (Chairman), Davies, Edwards, Emberson, Gittings, Warman & J Williams.

Apologies: Councillors McKenna;

In attendance: Councillor Page (Deputy Leader of the Council).

11. MINUTES

The Minutes of the meeting of 23 July 2019 were confirmed as a correct record and signed by the Chair.

12. QUESTIONS

Questions on the following matters were submitted, in accordance with Standing Order 36(2):

	Questioner	Subject	Answer
1.	Colin Lee	Internal Audit Investigations	Cllr Stevens
2.	Colin Lee	Accounts 2016/17	Cllr Stevens
3.	Colin Lee	Audit of Partner Enterprises	Cllr Stevens

(The full text of the questions and replies was made available on the Reading Borough Council website).

13. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2019.

The report set out a summary of the audit reports in respect of Freedom of Information (FOI); Eligibility, Risk & Review Group; Crematorium and Cemeteries; Cash payment processes (Cedar Court); and Journal Testing. As the Chief Auditor had given 'limited assurance' to the way the Council dealt with FOI enquiries and 'no assurance' to cash payment processes at Cedar Court, the full internal audit reports for those audits were appended to the report.

In relation to FOIs, the report stated that only 73.8% of requests had been dealt with by the prescribed 20 day timeline in the 2018 calendar year. The figure had improved to 87% in the period to July 2019 and was now approaching the Information Commissioners Office (ICO) expectation that at least 90% of requests would be dealt with on time. The report also described the scale of the task, noting that about 1,500 FOI requests had been received during the period of the review, which was an increase of 9% on the previous calendar year. The Committee was advised that the vast proportion of FOI requests came from businesses seeking information in which they had a commercial interest and phishing requests from journalists seeking comparative national data. If possible, a disaggregated breakdown of requests would be provided to a future meeting, which would highlight the number of requests that

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 19 SEPTEMBER 2019

were coming from local people who had been the cohort originally intended to benefit from entitlement to seek information in accordance with the Freedom of Information Act 2000. In order to reduce the workload associated with processing FOI enquiries, the Committee endorsed the audit recommendation to consider purchasing software to track FOI requests and make previously disclosed information available on the Council's website to which other similar enquiries could be signposted.

In relation to Payment Controls at Cedar Court, the audit found that although there was no evidence of funds being misappropriated, it had been unable to give any assurance that all funds had been accounted for because of the poor cash processes being used. The Committee was concerned that as a result of the review all petty cash expenditure, the use of guest rooms and the amenity shop had ceased with immediate effect, which would obviously be detrimental to the residents of the sheltered housing facility. In response to a question about the likelihood that similar poor cash processing existed at other facilities in Housing, it was stated that the Executive Director and Assistant Director had received the report, which would give them the opportunity to review practice elsewhere in this service area. The audit report had also been circulated to the Corporate Management Team for its information. It was requested that the Assistant Director for Housing & Neighbourhoods should be invited to the next meeting to update the Committee on the progress made to address the finding of the audit.

The report also listed the audits that were currently in progress, or were planned for 2019/20, and gave a summary of investigations work between April and August 2019.

Resolved:

- (1) That, in respect of the Freedom of Information audit findings:
 - (a) the recommendations set out in the full audit report be endorsed, including considering making better use of the Council's website to share publicly information provided in response to FOI requests and potentially reduce the time spent reproducing information for similar or related enquiries;
 - (b) an update on the progress made to implement the audit recommendations be submitted to the meeting on 14 April 2019;
 - (c) a disaggregation of the categories of FOI request be provided, if possible, as part of the update report;
- (2) That, in respect of Payment Controls at Cedar Court, the Assistant Director of Housing & Neighbourhoods be invited to attend the next meeting on 30 January 2019 to provide assurance that the poor practice identified at Cedar Court by the audit had been addressed and that there were not similar practices elsewhere within the Housing Service.

14. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 8 of the meeting held on 23 July 2019, Matt Davis, Assistant Director of Finance, submitted a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report.

The report explained that each recommendation was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red. In the tracker report at Appendix 1 there were 72 high and medium risk recommendations from Internal Audit, of which 32 (44%) were currently green, 23 (32%) were amber and 17 (24%) were red. Twelve recommendations had now been completed and would be removed from the next report.

Resolved: That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report.

15. TREASURY MANAGEMENT HALF YEARLY REPORT

Matt Davis, Assistant Director of Finance, submitted a report providing an update on the activity of the Treasury Management function for 2019/20 as at 31 August 2019. The report had appended a commentary on the economic backdrop for 2019/20 and a list of approved counterparties showing the limits of exposure to financial risk that might exist in terms of cash and time period.

The report stated that the Council was required to receive a report on its Treasury Management activity at least twice a year, in accordance with CIPFA's Code of Practice on Treasury Management, which should include:

- a review of the Council's financial investment portfolio for 2019/20 as at 31 August 2019;
- a review of the Council's borrowing strategy for 2019/20;
- a review of compliance with the Council's Treasury and Prudential Limits for the first five months of 2019/20; and
- an economic update for the first part of the financial year.

The report confirmed that the Council had complied with all elements of its Treasury Management Strategy Statement (TMSS), as agreed by Council on 26 February 2019 (Minute 34 refers).

The report stated that the Minimum Revenue Provision (MRP) Statement for 2019/20 had been approved as part of the Council Tax and Budget Setting on 26 February 2019 (Minute 47 refers) and would be reviewed by Council on 25 February 2020, as part of its Treasury Management Strategy alongside consideration of the Medium Term Financial Strategy 2020/21 - 2022/23.

Resolved: That the performance of the Treasury Management function for the five months to 31st August 2019 and the key issues emerging be noted.

16. CLOSURE OF ACCOUNTS UPDATE

Matt Davis, Assistant Director of Finance, submitted a report providing an update on progress with the completion of the Council's Accounts for 2017/18 and 2018/19. The Committee was advised that following the formal certification of the 2016/17 accounts in July 2019, the 2017/18 draft accounts had been completed and handed to the Council's external auditors (EY). The formal period of public inspection of the 2017/18 Accounts had commenced on 12 August 2019 and would be concluded on 20 September 2019. A technical review of the 2017/18 accounts had already been undertaken by EY and officers were currently preparing responses to these initial queries. Officers were also fully engaged in completing the 2018/19 accounts. At this stage it was anticipated that the draft 2018/19 accounts would be completed for submission to EY at the end of September 2019 and available for public inspection shortly thereafter. The external auditors were due to arrive on site to commence the substantial work for the formal audit of both the 2017/18 accounts and the 2018/19 accounts on 30th September 2019.

Resolved:

- (1) That the 2017/18 accounts had now been handed over to the Council's external auditors and that the statutory 30 day public inspection period for the same had commenced be noted;
- (2) That the progress being made in closing the 2018/19 accounts be noted;
- (3) That the external auditors would be on-site at the Civic Offices from the 30th September 2019 to audit both the 2017/18 and the 2018/19 accounts be noted.

17. EXTERNAL AUDITOR UPDATE

This item was not discussed.

(The meeting commenced at 6.30pm and closed at 7.50pm).

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 January 2020		
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF THE REPORT

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 September 2019.

1.2 The report:

- Provides assurance, commensurate with the control environment evidenced by audits conducted in the last quarter.
- Advises on significant issues where controls need to improve to effectively manage risks.
- Tracks progress on the response to audit reports and the implementation of agreed audit recommendations.
- Where limited opinions have been given, the full internal audit report is appended to this report.

1.3 The following documents are appended:

Appendix 1 - VAT Controls

Appendix 2 - Adult Care Contributions

2. RECOMMENDATION

2.1 The Audit & Governance Committee is requested to consider the report.

3. ASSURANCE FRAMEWORK

3.1 Each Internal Audit report provides a clear audit assurance opinion. The opinion provides an 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 work undertaken in relation to the terms of reference agreed at the start of the audit; it is not a statement of fact. The audit assurance opinion framework is as follows:

Opinion	Explanation
No Assurance	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.
Limited	Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
Reasonable	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.

3.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

3.3 It is management's responsibility to ensure that effective controls operate within their service areas. Follow up work is undertaken on audits providing **limited** or '**no**' assurance to ensure that agreed recommendations have been implemented in a timely manner.

4.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS

		Recs			Assurance
4.1	VAT Controls	0	5	0	Limited
4.1.1	The Assistant Director of Finance asked internal audit to review the procedure for completing monthly VAT returns and the process controls around VAT returns in general.				
4.1.2	VAT is a tax on transactions affecting most entries in the Council's accounting system. It is the Council's responsibility to make correct VAT returns to HMRC detailing input and output tax.				
4.1.3	On reviewing documents it was evident that there has been an inconsistent application of controls with respect to the monthly VAT returns. Based upon interviews with Finance staff it was found that the composition, structure and controls within the monthly VAT return are not clearly understood. This possesses a significant risk especially in the absence of any documented procedure, setting out processes to be followed.				
4.1.4	In the financial years 2019/2020 and 2018/2019 there have been two instances where monthly returns had not been made by the submission due date, although we were informed that this occurred in order to address errors in the submission and in obtaining authorisation. A review of the working papers to support VAT returns identified that there was an inconsistent approach followed in the filing of working papers. This made it difficult to establish that returns had been made promptly. Where the Council is unable to demonstrate that it has robust procedures in place there is an increased risk that it will face financial penalties or reputational harm.				
4.1.5	A revised draft of the manual has now been prepared and at the time of our audit it was awaiting issue, although prior to the preparation of this revised draft, the VAT Manual had not been updated since 2011 and did not reflect current HMRC guidance.				
4.1.6	As well as the manual the general day-to-day processes have not been documented and therefore knowledge is not passed on to the new incumbent when someone leaves. In the absence of documented procedures we are unable to provide assurance that the composition, structure and controls are understood or applied consistently.				

		Recs			Assurance
4.2	Oracle Fusion - RBC/BfFC Segregation and access arrangements	0	2	1	Reasonable

- 4.2.1 Oracle Fusion is the Council's primary system for ordering and paying for goods and services. As a ledger system, Fusion records all of the payments in and out of the Council. As well as the RBC structure and span of control, Brighter Futures for Children (BFfC) currently makes use of Oracle Fusion with the company structure built onto Fusion separately. Our audit reviewed the company structure on Fusion, to ensure structures are fit for purpose, the hierarchy and coding structure is working properly and users have appropriate access.
- 4.2.2 BFfC exists as a separate legal entity and business unit to RBC on Oracle Fusion, although both organisations share a ledger and chart of accounts. The Financial Systems Manager has advised that the establishment of RBC and BFfC entities are in line with Oracle's designed parameters of use.
- 4.2.3 It has also been identified that changes to the original intention of BFfC using Fusion with respect to schools, resulted in circumstances whereby there was insufficient or inadequate separation of access rights for some officers in respect of some BFfC and RBC codes. A solution has since been identified and proposed by the Financial Systems Manager, namely a revised coding structure and new security rules following the completion of the first BFfC external audit and accounts closure.
- 4.2.4 The RBC Financial Systems Manager has known that the hierarchy within Fusion for both RBC and BFfC had been in need of maintenance work for some time, as over time the hierarchies had become ragged¹. This is important in the context of Oracle Fusion because a ragged hierarchy can impact upon the financial reports and queries that can be run.
- 2.2.1 In the case of RBC it is also necessary to resolve this in order that improvements can be made to the appropriateness of the settings of users' access. With this in mind the RBC Financial Systems Manager has advised that the BFfC structure was transitioned to a more flat bottomed structure in July 2019 and has also prepared a proposal for revised access based on the new hierarchy structure model for BFfC, which should resolve the issue that has developed with some BFfC staff having access to RBC codes.

¹ A ragged hierarchy is a user-defined hierarchy that has an uneven number of levels. ... A ragged hierarchy is different in that the logical parent of at least one member is not in the level immediately above the member. When this occurs, the hierarchy descends to different levels for different drilldown paths

2.2.2 The Financial Systems Manager has evidenced a proposal to adopt a new model of security rules which will allow the RBC/BFfC Fusion instance to go from having in excess of 1,000 security rules to just 13. The intention is that this will simplify access permissions from a more granular approach (whereby permissions are individualised) to role based permissions approach. This should simplify the user set up for the Financial Systems Team and provide greater clarity for users on the data they should expect to be able to and can access.

2.2.3 Provided this positive direction of travel is sustained a reasonable assurance is offered.

		Recs			Assurance
2.3	Parks Investigation	0	2	2	Reasonable

2.3.1 The review requested by the then Interim Assistant Director, to examine working practices around recording of work and whether it was possible to ascertain if work had been completed according to schedule. There were already concerns around working practices that were in the process of being tackled by the parks management team.

2.3.2 There was evidence for a relatively small sample of potential misbehaviour for the period reviewed in respect of normal and overtime work, but no evidence found that there was significant abuse of the system.

2.3.3 Although reasonable assurances were given over the control environment, improvement in the administration of work scheduling is required.

2.3.4 There was substantial amount of flexibility in comparing the time worked to the schedules so it was difficult to establish a baseline for expected time to do the work. Some of the hours claimed for work were not reflected in the times that the vans started from and returned to the council yard which would indicate that resources may not be fully utilised within existing work schedules.

2.3.5 The administration of the whole area is not clear and transparent with performance data and resource allocation all stored in separate data silos. This is the same for overtime and weekend working. The nature of the paperwork completed for work done and the use of schedules did not give a clear indication of how resources were being used leaving a substantial risk that abuse could occur.

2.3.6 It is not clear what the distinction between some vehicles being allowed to park at the residence of the employee and others being stored at the yard is.

2.3.7 The service plans to research costs and feasibility of using a mobile works scheduling software package with a view to preparing a business case for improving the deployment of resources.

		Recs			Assurance
2.4	Secure Communications	0	2	1	Reasonable

2.4.1 Security of electronic communications is essential to ensure that confidential information is not compromised and that the provision of email systems is robust.

2.4.2 The Audit reviewed the Council’s adoption and configuration of the “Secure Email Blueprint Standard” set by the Digital Cabinet Office, where all of the Public Sector was set a target to have adopted the standard by 31.03.19 prior to the retirement of secure GCSX/PSN email. The Standard breaks down into 2 parts - the first prevents third parties “spoofing” emails as if they were that organisation, the second (and smaller element) provides a mechanism for ensuring the secure transmission of email across the Internet.

2.4.3 Our audit concluded that the Council has complied with the requirements for secure email communication. Both the Council and Northgate have spent a lot of time getting the technical specifications right to successfully meet the government requirements for a secure network. However, for this to be effective, both the sender and receivers email systems need to be properly configured. Compliance with these requirements alongside the removal of GCSX has not guaranteed secure communication being established, because the adoption of the standard is not mandatory. Therefore whilst a standard for secure email communication has been set, potential misconfiguration of the standard across the sector still carries the risk that email may not be sent or received securely.

		Recs			Assurance
2.5	Food Hygiene Inspections	0	2	3	Reasonable

- 2.5.1 The Council has a statutory duty to enforce food law, overseen and audited by the Food Standards Agency (FSA). Reading Borough Council’s Food Safety team is responsible for inspections of all food businesses in the Borough and gives businesses a Food Hygiene Rating Score (FHRS) of zero to five after an inspection of the premises. The food hygiene rating scheme is regulated by the FSA and is set in law under The Food Law Code of Practice (FLCoP) which gives instructions that local authorities must consider when enforcing food law. Our review examined the Food and Safety Team’s record keeping arrangements, frequency of food premises interventions, along with the organisation and management for the internal monitoring of food hygiene law enforcement activities.
- 2.5.2 Our review found well-established processes and documented procedures in place, overseen by experienced staff.
- 2.5.3 There are approximately 1,500 food premises across Reading. The Service uses the Civica APP ² to record and report on food premises. Reports from Civica can be generated on food premises and their relevant inspection dates and scores. Our testing found some minor inconsistencies in detail between the documents completed on inspections and information help in Civica. Although these were not significant, we advised that more care is taken to ensure the consistency and accuracy of records.
- 2.5.4 Food Hygiene inspections are completed in line with Food Law Code of Practice (FLCoP) minimum intervention frequency guidelines, however the service is behind in the inspection of new food premises. New businesses should expect an initial visit within 28 days of the food premises opening; however at the time of our audit it was found that only 16% had been achieved within this timeframe and the majority of inspections completed within 100 days. Although this audit did not attribute reasons for differences of records and issues with not meeting inspection targets, we were informed that the service has experienced some staff absences, which have been compounded with a national shortage of appropriately qualified staff to cover long periods of leave and available vacancies.

² Regulatory services case management system

2.5.5 Following the audit in December 2017 by the Food Standards Agency a recommendation was made that the Council ‘Develop and implement a documented system of internal monitoring to ensure that it includes risk based arrangements for the monitoring of all relevant food law enforcement activities carried out by the Service at appropriate frequencies’. Although a new procedure was put in place in January 2019, we did note a lack of consistency being applied in some areas and recommended that the Internal Monitoring procedure kept under review to ensure it remains fit for purpose and monitoring activities are carried as described in the Internal Monitoring Procedure.

		Recs			Assurance
2.6	Adult Care Contributions	1	1	4	Limited

2.6.1 The needs of people requiring care and support services are ascertained and costed. People are then financially assessed to establish the financial responsibilities of the council and person seeking care in order to meet those needs. Depending upon the person’s financial circumstances they could be required to make a financial contribution or pay a ‘top up fee’ to reimburse the council where it has agreed to help finance their care arrangements on the basis it will be reimbursed.

2.6.2 Reimbursement of these finances to the Council is administered by either potentially placing a charge against a property (deferred payment scheme) or by obtaining immediate recovery of the financial obligation from the person (current contribution). This audit focused on the payment of current contributions, with a separate review to be undertaken of deferred payments.

2.6.3 The financial resources of all service users should be assessed annually. As at July 2019, Mosaic recorded 429 service users in residential and nursing care, and of these 185 (45%) the financial assessments were outstanding for more than a year.

2.6.4 A service user may receive more than one category of care support. Care packages are categorised as learning disability support, memory and cognitive support (acquired), mental health support, physical support (acquired or lifelong) and social support. At the time of our audit there were 907 care packages in place on Mosaic, of which 135 (15%) and 218 (24%) required a financial contribution from the client for nursing and residential care respectively³.

³ These are recorded as a CRAG contribution Mosaic: Charging for Residential Accommodation Guide. CRAG rules were replaced in 2014 by the Care Act 2014.

- 2.6.5 Academy recorded the total debt for Adult Social Care as at May 2019 as £5.9m. £2m (34%) was arrears relating to unpaid care home charges⁴. Our own analysis showed that although 15% of charges are paid for within 30 days, 77% of the total care home charge debt is more than 150 days old.
- 2.6.6 The highest priority risk identified related to the lack of supporting financial information and the need to improve audit trails to confirm financial records have been checked.

⁴ Ref: Academy invoice type SP2: Care home charges.

5.0 AUDIT REVIEWS 2019/2020

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 reviews carried over from 2018/2019

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Section 106 Agreements (follow up)	●				Mar-19	Apr-19	May-19	0	0	0	Reasonable
Business Rates	●				Feb-19	Apr-19	May-19	0	0	5	Substantial
Payroll	●				Feb-19	Jun-19	Jun-19	1	1	2	Reasonable
Corporate Buildings H&S Statutory Compliance Regimes	●				Feb-19	May-19	Jul-19	0	6	6	Reasonable

Audit reviews scheduled for 2019/2020

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Car Parks (off street)	●				Postponed due to pending service review						
VAT*	●				Jun-19	Aug-18	Sep-19	0	6	0	Limited
Eligibility, Risk and Review Group	●				Jun-19	Aug-18	Aug-18	0	2	2	Reasonable
Parks*	●				Jun-19	Aug-19	Sep-19	0	2	2	Reasonable
General Ledger (journal testing Debtors/Creditors)*	●				Apr-19	Jun-19	Jun-19	0	0	0	n/a
Food Hygiene Inspections	●				May-19	Sep-19	Sep-19	0	2	3	Reasonable
Cemeteries & Crematorium	●				May-19	Jun-19	Jul-19	0	1	3	Substantial
Pre-employment verification (DBS)	●				Jun-19	Jan-20					
Freedom of Information*	●				Jun-19	Jul-19	Aug-19	2	3	4	Limited
Client Contributions (Adult Care)	●				May-19	Aug-19		1	1	4	Limited
Cedar Court*	●				Jul-19	Aug-19	Aug-19	2	0	1	No Assurance
Rent Accounting		●			Oct-19	Jan-20					
BfFC Fusion Cost Centre Analysis		●			Sep-19	Dec-19	Jan-20	0	2	1	Reasonable
Cash collection - web payments		●			Sep-19	Jan-20					
Secure communications		●			Sep-19	Oct-19	Oct-19	0	2	1	Reasonable

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Purchasing cards		●			Cancelled due to vacancy - to be rescheduled						
Travel and Subsistence (inc mileage)		●			Cancelled due to vacancy - to be rescheduled						
Learning & Development and Mental Health Placements		●			Nov-19						
Local Transport Plan Capital Settlement (Grant Certification)		●			Aug-19	Sep-19	Sep-19	0	0	0	Substantial
Bus Subsidy Grant		●			Sep-19	Sep-19	Sep-19	0	0	0	Substantial
General Ledger (Journal Testing Q2)		●			Aug-19	Sep-19	Sep-19	0	0	0	Substantial
Contract Management		●			Sep-19						
General Ledger (journal testing Debtors/Creditors)*	●				Apr-19	Jun-19	Jun-19	0	0	0	n/a
Residents Parking (follow up)			●								
Bank & Cash Rec inc control account reconciliations			●		Dec-19						
Accounts Payable			●		Jan-20						
Reading Buses			●								
Investment Properties			●								
Continuing Health Care (CHC)- Follow up review			●								
Additional Payments (Follow Up)			●		Delayed until process is transferred to itrent - to be rescheduled						
Delayed Transfer of Care - Follow up review				●							
Freedom of Information - Follow up*				●							
CT Support				●							
Data Storage (follow up)				●							
Sundry Debtors				●	Oct-19	Jan-20					
Business Rates				●	Oct-19	Jan-20					
Client Contributions Adult Care				●	May-19	Aug-19	Sep-19	1	1	4	Limited
Deferred Income				●	Cancelled due to vacancy - to be rescheduled						
Commissioning & Contract Management (Adults)				●	Cancelled due to vacancy - to be rescheduled						
General Ledger (Journal Testing)				●							
Commercialisation				●	Cancelled due to vacancy - to be rescheduled						

*added following in year request

6.0 INVESTIGATIONS (APRIL - AUG 19)

6.1 Housing Benefit and Council Tax Support Investigations

- 6.1.1 The team have been undertaking joint working for benefit related investigations with central Government investigators at the Department for Work and Pensions (DWP). The process went live in May 2019. To date seven joint investigations are in progress, all related to potential Council Tax fraud. No outcomes in the area have been recorded to date.

6.2 Single Person Discount

- 6.2.1 Following a second data matching exercise, matching over 22,000 address records against tracing and occupier databases, investigations officers are working with Council Tax to review the matches. To date approximately £208,000 has been identified for CTAX recovery.

6.3 Housing Tenancy Investigations

- 6.3.1 Since 1st April 2019 there has been 85 cases of alleged tenancy fraud investigated, 11 cases are still ongoing. Five properties have been returned to stock to date. The notional saving is £465,000 adopting the notional savings multiplier used by the Cabinet Office in their National Fraud Initiative report. As part of ongoing joint work with Housing services the team also undertake a front end checking service on all accession and succession applications received. Since April 2019 we have checked a total of ten such applications with two applications subsequently refused as a result of our verification work. Using the same notional savings formulae the savings on these two properties is a further £186,000. The team also assist the Housing service by weekly cross-checking new housing applications. Since April 2019 414 new housing applications have been verified, leading to CTAX investigations in 27 instances and £4,135 placed into recovery.

6.4 Right To Buy (RTB)

- 6.4.1 Since 1 April 2019 the team have been asked to check 33 RTB applications and as a result of investigations, eight applications did not proceed any further. The property transaction in all instances would have been the maximum of £80,900 (x8). We have added to this the income from rent on all 8 properties, which if sold would have been a loss to RBC as the joint income was £44,524.00

6.5 Social Care Fraud & Investigations

- 6.5.1 The team are working with BFfC on a complex referral which was received in May 2019. The investigation is ongoing. The team also have a case with BFfC linked to potential duplication of direct payments to a provider. The referral was received in December 2019.

6.6 Disabled Persons Parking Badges (Blue Badges)

- 6.6.1 Since the 1st April 2019 the team have received 50 referrals, which have been investigated fully, all with regards to the potential misuse of a Blue Badge. Of these, 4 cases have been heard in court, with 3 guilty pleas and one formal Caution being issued. There are 3 cases listed to be heard within the next two months and a further 12 cases currently with RBC criminal lawyers pending charges re the misuse of a Blue Badges. Also 5 Badges have been destroyed or taken out of current use.

7. CONTRIBUTION TO STRATEGIC AIMS

- 7.1 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.

8. COMMUNITY ENGAGEMENT AND INFORMATION

- 8.1 N/A

9. LEGAL IMPLICATIONS

- 9.1.1 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.
- 9.1.2 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.
- 9.1.3 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”.

10. FINANCIAL IMPLICATIONS

- 10.1 N/A

11. BACKGROUND PAPERS

- 11.1 N/A

Internal Audit Report - Final VAT Internal Controls

To: Jacqueline Yates - Executive Director of Resources
Matthew Davis - Assistant Director of Finance
Mike Hirst - Chief Accountant
Karen Ind - Financial Planning & Analysis Lead



Limited
Assurance

From: Amondeep Basra, Senior Auditor

Date: 30/09/19 Ref: 10/19

1 Purpose and Scope of Review

1.1 The Council, as a 'taxable person' must ensure that VAT is correctly charged on the supply of goods & services; if supplies are treated incorrectly then penalties could be applicable.

1.2 S33 of Value Added Tax Act 1994 sets out special VAT rules for 'public bodies', including Local Authorities, in relation to the recovery of VAT incurred on expenditure relating to 'non-business' activities and on exempt business activities.

1.3 The purpose of this review was to ensure the high level controls are in place and are operating effectively. These are:-

- Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice.
- Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained in line with HMRC requirements.
- Where manual processes represent an increased risk of error there is evidence of effective controls in operation.
- Returns and payments are made promptly.
- Sufficient documentation / audit trail exists which supports compliance with policies, procedures, relevant legislation and supports VAT claims. All required documentation is accurately and fully maintained in line with requirements, including with respect to feeder processes and the clearance of items from suspense accounts.

2 Main Conclusions

- 2.1 This review has found that the Accountancy team has identified a number of weaknesses with respect to the controls in place for the completion of the monthly VAT return. Where the Accountancy team has introduced controls there is a risk that in the absence of documented policies and procedures that they will be applied inconsistently by officers. In reviewing documents held over a number of financial years it has been evidenced that there has been an inconsistent application of controls with respect to the monthly VAT returns.
- 2.2 It has been found that the Council's VAT manual has not been regularly updated and maintained in order to reflect the most recent HMRC guidance. A revised draft of the manual has now been prepared and is awaiting issue, although prior to the preparation of this revised draft the VAT Manual had last been issued in 2011. Based upon interviews with key members of staff there was concern that the composition, structure and controls within the monthly VAT return was not clearly understood which poses a significant risk especially in the absence of documented procedure notes.
- 2.3 As highlighted above manual processes have been identified as a key risk of error with the completion of the monthly VAT return it has been identified by the VAT and Tax Accountant that the reliance upon self-reporting means that there is a risk that whilst new controls and checks have been introduced not all information will be captured.
- 2.4 In the financial years 19/20 and 18/19 there have been identified 2 instances where monthly returns have not been made by the submission due date, although it has been advised that this occurred in order to address errors and with appropriate authorisation. A review of the working papers held has identified that the inconsistent approach, in previous financial years, to the filing of working papers makes it difficult to establish that regular returns have been made promptly. Where the Council is unable to demonstrate that it has robust procedures in place there is an increased risk that it will face financial penalties or reputational harm.
- 2.5 A total of 6 recommendations have been raised in respect of this review, of which one has been considered a high priority. The full detail of these recommendations and the corresponding management action plan are attached to this report as Appendix 1.

3 Summary of Findings

3.1 Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice.

3.1.1 The only available documentation setting out the roles and responsibilities that it has been possible to evidence is the VAT Manual. The VAT Manual was last updated in 2011 although a revised draft version has been prepared by the current VAT and Tax Accountant and has been presented to the Chief Accountant for review as of 14/02/19. The VAT Manual, in current and draft forms, sets out the broad responsibilities of the following groups:

- Budget holders and managers
- The role of the Directorate Finance team
- The Technical Team in accountancy
- Internal Audit.

It is noted however that the current, 2011, VAT Manual sets out a number of responsibilities that have not been met and does not reflect guidance issued by HMRC since 2011. (R1)

3.1.2 However it has not been possible to evidence the presence of a documented policy and procedure document that sets out the entirety of the Councils processes with respect to VAT. For example there is no evidence that there is documented mapping of the relevant personnel or sources of information within RBC that are relevant to the production of the monthly return. There is also no evidence that individual roles and responsibilities, of officer's involved in the VAT process, have been documented outside of the VAT Manual and it is noted that this is not current, and personal job specifications.

3.1.3 It has not been possible to identify a document setting out the processes, procedures or individual roles. At the request of HMRC the Financial Planning and Analysis Lead has developed a review sheet to accompany the completion of the monthly return. The review sheets contains a series of checks to be performed and a requirement for multiple levels of sign off and review prior to the submission of a return.

3.1.4 As a part of this review the VAT and Tax Accountant and the Technical Accountant were interviewed and presented with Internal Control Questionnaire's (ICQ's). It is not possible to provide a high level of assurance that the composition, structure and controls within the working paper and check sheet are understood or applied consistently in the absence of documented processes. (R2)

3.1.5 It is noted that the Financial Planning and Analysis Lead Officer identified in December 2018 that there was an issue with the clearance of items from suspense and the application of VAT codes. The Financial Planning and Analysis Lead Officer identified the need for the production of a guide setting

out the process of clearing suspense, and it had been evidenced that this has now been completed.

3.2 Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained in line with HMRC requirements.

3.2.1 A revised draft VAT manual has been prepared and was presented for review and approval to the Chief Accountant on 14/02/19. Prior to the preparation of this revised document the Council's most recent VAT manual had last been prepared in 2011. The document as prepared in 2011 did not reflect the current guidance from HMRC and had at a minimum not been updated to reflect VAT Notice 749.

3.2.2 It has also been advised that the previous VAT Accountant provided, to the current VAT Accountant, walk-through training and observed the completion of the preparation of a monthly VAT return. The procedure notes that have been available for review do not set out the controls within the process and the responsibility for ensuring the accuracy and completeness of the return and how the officer is to discharge this responsibility.

3.2.3 It was noted that the VAT and Tax Accountant has delivered 2 lunch time sessions of training to primarily accountancy staff with respect to the treatment of VAT. The training sessions took place on 07/08/18 and 15/11/18. The evidenced training sessions show that the training concerned the general principles of VAT rather than the internal processes within the Council.

3.3 Where manual processes represent an increased risk of error there is evidence of effective controls in operation.

3.3.1 The Financial Analysis and Planning Lead Officer has introduced a checklist to be completed as a part of the monthly return. The checklist was produced at the request of HMRC and has also been provided to the HMRC VAT Tax Specialist that Council officers have been in correspondence with. The controls within the checklist include:

- Comparison to figures produced in the prior month and in the same month in the previous year.
- Automated calculation of the Output Tax as a proportion of Sales, where any figure in excess of 20% is automatically highlighted as being an error.
- Automated calculation of the Input Tax as a proportion of the Purchases, where a figure in excess of 20% is again highlighted as being an error.

- Text field in which an entry can be made to record whether any changes to VAT coding in Oracle Fusion or Civica have been made in the month.
- A hyperlink to a sample of invoices raised in the month that have been checked to ensure the correct VAT treatment.
- With respect to Purchases - Input Tax, a check of the top 10 invoices (by value) paid in the month to ensure that they have been processed correctly for VAT.
- A record of the journals that have been processed in the month which have transactions on the VAT codes, with a comment to confirm that they have been reviewed.
- A link to a document containing the items that have been cleared from the suspense account to ensure correct VAT treatment and a comment on a test sample of the suspense items.
- A list of manual adjustments that have been made in the month and a comment on the manual adjustments that have been made with respect to VAT.
- A comment on the manual adjustments that have been made to the VAT.
- Review and sign off recording: in particular who has prepared the VAT return, Level 1 Review (RG9 grade or above) stating that the preparations of the VAT Return has been checked and that they are satisfied that it is correct, Level 2 Review (Chief Accountant or Head of Finance) stating that they have checked the preparation of the return and are satisfied that it is correct as presented.

3.3.2 The operation of the check sheet and the controls contained within were discussed with the VAT and Tax Accountant in order to ascertain the detailed nature of their operation. The VAT and Tax Accountant has advised that they were not involved in the design of the checks and that there was no documented procedure as to the operation of the controls or the review to be performed of the working paper. The VAT and Tax Accountant has advised that the controls within the check sheet set out to record manual adjustments are based on information that is provided by officers within the Council and as such there is a risk that in the absence of the VAT and Tax Accountant being informed of a manual adjustment, an error may go undetected. It has been advised that it is a core part of the VAT Accountant' role in the preparing and checking of the VAT return that officers have used the correct VAT treatment when for example paying an invoice, clearing a holding code or clearing suspense. (R3)

3.3.3 In discussion with the VAT and Tax Accountant it was noted that the May 19/20 VAT return contains a check sheet where it states that "The documents

saved in the shared holder of journal supporting documentation shows only the VAT code /the amount and have no details of services/ goods provided. Unable to verify if the codes are correctly used." This section of the check sheet does not record whether there was a resolution to the issue noted. The working paper, within other worksheets, does refer to discussions with the Chief Accountant and Technical Accountant as well as screenshots of emails. It cannot be determined however that this additional information resolves the issue noted on the check sheet. It has been advised by the VAT and Tax Accountant that the resolution of issues will often be based upon the advice received by the Chief Accountant. (R4)

3.4 Returns and payments are made promptly.

- 3.4.1 Evidence that returns and payments had been made promptly was reviewed within the VAT return files held on the Councils network. Currently the practice within the Council is to retain within the folder containing the monthly working paper a PDF copy of the HMRC system generated document that shows the date on which the Council has submitted a return and the figures that it has provided to HMRC. The HMRC system generated record of submission also records the return due date if it is to be paid electronically. The HMRC online portal allows for the VAT return for a given period to be made by the 7th day 2 months following the period in question.
- 3.4.2 Having reviewed the financial years (FY) 19/20 and 18/19 it was noted that within the FY year 19/20 in April and the FY 18/19 March the submissions were submitted after the 7th of the month in which they were due. It has been advised, by the VAT and Tax Accountant, that this was due to the decision of the Chief Accountant to delay the submission until errors could be corrected. Between July 2018 and February 2019 the VAT returns were submitted on or prior to the deadline. Between April 2018 and June 2018 the PDF document recording the date of submission was not saved to the working folder and the date of submission could not be determined from the working folder.
- 3.4.3 Having reviewed the financial years 2013/14 - 2017/18 there were 59 months reviewed across 5 financial years. During this period based upon a review of the documents held it was not the practice to retain a HMRC system generated record of the submission, although there was an intermittent practice of saving the VAT working paper for a given month as a PDF which would be signed and the upload date recorded. There were a total of 46 instances where there was no scanned copy of the monthly return with a stated submission date manually recorded or in which the scanned return omitted to record a submission date. For those where the submission date had been recorded, 14 instances, they had largely been submitted in excess of 2 months after the period in question on the 7th of that month. (R5)

- 3.5 **Sufficient documentation / audit trail exists which supports compliance with policies, procedures and relevant legislation and support VAT claims. All required documentation is accurately and fully maintained in line with, including with respect to feeder processes and the clearance of items from suspense accounts.**
- 3.5.1 The Council holds electronic working papers with respect to monthly returns on a networked drive for the financial years spanning 1999/2000 to 2019/2020. As a part of this audit a check was performed on the information held for the financial years 13/14 to 19/20.
- 3.5.2 For returns due on 07/07/19 and 07/05/19 the returns were made after the due date on 28/06/19 and 10/05/19 respectively. The finding was discussed with the VAT and Tax Accountant who has advised that the decision was made by the Chief Accountant in order to investigate variances. The working folders for April / May / June 18/19 do not contain a PDF copy of the VAT return, generated by HMRC, submitted in that month.
- 3.5.3 The working papers for the financial years reviewed contain inconsistently saved PDF scans of the working paper that have been signed and dated. These documents sometimes contain a signature to show that the document is accurate and sometimes record the date of the upload. These PDF's are an internal RBC document and are not receipts produced by the HMRC. Where present the documents contain a single signature alongside a field marked for the approver, however it does not identify who the signature belongs to or whether they were also the preparer and reviewer.

Financial Year 2017/18

- 3.5.4 For the financial year 2017/18 there are no PDF documents in the working folder that record the workings for the monthly return alongside a signature to show that they were considered to be accurate and the date on which they were uploaded.

Financial Year 2016/17

- 3.5.5 For the financial year 2016/17 in 7 instances there was no signed reconciliation in place (July / October / November / December / January / February / March. The September return was signed, with a date accompanying the signature, but did not include the date on which it was uploaded. The August return was neither signed or dated, nor does it record the upload date. The PDF documents do not identify whether the signatory is the reviewer or preparer.

Financial Year 2015/16

- 3.5.6 For the financial year 15/16 there were 3 signed pdf records of upload (April / May / June) where the upload date is not recorded. The PDF documents do not identify whether the signatory is the reviewer or preparer.

Financial Year 2014/15

- 3.5.7 For the financial year 14/15 in the case of 11 of the PDF records of upload there was no statement as to the date on which it was uploaded (April / May / June / July / August / September / October / November / December / February / March) only the January document contained an upload date. The PDF's do not identify whether the signatory is the reviewer or preparer.

Financial Year 2013/14

- 3.5.8 For the financial year 13/14 there were two instances (August / December) where there was no signed PDF to show what information had been uploaded or the date on which they had been uploaded. The PDF's do not identify whether the signatory is the reviewer or preparer. In 2 instances the PDF record of upload (September / February) are not signed, signature dated or record the date of upload. There was one instance (March) where the PDF document had been signed but had not been signature dated and the upload date was not recorded.
- 3.5.9 At the request of HMRC the Financial Planning and Analysis Lead has developed a control sheet where it is recorded who prepared the return, who reviewed the return and who performed the secondary senior review and sign off on the return.
- 3.5.10 For the financial year 18/19 there was no record in place to record who had prepared the working paper / return and who had reviewed for the following months (April - December). For the following periods the documents contain within them (in electronic form not scanned signatures) a record of who prepared and who reviewed: January to March 18/19 and April to May 19/20. In all instances the return / working paper was prepared by VAT and Tax Accountant. In all instances the secondary senior review was performed by the Chief Accountant, and in January 18/19 there was an additional review performed by Assistant Director of Finance.
- 3.5.11 In 18/19 (December / February / March) the first review was performed by Financial Planning and Analysis Lead. In 19/20 (April) the first review was performed by the Technical Accountant. In 19/20 (May) there was no first review performed and the working paper records that it was prepared by VAT and Tax Accountant and then moved directly to the Senior Sign off by Chief Accountant. It has been advised by the Financial Planning and Analysis lead that the responsibility for arranging meetings to review and sign-off the monthly VAT return rests with the VAT and Tax Accountant. **(R6)**

Appendix A - Report Distribution

Staff Interviewed

- Karen Ind, Financial Planning & Analysis Lead
- Ayaka Inaba, VAT and Tax Accountant
- Wai Lok, Technical Accountant

Draft Report Distribution

- Jacqueline Yates, Executive Director of Resources
- Matthew Davis, Assistant Director of Finance
- Mike Hirst, Chief Accountant
- Karen Ind, Financial Planning & Analysis Lead

Final Report Distribution

- Jacqueline Yates, Executive Director of Resources
- Matthew Davis, Assistant Director of Finance
- Mike Hirst, Chief Accountant
- Karen Ind, Financial Planning & Analysis Lead

Auditor Contact Details

- Amondeep Basra, Senior Auditor - (0118) 937 2693
- Paul Harrington, Chief Auditor - (0118) 937 2695

For further details on our assurance opinions please [click this link](#)

Audit Management Action Plan RES 0115 VAT Internal Controls

Ref	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Target Date
1	Where the Councils VAT Manual has not been regularly, reviewed and re-issued to staff there is an increased risk that staff will be unaware of their responsibilities and appropriate processes and procedures.	The VAT Manual should be reviewed and approved on at least an annual basis and a notification made to staff if updates and amendments have been made.	Priority 2	The Chief Accountant will review the VAT Manual that has been drafted by the current VAT and Tax Accountant and get it published on the intranet by 30th September. The Chief Accountant will set up a process to ensure the VAT manual is reviewed and updated annually.	Mike Hirst, Chief Accountant	30/09/2019
2	Where the processes and procedures required for the completion of the monthly VAT return are not documented and made available to key staff there is an increased risk that: - controls designed to address risk will not operate effectively - there will be inconsistency in the way in which the returns are completed and information held	The processes and procedures for the completion of the monthly VAT return should be fully documented: - the control design should be documented and the requirements upon officers set out	Priority 2	The VAT and Tax Accountant will agree the processes and procedures for completion the monthly VAT return with the Chief Accountant and then document it with responsibilities set out.	Ayaka Inaba, VAT and Tax Accountant	30/09/2019
3	Where the accountability and responsibility for the operation of controls are not clearly delineated and accepted there is an increased risk that they will not operate effectively.	The responsibility for the completion of all elements of the monthly VAT return should be set out, documented and monitored in order to ensure that the process is followed.	Priority 2	The Chief Accountant will review and sign off the document above (R2) and then monitor that the processes are followed each month.	Mike Hirst, Chief Accountant	30/09/2019

4	<p>Where the resolution of issues detected with respect to the completion of a monthly VAT return are not clearly documented there is an increased risk that the transfer of information may be impeded due to staff changes.</p> <p>Where the completion of the monthly VAT return places regular reliance upon the knowledge and skill of the Chief Accountant there is an increased risk of the loss of institutional knowledge in the event of staff changes.</p>	<p>The VAT Accountant / Chief Accountant should set out within working papers the detailed rationale for the treatment of errors.</p> <p>The Accountancy team should ensure that there are knowledge transfer arrangements in place in the event that key staff leave the organisation.</p>	Priority 2	<p>The VAT and Tax Accountant will include an action plan for resolution of errors within the working papers and this will be part of the sign off by the Chief Accountant each month.</p>	Ayaka Inaba, VAT and Tax Accountant	30/09/2019
5	<p>Where filing and document retention requirements for the completion of the monthly VAT return are not documented there is an increased risk that there will be inconsistency of treatment.</p>	<p>The VAT Accountant / Chief Accountant should document information, format and structure to be held within the working folders of the monthly VAT return.</p>	Priority 2	<p>The VAT and Tax Accountant will agree the filing structure and document retention schedule with the Chief Accountant and include this as part of the process document mentioned in R2 above.</p>	Ayaka Inaba, VAT and Tax Accountant	30/09/2019
6	<p>Where the completion of the monthly VAT return is to require multiple levels of review and sign off prior to the submission to HMRC there is a risk that where the mitigations in place to accommodate the absence of staff have not been documented the staff may be unable to demonstrate that they have followed established procedure.</p>	<p>(a) The checks to be performed, by the reviewers, of the monthly VAT return and the arrangements that are in place when staff are absent should be documented.</p> <p>(b) The VAT and Tax Accountant should ensure that meetings are organised in a sufficiently timely fashion to ensure that there is opportunity for appropriate officers to review the completed return.</p>	Priority 2	<p>The checks to be performed will be included in the process document mentioned in R2 above. This will be monitored by the Chief Accountant.</p> <p>The VAT and Tax Accountant will arrange initial review meetings by 24th of the month and final review by 1st of the following month.</p>	Ayaka Inaba, VAT and Tax Accountant	30/09/2019

NB: Your management response is your commitment to treat the risk identified as part of the review. The standard response time to draft recommendations is 15 working days; any failure to meet this target could be reported to the Audit & Governance Committee.

The management response to recommendations will be reported to both CMT & The Audit & Governance Committee as part of our quarterly monitoring arrangements. Audit recommendations and agreed actions will be followed up during the year, where deemed appropriate by the Audit Management Team. All outstanding recommendations will also be reported through CMT as part of the Council's monthly performance monitoring.

Internal Audit Report

Adult Residential & Nursing Care Contributions

To: Joanne Purser - Locality Manager, DACHS
Nick Penny - Strategic Business Partner, DACHS
Jon Dickinson - Deputy Director of Adult Care, DACHS
Seona Douglas - Executive Director of Social Care & Health



Limited
Assurance

From: Robert Dunford, Senior Internal Auditor

Date: 23/9/2019

Ref: 9/19

1 Background

- 1.1 The review of 'Adult Residential & Nursing Service Use' contributions was undertaken as part of the programmed work specified in the 2019/20 Internal Audit Plan.
- 1.2 The needs of people requiring care and support services are ascertained and costed. People are then financially assessed to establish the financial responsibilities of the council and person seeking care in order to meet those needs. Depending upon the person's financial circumstances they could be required to make a financial contribution or pay a 'top up fee' to reimburse the council where it has agreed to help finance their care arrangements on the basis it will be reimbursed.
- 1.3 Reimbursement of these finances to the Council is administered by either potentially placing a charge against a property (deferred payment scheme) or by obtaining immediate recovery of the financial obligation from the person (current contribution). This audit will cover the payment of current contributions and a separate review will be undertaken of deferred payments.

2 Audit Scope & Objective

- 2.1 The purpose of this audit was to confirm there are effective and efficient procedures in place to ensure service users are assessed to ascertain whether a financial contribution towards care costs is due, and that this is recovered on a timely basis in accordance with the Council's 'Care and Support Charging and Financial Assessment Framework'.
- 2.2 The focus of this report was on service user contributions for residential and nursing care.

3 Summary of Findings

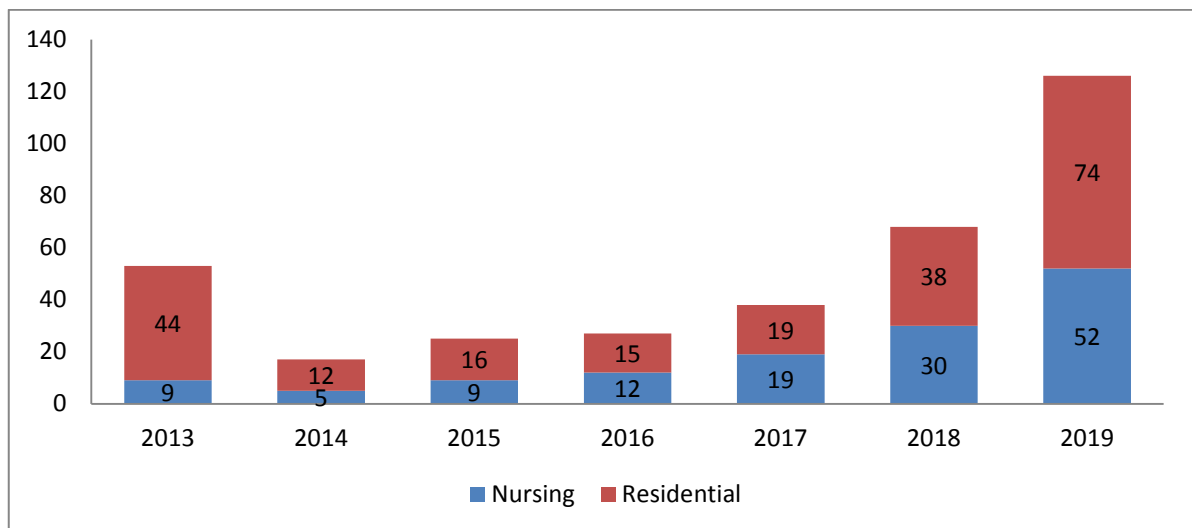
- 3.1 Although there are satisfactory controls in place to ensure an invoice is raised to recover those financial contributions determined from the financial assessment in Mosaic, currently there are a lack of audit trails and documentations to support the verification of financial information used for the assessment in accordance with the 'Care and Support Charging and Financial Assessment Framework'.
- 3.2 Updates arising from the Council's review of its 'Care and Supporting Charging and Financial Assessment Framework' (2017-19) were published in March 2019.
- 3.3 There are satisfactory controls in place to ensure the rates and threshold parameters defined in the Framework are correctly applied on Mosaic to calculate financial charges. There are good separations of duties in place between the system administrations for Mosaic and the financial assessment operations.
- 3.4 Although FAB staff are proactive in notifying management of any potential conflicts of interests, staff should be required to provide a certified return annually irrespective of whether this is negative or not, otherwise is a potential risk of fraud due to turning a blind eye or understating a friends financial information so that a reduced or nil contribution is determined.
- 3.5 Although a new financial assessment document is created for each person at the start of each financial year in Mosaic, we found the majority of contribution calculations are based upon historic financial information that has been rolled over from previous years. The verification of personal accounts and record keeping require strengthening in order to ensure the contribution remains accurate and relevant to the financial year and care services to be received e.g. bank statements should be seen and certified as confirmation savings and capital do not exceed the £23,250 threshold instead of relying upon verbal confirmations. Importantly this will ensure that both the person and the Council understand and pay their financial liabilities.
- 3.6 We are satisfied that the contributions determined from the financial assessment are correctly accounted for in the care package model within Mosaic, the sundry debtor system and the general ledger systems. Where service users choose to pay the carer directly, we are satisfied their contribution has been deducted from the carer provider's invoice. However where the council has paid the contribution on the service user's behalf, direct debit arrangements need to be put into place to prevent arrears occurring as our analysis shows there are significant legacy debt issues in relation to care home charges, which account for 77% of all adult social services debt, which it is actively seeking to reduce.
- 3.7 We are satisfied those third parties supporting a care package on behalf a service user are also financially assessed and that a signed agreement is held on Mosaic and that the service user's current home remains relevant to the agreement and upon which the contribution had been assessed.
- 3.8 A total of 6 recommendations have been raised in respect of this review, of which 1 is considered to be high priority. The full detail of these recommendations and the corresponding management action plan are attached to this report as Appendix 1.

4. Detailed of Findings

4.1 Profile

- 4.1.1 As at 15/7/19, Mosaic recorded 429 service users in residential and nursing care, and of these 185 (45%) the financial assessments were older than a year.
- 4.1.2 A service user may receive more than one category of care support. Care packages are categorised as learning disability support, memory and cognitive support (acquired), mental health support, physical support (acquired or lifelong) and social support. Mosaic records there are 907 care packages in place, of which 135 (15%) and 218 (24%) require a financial contribution from the client for nursing and residential care respectively¹.
- 4.1.3 Academy records the total debt for Adult Social Care for May 2019 as £5.9m. £2m (34%) is arrears relating to unpaid care home charges². Our analysis shows that although 15% of charges are paid for within 30 days, 77% of the total care home charge debt is more than 150 days old.
- 4.1.4 Table 1 shows the current number of nursing and residential care packages and the start dates of their care as at June 2019³

Table 1: Profile of Start Dates of Current Packages



¹ These are recorded as a CRAG contribution Mosaic: Charging for Residential Accommodation Guide. CRAG rules were replaced in 2014 by the Care Act 2014.

² Ref: Academy invoice type SP2: Care home charges.

³ Ref: Performance & Data Team

4.2 Procedures

- 4.2.1 We can confirm the Council's 'Care and Supporting Charging and Financial Framework (2017 - 2019)' was approved by the Adult Social Care, Children's Service and Education Committee on 20/3/2017 and that a memorandum of revision was published to notify the addendums of those key changes to the framework applicable to financial year 2019/20⁴. The Committee is required to satisfy itself that the Framework follows the Care and Support Regulations and Statutory Guidance issued by the Government under the Care Act 2014, which is tested by the Care Quality Commission.
- 4.2.2 We can confirm the Framework document is available to staff and the public on the Council website, together with supplementary policies and guidance notes to explain the Council's policies for charging for care and support.
- 4.2.3 The care requirements and costs of these, together with the determination of financial responsibilities of the Council and people obtaining care are administered and recorded on the Mosaic application. Mosaic is a secure workflow application that is enabled to confirm the completion of specific check control requirements and document retention facilities to substantiate each stage of the process.
- 4.2.4 The Financial Assessment and Benefit Team are responsible for determining what contribution is required. If a contribution is due, then this is either:-
- Recovered back directly from the service user on the basis the Council has paid the care costs in full, or:
 - Deducted from the care provider's invoice, so that the provider can recover the contribution from the service user.
- 4.2.5 In order to comply with the Council's 'declaration of interests' policy, staff are required to notify DACHS management of any potential conflicts of interests so that 'Mosaic Lockdown Policy⁵' can be electronically activated to restrict access to specific service user records. Although the Lockdown Policy is available on IRIS we were unable to find it on the Council's new website and discussions with the Senior FAB and Principle Personal Budget Support Officer found that instead of ensuring staff are asked annually to confirm there are no potential conflicts of interest, reliance is placed upon trusting staff to declare these (See Rec 1).

4.3 Financial Assessment System Parameters

- a) There are satisfactory controls in place for ensuring rates and threshold parameters on Mosaic for conducting financial assessments are correctly applied and there are good

⁴ The next revision date for the Framework is the 1/4/2020.

⁵ Mosaic Lockdown Policy: Reasons to lock down service user records include the client could be related to a member of staff, service user lives with or near a member of staff, service users records are closed due to government legislation (adoption records), where there is no legal duty or consent under GDPR or there is an ongoing investigation regarding safeguarding, council or provider practices.

separations of duties in place between the application and financial assessment operations:-

- Although these changes are instigated by the FAB Team, the actual system changes are applied by Northgate under the supervision of the FAB Technical Policy Officer.
- Records are held to substantiate the verification of the changes made and for notifying management that these have been carried out successfully.

4.4 Third Party Support

4.4.1 Third Party Agreements

- a) The Financial Framework requires there to be an agreement in place for all third party top up contributions to secure continual payment so that any service users care can continue, otherwise these could be placed at risk.
- b) As at 21/6/2019, Mosaic (Element Description Type field) identified there were 5 nursing and residential care packages that are supported by a third party contribution. Our observations regarding the agreements are as follows:-

- Testing confirmed that a signed copy of the 'Top Up Agreement' was satisfactorily found attached for all 5 people on Mosaic and that these had been signed and dated by the respective third party.
- Although there is no requirement to reissue the agreement annually to reconfirm if the financial commitment can still be met by the third party, we note the terms and conditions highlight the amount payable is subject to increase and any failure to meet the agreement could result in the person being cared for being relocated to another care home, i.e. 1 out of 5 agreements confirm the contribution.
- The FAB Team has highlighted there is a need to review the Third Party Top Up Agreement template to ensure this remains fit for purpose to prevent any legal dispute regarding any potential recovery of bad debts (See Rec 2).
- Testing found details of the residential and nursing homes recorded on Mosaic satisfactorily matched those addresses in the agreements confirming there have been no changes in a service user's residency since the agreements have been put into place. Nevertheless, the FAB Team have highlighted continual funding risks due to the possible changes of a contributor's financial circumstances.

4.4.2 Financial Assessment

- a) A new financial assessment document is produced at the start of each financial year and a copy of previous assessments is held as a secure document on Mosaic. Section 1 of the Financial Assessment confirms charges for the forthcoming year are based upon current financial information or a previous year. An examination of the Financial

Assessment for 2019/20 found contributions are substantiated on the basis of risk (holdings and means of income):-

- Although a 'Financial Assessment Document' for 2019/20 is produced in Mosaic, 185 financial assessments were at the time of testing more than a year old. We note some of the personal account details have not been reviewed since 2014. These need to be checked to confirm whether a third party contribution remains valid (See Rec 3).
- The Mosaic 'Reassessment Date' field which is used to record when the next financial assessment is due had not been completed for all 5 people (See Rec 3).
- A redacted copy of the bank statement is not held on Mosaic to substantiate funds held in the service user's personal accounts. Financial Assessor notes used to record the verification of funds require improvement as these were found to be incomplete or vague in some instances (See Rec 3).

b) We can confirm that in addition to the service user's financial assessment, a financial assessment was also carried out on the third party. An examination of third party assessments found:-

- Mosaic system notes confirmed that a financial assessor had inspected the personal account balances for all 5 third parties. However, the assessment dates for these were not recent (See Rec 3).
- We found evidence that 3 out of 5 had been approved by a team leader (See Rec 4).

4.4.3 Payment and Arrears

a) Following completion of a financial assessment, the appropriate charge notified are attributed to either a) the person in care, b) the third party and c) the council. Details of these are recorded in the 'care package details' in Mosaic. A monthly sales invoice is produced in Academy through an interface with Mosaic.

b) The payment and arrears status of contributions are managed through Academy and accounted for in Fusion using financial codes recorded in Mosaic. A cross examination of Mosaic, Academy and Fusion of service user and third party contributions as at May 2019 found:-

- The weekly contributions recorded in the 'Financial Assessment (Section 10)' matched the contributions recorded in the 'Care Package'. Section 10 of the Financial Assessment is used to record the 'Assessment Results' for both service user and third party contributions denoted in the 'Care Package Details' (Ref ASC).
- Although we found the (monthly) Care Package contribution matched the service user contributions posted to Fusion, we were only able to match 4 out of 5 account postings for third party contributions in Fusion, i.e. a contribution of

£30.95 per week (£123.80) was not recorded as a received credit transaction against Fusion codes 5773-8380.

- We found some third party invoices raised on Academy are raised in the name of the service user instead of the third party even though the 'Charging Framework' states that such charges should not be borne by the client. It was explained that this is due to a lack of functionality when the mosaic academy interface was set up with the primary address as only one primary address per service user is permitted. The service recognises the legal risks with this and that it requires rectification (See Rec 7).

4.5 Financial Contributions

4.5.1 Financial Assessment

- a) Service users are not eligible for financial support from the council if their savings and capital exceed £23,250. Capital below £14,250 is disregarded and capital between £14,251 and £23,250 is subject to verification. Contributions levels are reassessed annually by the FAB team on a risk basis in relation to a 'capital limits schedule' when the annual uplift of the thresholds takes place between February and March each year.
- b) A sample test of 20 service user files on Mosaic as at 21/6/19 to confirm the status and substantiation of financial assessments found:-
 - A financial assessment for 2019/20 was held on file for all 20 people, together with a copy of previous assessments. However, we noted the Mosaic 'Reassessment Date' field which should have been used to record when the next financial assessment was due had not been completed for any person in the sample (See Rec 3).
 - Section 3 of the financial assessment requires the disclosure and verification of savings held in personal accounts. We noted a redacted copy of bank statements are not held on Mosaic to substantiate funds held in the service user's personnel accounts, and the Financial Assessor notes used to record the verification of funds require improvement as these were found to be incomplete or out of date, indeed some statements were dated 2013 (See Rec 3).
 - Testing confirmed the contributions determined in the financial assessment for 2019/20 were correctly recorded in the 'assessment notification letter' sent to the service user.
- c) A wider review⁶ of the Mosaic database found there were 22 service users who had not been financial assessed. The reasons for this were recorded on Mosaic as follows:-
 - 17 were exempt from financial assessment subject to Section 117 under the Care Act.
 - 1 was not subject to a financial assessment in accordance due to DWP rules.

⁶ Mosaic Report: Performance Team 16/7/19

- 4 remained eligible due to legal and court verifications i.e. financial deputy.
- d) Following our findings in 4.5.1 a), a wider examination of the Mosaic 'verification field' for those personal accounts completed by officers found these to be generally incomplete. The FAB team confirmed that accounts between £14,250 and £23,250 are checked even if the details in the verifications were left blank but were recorded in the 'case notes'.
- e) As at July 2019, Mosaic recorded there were 238 (2019/20) personal accounts listed for persons in residential care, whereas a system report showed a 52% (125) error margin in the confirmation of contributions (See Rec 3):-
- 5 were recorded as not "not verified"
 - 27 were recorded as "unverified-verbally notified"
 - 72 were recorded as "blank" (no information recorded)
 - 21 were recorded as "yes, other"

4.5.2 Payment & Arrears

- a) Following the completion of a financial assessment, the appropriate costs are attributed to a) the person in care, b) the third party and/or c) the council are recorded in the 'care package details' in Mosaic. A monthly sales invoice is produced in Academy through an interface with Mosaic.
- b) The payment and arrears status of contributions are managed through Academy and accounted for in Fusion as specified by those financial codes recorded in Mosaic. A cross examination of Mosaic, Academy and Fusion of service user and third party contributions as at May 2019 found the contribution values that had been correctly determined in April had been satisfactorily charged and accounted for:-
- The contributions recorded in the financial assessments and the care packages (ASC) in Mosaic were the same for all 20 service users.
 - Where the council had met the full cost of nursing or residential placement (16 out of 20), we can confirm a sales invoice was satisfactorily raised for the correct value in Academy and there were no financial arrears for the sample examined. We are also satisfied that the respective costs were correctly accounted for in Fusion in accordance with the financial code totals specified in Mosaic.
 - Where it had been agreed that the service users (4 out of 20) would pay the contribution to the home, we were able to confirm the contribution had been deducted from the care provider's charge but this was not fully transparent because the deduction is not recorded on the on the payment remittance as this is made as a 'background adjustment'. The remittance slip of the reduced charge is held on Mosaic (See Rec 6).
- b) Any outstanding contributions for care are accounted for and monitored on Academy as part of the general DACHS review of adult social care debt. Monthly monitoring meetings are held between the Locality Manager, Finance, FAB and the Corporate

Debtor teams in order to appraise the risk status of arrears (See 4.1.3) and to formulate approaches to prevent and reduce bad debts. Senior Management has also informed us that the performance of this monitoring group to deliver the debt strategy is further monitored by the Director on a quarterly basis. (See Rec 5)

Appendix A - Report Distribution

Staff Interviewed

Tracey Maskell - Senior Entitlement & Assessment Officer, FAB
 Stephen Saunders - Principle Personal Budget Support Officer, FAB
 Sarah Stockle - Technical Policy Officer, FAB
 Sarah Crees-Jones - Performance & Data Team, DACHS
 Anil Mehan - Accountant, Finance
 Chris Neale - Entitlement & Assessment Officer
 Rory McVeigh - Entitlement & Assessment Officer

Draft Report Distribution

Joanne Purser - Locality Manager, DACHS
 Nick Penny - Strategic Business Partner, DACHS
 Jon Dickinson - Deputy Director of Adult Care, DACHS
 Seona Douglas - Executive Director of DACHS

Final Report Distribution

Joanne Purser - Locality Manager, DACHS
 Nick Penny - Strategic Business Partner, DACHS
 Jon Dickinson - Deputy Director of Adult Care, DACHS
 Seona Douglas - Executive Director of DACHS

Auditor Contact Details

Robert Dunford, Senior Auditor	-	(0118) 937 2849
Kevin Parker, Principal Auditor	-	(0118) 937 2694
Paul Harrington, Chief Auditor	-	(0118) 937 2695

For further details on our assurance opinions please [click this link](#)

Audit Management Action Plan

Client Contribution, Adult Care - Report Ref 9/19

Ref	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Target Date
1	Although DACHS has a 'lockdown procedure' to prevent staff conducting financial assessments where there are conflicts of interest with service users, this is managed on trust. Although there will always be an inherent risk of fraud, the Council may not be able to recuperate any financial losses due to fraud from its insurers because it had failed to take every reasonable precaution.	All staff should be required to complete a declaration of interest form annually to clarify the fact that they do not have any conflicts of interest.	3	This is included in the Staff Code of Conduct which they complete when they commence work at RBC. During the induction process a declaration will be added for staff members to sign and will be held on their personal file in relation to not working with people where there is a conflict of interest.	Jo Purser	30.9.2019
2	As the 'Third Party Top Up' agreement is not legally binding there is a risk that the Council could incur additional costs because it was unable to collect any contribution in arrears.	DACHS should reconfirm with Legal and the Corporate Debt Team whether the Third Party Top Up Contribution agreement remains fit for purpose.	3	The Senior Entitlement and Assessment Officer will review the current agreement to ensure it remains fit for purpose, including Legal and Debt Team	Tracey Maskell	30.9.2019

3	<p>There is a risk that the Council could be incurring unnecessary additional costs at the expense of those service users in care because there are insufficient resources in place to ensure the robust review of personal finances.</p> <p>No evidence exists to provide an audit trail to support the calculation of charges.</p>	<p>The FAB team should ensure audit trails of financial assessments remain upto date, evidenced and relevant to the service users' personal financial circumstances and those services received:-</p> <ul style="list-style-type: none"> * those financial documents reviewed should be physically substantiated rather than relying upon telephone confirmations made by the FAB team * the review comments by officers of such inspections should be complete and documented * in each case, the next financial assessment review date should be completed and monitored * regular reports on the completion status of financial assessments should be produced 	1	<p>The FAB team will, request hard copies of financial documents, these could be scanned and emailed, the worker will confirm that these are reviewed and appropriate through recording on mosaic, review dates will be added to mosaic to generate reminders to the team, monthly reports will be completed to evidence the number of financial assessments and the length of time taken.</p>	Tracey Maskell	31.10.2019
4	<p>Because quality and scrutiny controls are operating on a 'de minimis' basis, this means there are poor separations of duties in place to independently verify potentially high risk cases. i.e. no contribution is due.</p>	<p>Where the financial review has been carried out by a team leader, this should be certified as checked by an opposite person.</p> <p>We would also advise that this is carried out on a risk basis i.e. no contribution is due or the contribution is % lower than a defined maximum.</p>	3	<p>The Locality Manager reviews the financial assessments completed by the senior.</p>	Jo Purser	Ongoing
5	<p>The Council might be incurring additional costs because robust payment plans have not been put into place previously to recover those debts where contributions have been paid to carers by the Council on behalf of the service user.</p>	<p>The Council should ensure wherever possible direct debt facilities are put into place whenever a financial contribution is to be recovered or arrange for the service user to pay to carer(s) supplier directly. Where a direct debt cannot be put into place consideration should be given to offsetting the carers invoice so that the contribution is collected by the carer instead of the Council.</p>	2	<p>The team focus will ensure that direct debits are completed and commenced at point of receiving services, the process for offsetting invoices in order for the person to pay the contribution direct will be investigated to see in practice what is required.</p>	Tracey Maskell	31.10.2019
6	<p>Client contributions to be paid by the client to the carer are not shown as a deduction of the payment remittance although the adjustment has been made.</p>	<p>Where the client chooses to pay the contribution directly to the carer, this amount should be recorded on the carers remittance note held on Mosaic.</p>	3	<p>Worksteps will be reviewed to ensure that assessed contributions paid directly to the carers are recording thoroughly on Mosaic</p>	Tracey Maskell	31.10.2019

7	None recovery of debts.	Invoices raised for third party contributions should be addressed to the correct person.	3	FAB team to check that correct addresses are clearly recorded on mosaic for the person nominated to make third party contributions to ensure contributions are received.	Tracey Maskell Chris Beauchamp	Ongoing
---	-------------------------	--	---	--	-----------------------------------	---------

NB: Your management response is your commitment to treat the risk identified as part of the review. The standard response time to draft recommendations is 15 working days; any failure to meet this target could be reported to the Audit & Governance Committee.

The management response to recommendations will be reported to both CMT & The Audit & Governance Committee as part of our quarterly monitoring arrangements. Audit recommendations and agreed actions will be followed up during the year, where deemed appropriate by the Audit Management Team. All outstanding recommendations will also be reported through CMT as part of the Council's monthly performance monitoring.

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 January 2020		
TITLE:	Draft Indicative Internal Audit Plan 2020 - 2021		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2020/2021.
- 1.2 It is internal audit's responsibility to provide an annual formal opinion on the Council's control environment. In the context of the Public Sector Internal Audit Standards¹, '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).
- 1.3 The attached audit plan (appendix 1) will allow for the effective discharge of this responsibility. In accordance with the Accounts and Audit regulations² and the Public Sector Internal Audit Standards the Council's Audit and Governance Committee is required to approve and monitor progress against, the internal audit plan.
- 1.4 Accompanying the audit plan is the internal audit charter which sets out the purpose, authority, responsibility and scope of internal audit. The Public Sector Internal Audit Standards (PSIAS) 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.

¹ The Public Sector Internal Audit standards - Applying the IIA International Standards to the UK Pubic Sector 2013

² 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.

1.5 The following document is attached to this report:

- Draft Internal Audit plan for 2020/2021 (appendix 1)
- Internal audit charter (appendix 2)

2. RECOMMENDED ACTION

2.1 That the Audit & Governance Committee approves the audit plan for the period April 2020 to March 2021 and notes the content of the Internal Audit Charter.

3. INTERNAL AUDIT PLAN

- 3.1 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. It also supports the Executive Director of Resources in discharging his/her statutory duties.
- 3.2 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 Assistant Directors 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.
- 3.3 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.
- 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.
- 3.6 The plan may be subject to changes, between now and the start of the new financial year, if new risks emerge which require internal audit focus.

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

- 6.1.1 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.

- 6.1.2 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.

- 6.1.3 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

Draft Indicative Internal Audit Plan

(2020/2021)



www.reading.gov.uk



Internal Audit Plan

1. Background

- 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 Executive Director of Resources in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the Executive Director of Resources to comply with:
- i. Section 151 of the Local Government Act 1972. The Executive Director of Resources, 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 in exercising his/her responsibility for financial administration.
 - ii. The Accounts and Audit Regulations state that ‘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’. 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 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 2020-21.

2. The Planning Process

- 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 Assistant Directors 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

- 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 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 The Chief Auditor in liaison with the Executive Director of Resources (sec 151 Officer) 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.

- 3.3 The indicative Internal Audit programme for 2020-2021 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.
- 3.4 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

- 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 sec 151 officer. The current structure allows for five internal auditors at varying degrees of experience. However, the equivalent of approximately half a post is provided to resource the Brighter Future for Children (BfFC) internal audit plan. This does leave the internal audit function with little or no real resilience. This is factored into the audit planning, with the planned reviews based on the experience and resources available.

5. Individual Audits

- 5.1 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.
- 5.2 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 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.
- 5.3 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.
- 5.4 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.

- 5.5 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

- 6.2 Whether or not and 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 by the audit team. 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.
- 6.3 A summary of Internal Audit recommendations which remain outstanding is reported to the Audit & Governance Committee Quarterly. The status of these recommendations is updated by the action owners and hasn't necessarily been followed up by internal audit. Internal Audit will only follow up those recommendations relating to a report which has been assigned limited assurance.
- 6.4 Prior to reporting to Committee officers responsible for implementing the specific recommendations are asked to update the 'implementation tracker'. Each recommendation is marked with a percentage complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 26% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.
- 6.5 Where there is a lack of progress with implementation of audit recommendations the Assistant Director and responsible officer (if they are different) will be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.

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

- 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

- 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.

9. Internal Audit plan

- 9.1 The draft internal audit plan of activities proposed for internal audit review during the 2020/21 financial year is shown on the following pages (pages 7 - 11).

Planned Internal Audit Review Area	Planned Internal Audit Coverage
------------------------------------	---------------------------------

Q1	Q2	Q3	Q4
----	----	----	----

Securing the economic success of Reading

Car Parks (off street)	To review the operational controls and processes with regards to income collection (including electronic card payments).
Commercialisation	This audit will review the governance framework in place to oversee the Council's current and future trading activity. The operating model, costing and billing processes will be reviewed.
Investment Properties	Review arrangements for procuring investment properties, rent is received and accounted for, insurance cover is in place, data is accurate and the portfolio is reported on and monitored sufficiently.
Fixed Assets (Asset Register)	Routine review of the management of the council's fixed assets, including maintenance of the asset register.

●			
			●
	●		
		●	

Improving access to decent housing to meet local needs

Housing Revenue Account	To review the arrangements in place for monitoring the Council's HRA financial viability. To review recharges to HRA to make sure expenditure/income is applicable.
Rent Guarantee Scheme	Review the new 'enhanced offer' scheme - guaranteed level of rent - verify control over the rent deposit scheme, make sure that new systems and processes are robust
Stores Contract	Review the adequacy and effectiveness of internal control over the stores contract, covering the ordering, collection of materials and the payment mechanism. The audit will also review what areas are making use of the contract and whether or not the contract is working and costing as intended.

		●	
●			
	●		

Planned Internal Audit Review Area	Planned Internal Audit Coverage
------------------------------------	---------------------------------

Q1	Q2	Q3	Q4
----	----	----	----

Protecting and enhancing the lives of vulnerable adults and children

MOSAIC payment controls (Finance Module)	Processes and controls leading to payments generated via Mosaic and the completeness of information held on the system. Specific areas of coverage to be determined at the time of scoping. As a fundamental system of the Council, this should be considered as an annual audit
Deferred Payments	Verify how the monies are recovered from the proceeds of sale once the property is sold. The Care Act (2014) places a new duty to provide deferred payments and charge interest on these. Verify the system and controls for managing this process
Out of area contracts (placements)	Placement decisions and management. Is there sufficient information about the financial implications? How are they monitored and are specialist placements being regularly reviewed?
Contract Management (Adults)	Review governance relating to placement contracts commissioned with external providers.
Adults Short Stay Placements & Respite Care	A review of adults short stay placements and respite care processes and systems to ensure arrangements are adequate and effective to meet objectives, minimise risk and deliver value for money.
Intercompany accounting	This audit will review the process for billing Brighter Futures for Children (BfFC), to ensure the correct amounts are journaled across, supporting evidence is available and transfers are authorised.

		●	
	●		
		●	
			●
		●	
●			

Planned Internal Audit Review Area	Planned Internal Audit Coverage
------------------------------------	---------------------------------

Q1	Q2	Q3	Q4
----	----	----	----

Keeping Reading's environment clean, green and safe

Waste PFI contract	To ensure the correct payments have been made to all parties. The audit will review contract compliance, governance and payment arrangements and the measurement / accounting of waste volumes.
Staff Vehicle Documentation (Grey Fleet)	This review will select a sample of managers across the council to confirm that they are reviewing appropriate documents to allow staff to use their own vehicles on behalf of Council business. In light of the Council's climate change agenda the audit will assess how much the Council is spending on mileage claims for grey fleet drivers, the number of miles recording and the types of journeys made to see if best use of public transport is being made.
Licensing	Scope will include, issuing & reviewing licences, handling appeals, income management & inspections. Also incorporate review of enforcement action to ensure compliance with all relevant taxi legislation and regulations e.g. vehicle inspection, insurance and licensing checks.

			●
●			
	●		

Promoting health, education, culture & wellbeing

New Directions (ESFA funded adult education budget)	This audit will review grant funding; there's numerous aspects to consider, but as there's potential for clawback. Areas to be covered are Sub-contractors, signed learning agreements for all learners, entitlement and eligibility to funding. RARPA evidence for all non-accredited learning and Learning Support.
---	---

●			
---	--	--	--

Planned Internal Audit Review Area	Planned Internal Audit Coverage
------------------------------------	---------------------------------

Q1	Q2	Q3	Q4
----	----	----	----

Ensuring the Council is fit for the future

Budgetary Control	This review will seek to determine whether there are effective budget monitoring and reporting arrangements in place to track the progress of the identified savings targets. Provide scrutiny over high value and high risk savings plans to substantiate delivery
Transparency Code Compliance	The review will verify that the Transparency Code has been adopted, systems have been put in place to extract the relevant data from the various systems and data being published is accurate, reliable, timely and in a suitable format.
Additional Payments	Following a review in 2018/2019 the audit concluded that the existing processes required enhancement. This follow-up audit will aim to provide assurance that the actions taken by management put forward to address the recommendations made, have been implemented.
Subject Access Requests (SAR)	We will undertake a review of the arrangements to process SAR requests.
Collection Fund	The audit will provide assurance that income is maximised - discounts & exemptions are correctly applied, robust policies are in place to support the effective management and recovery of revenues. The audit will review controls over reconciliations, assessing the revenue generated from the collection of council tax and business rates applied to the relevant account code.
Feeder system interface and reconciliation	The audit review feeder system interface with the GL and reconciliation - is the process automated or is there manual intervention? The audit will cover all feeder systems to fusion, payroll, Mosaic etc. and focus where there is manual intervention.
Purchasing cards	To ensure that the controls surrounding the issue, administration and monitoring of purchase cards are operating as expected.

	●		
●			
●			
			●
		●	
	●		
		●	

Planned Internal Audit Review Area	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Payroll	HR and Payroll utilise I-Trent, a platform that delivers end-to-end HR and payroll processing. All overtime, travel and subsistence transactions are submitted through I-Trent. The purpose of this audit will be to review and assess the design and effectiveness of controls in relation to payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.			●	
Pre-employment checks	The audit will review procedures for verifying the suitability of candidates and for comparing their relative abilities. The audit will also evaluate procedures in respect of obtaining references (and confirming references as valid), confirming essential qualifications and undertaking police checks (where necessary). Vetting checks, including identity checks, DBS checks and ensuring candidates have leave to remain and work in the UK		●		
Sundry Debtors	This review will seek to review the process for transferring balances and AR history from the current system to Fusion and verify controls have been set up properly.				●
General Ledger	Routine review of the council's main accounting processes				●
Accounts Payable	The audit will ensure there is adequate control over the requisition and purchase order, receiving the invoice and making the payment. Mechanisms are in place to ensure that duplicate payments are avoided and/or detected. There are appropriate authorisation levels, management reporting, reconciliations are timely, payments are correctly coded to the cost centre and subjective codes and VAT is accounted for.				●
Records Management & Document Retention Policy	An area of concern across services. A review of understanding of and compliance with the Council's retention and disposal policies.	●			

Internal Audit Charter

(2020/2021)

We aim to provide a high quality cost-effective service, which adapts and responds to the Authority's needs based on achieving a high standard of professionalism and expertise in service delivery and also to contribute in achieving best value public services.



www.reading.gov.uk



Reading
Borough Council
Working better with you

1. Background

- 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 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

- 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

- 3.1 Internal Audit is an independent appraisal function established within the authority - as part of the Resources Directorate - with the following objectives¹:
- To provide an effective Internal Audit Service, on behalf of the Executive Director of Resources (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

- 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.)

¹ 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

- 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

- 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 Executive Director of Resources 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 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 Executive Director of Resources and the Audit & Governance Committee.

7. Organisational Independence of Internal Audit

- 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 Executive Director of Resources (Sec 151 Officer) and has direct right of access to the Chief Executive. The Chief Auditor also has direct access to the Chair of the Audit & Governance Committee.
- 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

- 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 Executive Director of Resources, 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

- 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

- 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

- 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, 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

- 12.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 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 Regulations², 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

- 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.

² Financial Regulations - Section 2.8 'Internal Audit'

14. Review of the Effectiveness of Internal Audit

- 14.1 The Accounts and Audit (England) Regulations require councils to conduct, at least once a year, a review of the system of internal control. 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 system of internal control.

15. Quality Assurance and Improvement Programme (QAIP)

- 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.

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 th January 2020		
TITLE:	STRATEGIC RISK REGISTER Q3		
LEAD COUNCILLOR:	COUNCILLOR BROCK	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	JACKIE YATES	TEL:	9374710
JOB TITLE:	EXECUTIVE DIRECTOR OF RESOURCES	E-MAIL:	jackie.yates@reading.gov.uk

1. PURPOSE OF REPORT

- 1.1 This report outlines the Q3 19/20 update of the Strategic Risk Register.
- 1.2 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in Jul 2019.
- 1.3 The following documents are appended:

Appendix 1 - the Council's Corporate (Strategic) Risk Register.

2. RECOMMENDED ACTION

- 2.1 The committee are requested to consider the Council's strategic risks as of Dec 19 (end of Q3).

3. KEY ISSUES

- 3.1 Risk management is a key part of corporate governance. Good risk management will help identify and deal with key Strategic risks facing the Council in the pursuit of its goals and is a key part of good management, not simply a compliance exercise. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving the Council's outcomes.

- 3.2 The Strategic Risk Register has been developed to provide a concise, focused and high level overview of Strategic risks that can be easily communicated to all staff, councilors and stakeholders (e.g. Council's Insurers). It should, however, always be supplemented by the more detailed directorate/service/project risk registers.
- 3.3 Although guidance is provided in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remains very much a subjective process. The primary aim of the Strategic Risk Register is to identify those key vulnerabilities that CMT consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased. Furthermore, it is possible that the likelihood can be influenced by events outside of the Council's control e.g. the economic climate and its impact on financial planning, or severe weather etc.
- 3.4 Risk appetite was introduced to our risk register in 2018. This is consistent with the Institute of Risk Management which advises that risk appetite should be identified for each risk. *Risk appetite is the amount of risk that an organisation is willing to seek or accepts in order to meet its long term objectives.*
- 3.5 Given the revised format identifies risk appetite for each individual risk, the previous colour coding of red, amber and green based on a single assessment of risk tolerance would be confusing and hence the analysis of red, amber and green will now be based on the extent of the gap between the current residual risk and the risk appetite.
- 3.6 In order to focus senior management and Member attention on areas of greatest risk, the Register should include only the key current risks that have not been mitigated down to the risk appetite level. Hence it is proposed that where risks have been rated as green for 2 or more consecutive quarters they should be removed from the Register. These can be re-instated should the risk rise again.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Regular review of the Strategic Risk Register is an integral part of effective risk management arrangements and corporate governance. Identifying risk appetite enables the Council to clarify the extent of risk mitigation required in order to achieve its strategic aims.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6. LEGAL IMPLICATIONS

6.1 There are no specific legal implications arising from the recommendations in this report"

7. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

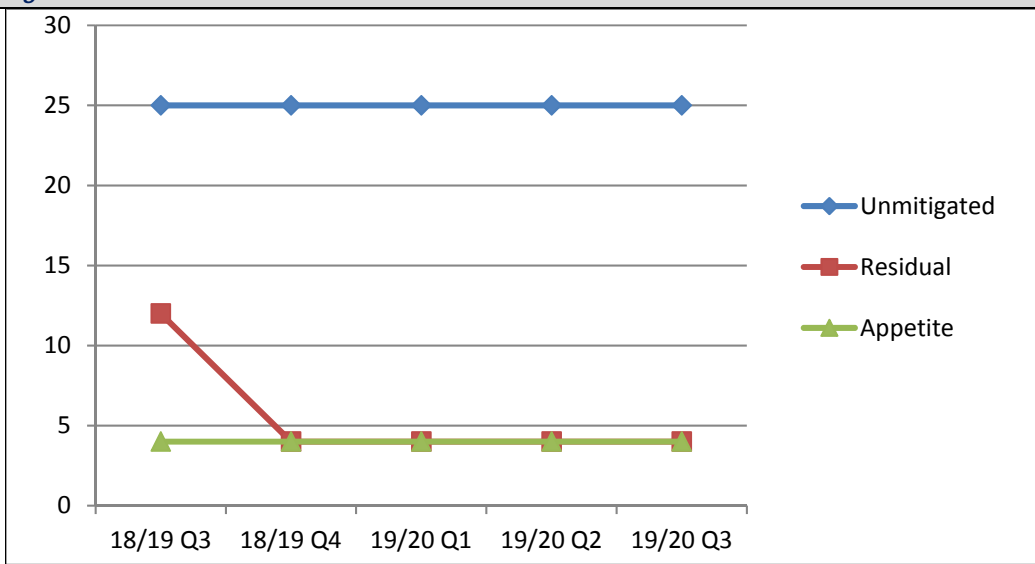
8.1 Appendix 1 - the Council's Corporate (Strategic) Risk Register.

Risk 1: The council does not create and deliver a sustainable Medium Term Financial Plan and/or achieve a balanced budget. **Risk Owner: Assistant Director of Finance**

Corporate Priority: Ensuring the Council is fit for the future

Risk Rating (Impact x Likelihood)
 Unmitigated 5 x 5
 Current Residual 4 x 1
 Appetite 4 x 1

Potential Impact
Strategic objectives and statutory duties not met. Council unable to set legal budget. Service or services failure



Rationale for current score:
 The £40m of savings over 3 years will require robust management to deliver. Particularly there is a need to take early and robust action on longer term initiatives to ensure that the Council remains a going concern. The General Balances will need to be improved and a reserve is created to manage future years' volatility.

Rationale for risk appetite
 Achieving a sustainable financial position is essential in order to be a going concern and deliver priorities. Careful planning is essential and the risk appetite is low.

Current RAG rating **GREEN**

Current Actions (What we are currently doing about the risk - Causes Unmitigated Score to reduce to Residual)

- MTFS for the period 2019-2022 has been approved by Council
- Members have agreed a 3 year balanced budget
- Robust monitoring arrangements are in place re delivery of savings and tracking of budget pressures
- Significant savings are being managed by 8 Corporate Programme Boards each with a CMT sponsor
- Delivery Fund allocations have been aligned with Programme Boards on gateways to access funding which are managed via the Board structure. Spend is agreed where appropriate
- A risk fund against established difficult to meet savings
- CMT commissioned a hard review of budget monitoring at the end of the first quarter of the year.
- Reporting of progress with savings delivery is focussing to give greater attention to mitigation plan development in respect of red and amber savings.
- Programme of Fundamental Service Reviews has been implemented to identify further opportunities for 'savings'.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer (s) responsible	Target date
The MTFS takes account of actual and emerging pressures with an appropriate contingency. Robust monitoring and early delivery of savings is now required to give confidence that the MTFS is deliverable.	Assistant Director Finance/ CMT	Ongoing
Budget monitoring incorporates the savings delivery plan as a separate report, with mitigation plans to be implemented for those savings at risk (Red/Amber RAG status)	CMT	Ongoing
Assistant directors instructed to fully mitigate any unmet savings	Assistant Directors	Ongoing

<i>Risk 1 continued</i>				
<p><i>Current Actions (What we are currently doing about the risk - Causes Unmitigated Score to reduce to Residual)</i></p> <ul style="list-style-type: none"> The annual refresh of the MTFP has taken place and was agreed at Policy Committee in December for consultation. CMT are scheduled to review the Current Programme Board Structure and approach to FSR'S. 	Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer (s) responsible	Target date	
		As Part of the MTF refresh a review of cost drivers for demand led services has taken place to ensure they are understood and actively being tracked. A review of best practice elsewhere in terms of demand/budget management has also been Undertaken.	Executive Director for Resources	Ongoing
		The Draft MTF Plan for 2020- 2023 has been completed and presents a sustainable position providing a net contribution to reserves over the 3 year period.		

Risk 2: *Insufficient or lack of capable staff resources to deliver our services in an effective and efficient manner*

Risk Owner: Assistant Director of HR & Organisational Development

Corporate Priority: *Ensuring the Council is fit for the future*

Risk Rating (Impact x Likelihood)

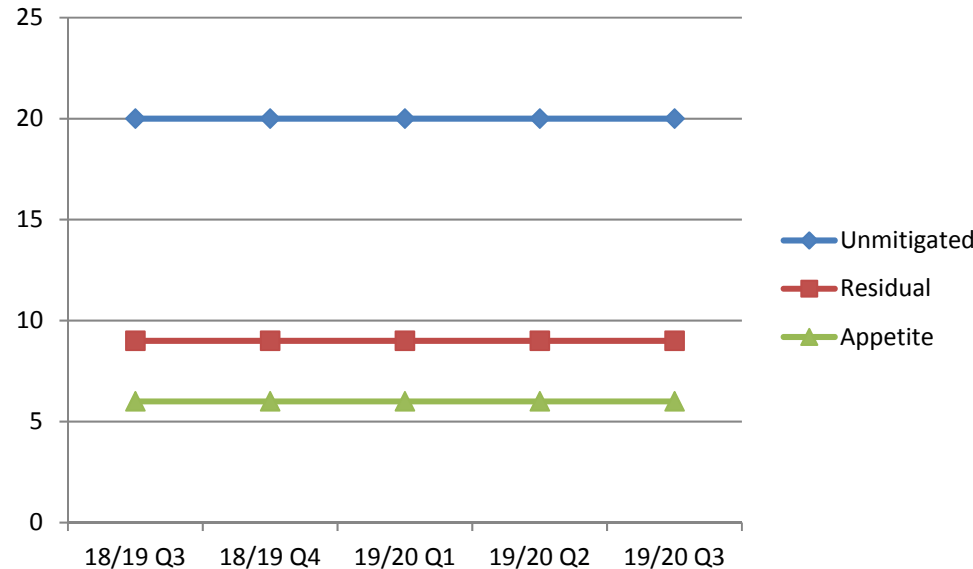
Unmitigated 4 x 5

Current Residual 3 x 3

Appetite 3 x 2

Potential Impact

Failure to meet demand. Statutory duties not met. Negative impact on staff motivation and stress related illness.



Rationale for current score:

Managing delivery of ongoing services during a period of significant change with reduced staffing resources due to redundancy, retirement, sickness, staff resources diverted to the transformation programme and difficulties in recruiting to certain specialist posts

Rationale for risk appetite

In order to implement the Transformation Programme it will be necessary to reduce staffing levels and is accepted that will put pressure on managing and delivering services hence appetite is high.

Current RAG rating **AMBER**

Page 74

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- HR Business Partnering approach introduced to support and assist managers with effective workforce planning
- HR and OD transformation plans going through informal consultation during November/December 2019, ahead of formal consultation on January 2020. The aim of this is to increase OD capacity to support achievement of a high performing, highly skilled and motivated workforce
- Access to pool of appropriately qualified temporary staff via agency contract (procurement process for a new contract from February 2021 is now underway).
- Team Reading Programme set up in October 2018 to support the delivery of the Organisation Development Strategy which aims to achieve a highly skilled and motivated workforce. Programme governance in place through monthly boards reporting progress to CMT.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Update HR policies and procedures	Assistant Director of HR and OD	March 2020
Staff Survey action plans monitoring by Team Reading Programme Board and CMT to take place to ensure improvements are made where needed ahead of next staff survey in April 2020	Assistant Director of HR and OD	January 2020
Reduce agency spend through improved focus on permanent recruitment	CMT	Ongoing

<p><i>Risk 2 continued</i></p>			
<p>Current Actions <i>(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)</i></p> <ul style="list-style-type: none"> • OD Strategy and Delivery Programme signed off by the board in August 2019 and quarterly update reports provided to CMT alongside monthly highlights reports • Resourcing team established from 1 January 2019 to improve the approach and success of permanent and all other types of recruitment. Time to fill (advert to start date) has reduced from around 100 days to an average of 67 days. Success rate of recruitment has increased from 50% to 75%. • Staff Survey run in April/May 2019 which provides valuable insight into how staff feel about the Council as an employer and an opportunity to build on and maintain positive results and address areas for improvement. Action Plans are in place for all areas and progress will be monitored by the Team Reading Programme Board and CMT • All AD posts now recruited with final 2 ADs to join DOR in January and February 2020 respectively. 	<p>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</p>	<p>Officer responsible</p>	<p>Target date</p>
	<p>Improved HR management information to be made available to managers following roll out of iTrent self-service modules. This will enable more effective monitoring of turnover, absence trends etc so that any areas of concern can be identified and acted upon quickly</p>	<p>Assistant Director of HR and OD</p>	<p>March 2020</p>

Risk 3: Information created, accessed, handled, stored, protected and destroyed by the Council and its service areas is not managed in compliance with legislation or local policies. Council services do not fully understand or manage the risks such non-compliance involves therefore not making informed, risk based decisions.

Risk Owners: AD of Legal & Democratic services/
AD for Digital Transformation

Corporate Priority: Ensuring the Council is fit for the future

Risk Rating (Impact x Likelihood)

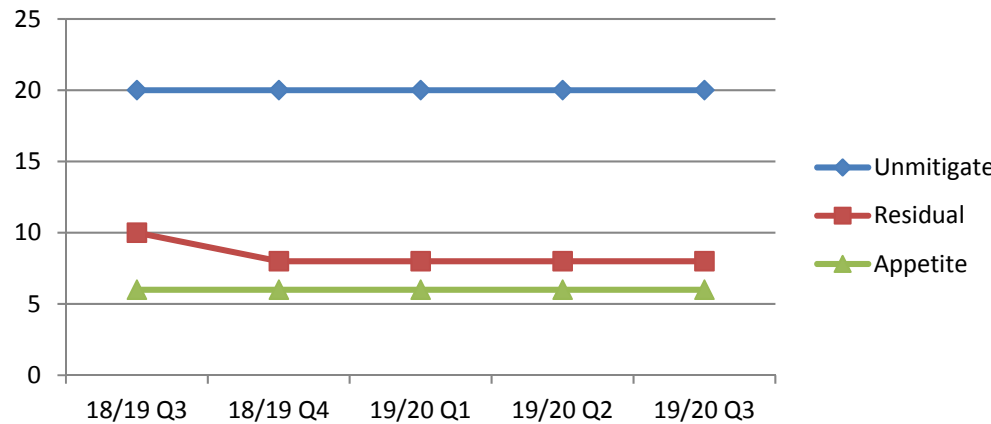
Unmitigated 5 x 4

Current Residual 4 x 2

Appetite 3 x 2

Potential Impact

Fines/penalties, reputation damage, service failure.



Rationale for current score:

The likelihood has reduced slightly following staff awareness training, however fines are increasing, hence potential impact remains high.

Rationale for risk appetite

In addition to the financial risk, financial penalties are now very high, hence the Council will seek to minimise the risk of these being incurred.

Current RAG rating **AMBER**

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly. Data Protection Training is mandatory for all staff.
- Data Protection Officer in place following staff resignation.
- GDPR e-learning module has been rolled out to staff and made mandatory for staff to complete. Face to Face Data Protection refresher training is available for staff as and when needed. GDPR briefing sessions were also held for staff by the GDPR team and each session was fully attended by staff. These sessions outlined the changes in legislation and what was required for compliance.
- Data Protection policy and Breach Management policy completed and on the Information Governance Pod for staff to access. Subject Access Request guide updated also. These will be reviewed annually. Monitoring awareness will be ongoing.
- Privacy Notices have been updated for each service area and made available to service users. This will be under constant review and updated should there be any change as to how personal is processed.
- Teams have completed DPIA's documenting what personal they are processing. These are to be reviewed annually.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Need to test application of training by officers and monitor both the effectiveness and that the right staff handling sensitive data is prioritised.	CMT	Ongoing
GDPR introduces increased fines and data subjects' legal right to compensation. The latter is likely to create a spawn of litigation that will be very costly and labour intensive to manage, plus reputational damage	CMT	Ongoing
Teams who process Subject Access Requests to be made aware of complying with statutory deadlines through training. External SAR training booked for January 2020.	AD Legal & Democratic Services	Ongoing
Full strategic review kicked off in December 2019 of all IG strategy/functions/roles/action plan. Proposal to CMT in February 2020	AD Corporate Improvement	February 2020

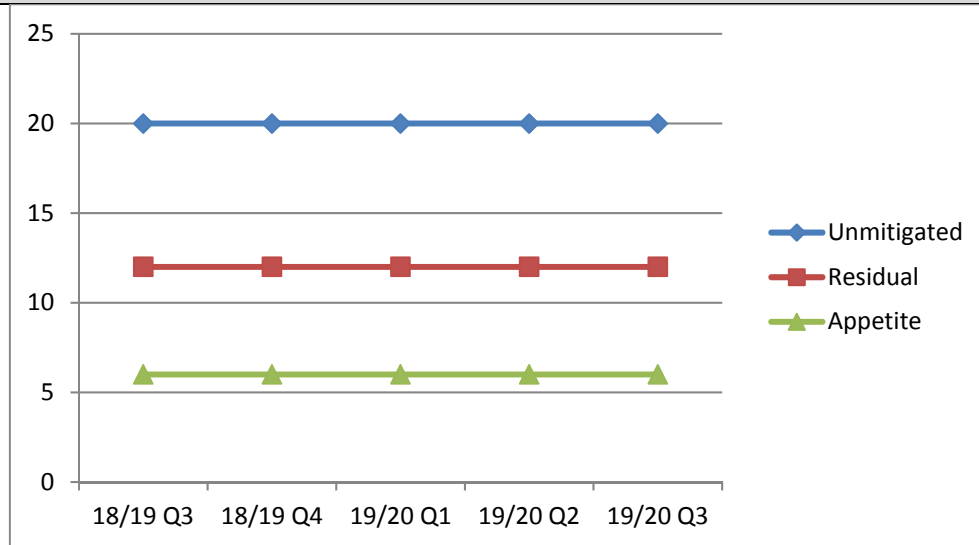
<i>Risk 3 continued</i>	
<p>Current Actions (<i>What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual</i>)</p> <ul style="list-style-type: none">• The Council now has retention schedules for each directorate. All retention schedules have been updated and will be reviewed to ensure they are compliant with any future updates. The retention schedules are available to all staff and all directorates are expected to follow them to ensure compliance.• I Trent rolled out to all staff with expectation of self-serve culture to keep own personal data up to date.• Records of processing activities (ROPA) being further developed by DPO and will help to identify Information Asset Owners within Services.	

Risk 4: *The Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal process*

Risk Owners: Assistant Director of Legal & Democratic services/ Director of Resources

Corporate Priority: *Ensuring the Council is fit for the future, Securing the economic success of Reading. Improving access to decent housing to meet local needs. Protecting and enhancing the lives of vulnerable adults and children, Keeping Reading's environment clean, green and safe. Promoting great education, leisure and cultural opportunities for people in Reading*

Risk Rating (Impact x Likelihood)
 Unmitigated 5 x 4
 Current Residual 4 x 3
 Appetite 3 x 2
Potential Impact
Breach of governance procedures could lead to adverse Ombudsman, Ofsted, External Audit, Care Quality Commission opinions and/or Legal challenge from those who interact with the Council



Rationale for current score:
 While controls are in place, they are not always being followed. Processes are improving as are training and policies, but the impact of this is not yet proven. The Council's AGS suggests progress still needs to be made to reduce the residual risk.

Rationale for risk appetite
 A Council should be a model of propriety and control to ensure confidence in its handling of public assets. Hence the likelihood of non-compliance should be at a minimal level. Good governance underpins all work to achieve the Council's targets

Current RAG rating AMBER

- Current Actions** *(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)*
- Follow up on Audit Recommendations to ensure that they are all dealt with fully so that systems, processes and compliance are improved. Recommendation tracker presented to A&G along with limited assurance audit reports in full.
 - The induction programme for new members of staff includes guidance to certain key governance policies (including the Code of Conduct);
 - Staff code of conduct issued with contracts of employment for all staff
 - Strategic risk register to be kept up to date and reviewed promptly.
 - Roll out of net consent for policy management; recently used for GDPR training.
 - Risk management training completed or planned for Heads of Service & Directors 2019
 - Some HR policies already agreed such as sickness, disciplinary residual policy updates are scheduled and programmed for agreement prior to 31.3
 - IT Policies have been updated and were agreed by Committee in December, training is being rolled out.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
A diagnostic has been commissioned from Cipfa to inform a Finance transformation plan which will address the underlying systems, process and training needs in this area.	Executive Director of Resources	Q4 2020
Continue to use the Directorate Performance Steering Groups to drive compliance	Assistant Director of Finance	Continuous
Financial Regulations are currently being updated and will be rolled out as soon as approved	Assistant Director of Finance/ Director of Resources	Q2 19/20

<i>Risk 4 continued</i>			
<p>Current Actions (<i>What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual</i>)</p> <ul style="list-style-type: none"> • Ethics statement being refreshed • Control of payments to employees better controlled through I Trent roll out • The Council now has retention schedules for each directorate. All retention schedules have been updated and will be reviewed to ensure they are compliant with any future updates. The retention schedules are available to all staff and all directorates are expected to follow them to ensure compliance. • I Trent rolled out to all staff with expectation of self-serve culture to keep own personal data up to date. 	<p>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</p>	<p>Officer responsible</p>	<p>Target date</p>
	HR policies and procedures are being reviewed and updated	Assistant Director of HR and OD	Mar 2020
	Code of Conduct to be relaunched.	Assistant Director of HR and OD	Mar 2020
	Roll out values and behaviours & ethics framework	Assistant Director of HR and OD (behaviours) Ethics (Chief Exec)	Q4 19/20

Risk 5: Failure of major contract causes financial, service delivery, legal and H&S issues which directly impact the Council - (Care Homes, Home Care, ICT, OOH Call Handling, EDS etc)

Risk Owners: Assistant Director Commissioning, Quality and Wellbeing (DACHS)

Corporate Priority: Ensuring the Council is fit for the future, Securing the economic success of Reading. Protecting and enhancing the lives of vulnerable adults and children.

Risk Rating (Impact x Likelihood)

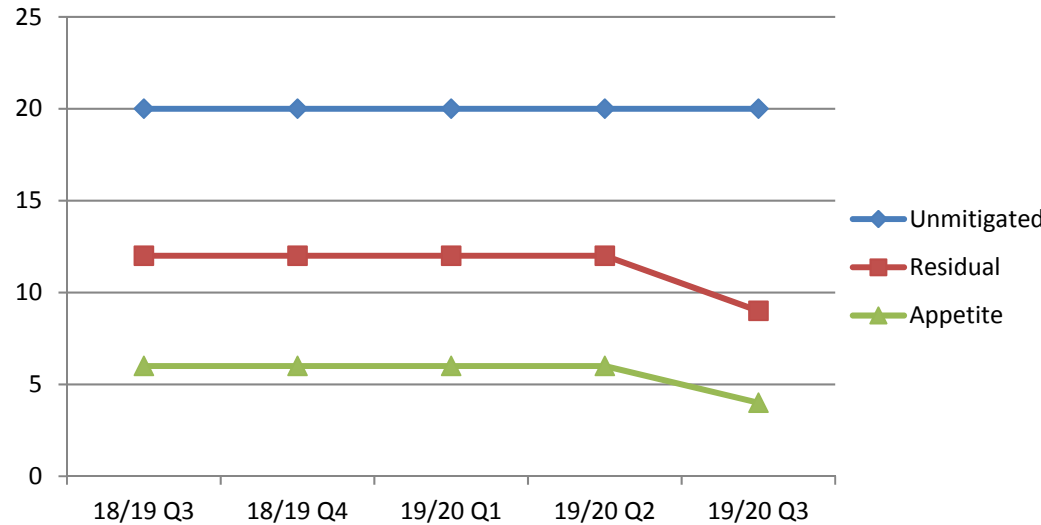
Unmitigated 5 x 4

Current Residual 3 x 3

Appetite 2 x 2

Potential Impact

Disruption to services.
Failure to meet statutory duties



Rationale for current score:

Increasing pressure on adults social care due to changing demographics and increase in complexity of people's comorbidity.

Rationale for risk appetite

Tolerance is medium due to small providers being able to absorb most service failures. A large care home/homecare failure would require significant Officer time to provide support. However as our market share is spread across a number of providers the risk is further mitigated with the exception of Nursing Dementia beds.

Current RAG rating	AMBER
--------------------	-------

Page 80

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- Providers that we commission (including in house provision) are required to have a business continuity plan which is checked as part of Quality Monitoring visits.
- Prepared a Section 75 for the Better Care Fund monies 2019/20 and for the Narrowing the Gap Framework.
- Key contracts are monitored on a regular basis as part of the contract performance. This should address any capacity or performance issues that might indicate that there may be issues with financial/general viability.
- Financial risk assessment of prospective suppliers is undertaken for all major contracts let by the Council and annual financial assessment checks where appropriate.
- An up to date contract register is in place.
- An accommodation strategy and pathway is being finalised to enable us to hold intelligent conversations with providers about our needs.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Shaping the Care at Home market (Home Care/ Supported Living) through the issue of a new dynamic framework contract that is fit for the future and supports creativity and innovation alongside best value	Assistant Director - DACHS	01.04.20
An updated Spot Contract to be prepared and issued to all relevant providers to ensure all providers are adhering to the Council's expectations.	Assistant Director - DACHS	01.05.20
Realigning the Commissioning and operational services in order to deliver improved working relationships with Providers to contingency plan for the future as demand grows	Assistant Director - DACHS	Sept '20

<i>Risk 5 continued</i>			
<p>Current Actions (<i>What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual</i>)</p> <ul style="list-style-type: none"> Preventative intervention by Quality Officers where providers are failing, to support them to improve and deliver a sustainable service if viable and appropriate. A review of the Quality Framework has commenced to better align safeguarding and quality functions in the support of providers and service users. 	<p>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</p>		
	<p>Embed the newly launched Care & Quality Board which will provide effective governance and oversight for Quality and Health & Safety matters within the Directorate</p>	<p>Officer responsible</p> <p>Assistant Director - DACHS</p>	<p>Target date</p> <p>01.04.20</p>

Risk 6: Insufficient vision and strategy for regeneration and economic growth leading to a lack of long-term investment in strategic infrastructure and consequential decline in economic growth and prosperity in Reading and the wider sub-region.

Risk Owners: Executive Director for Economic Growth & Neighbourhood Services

Corporate Priority: *Securing the economic success of Reading*

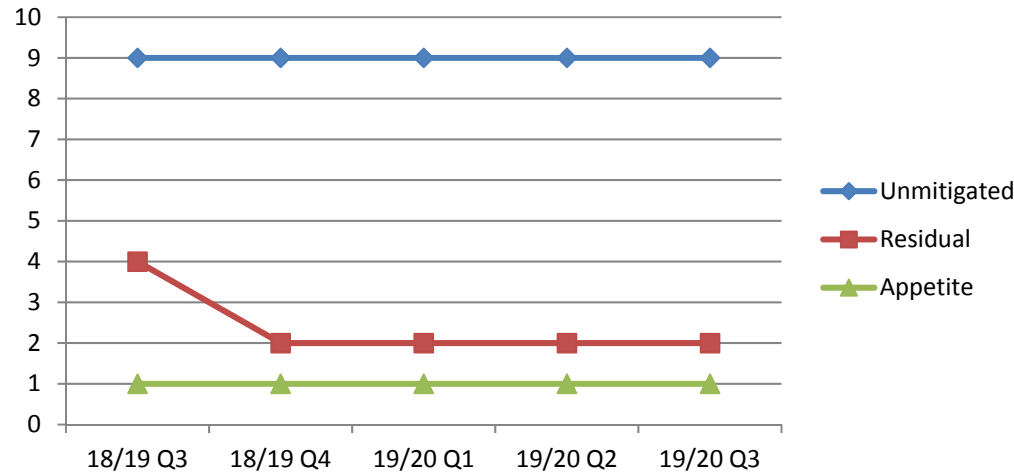
Risk Rating (Impact x Likelihood)

Unmitigated 3 x 3

Current Residual 2 x 1

Appetite 1 x 1

Potential Impact
Declining growth in Reading will present less job opportunities and a likely decline or stagnating incomes/living standards.



Rationale for current score:

Reading's (and the wider Thames Valley) economy remains relatively buoyant but will potentially be negatively affected by wider economic trends, including the impact of Brexit. The Council's role in creating the right conditions for growth is however significant.

Rationale for risk appetite:

The economic success of the town is critical to quality of life and also has an inherent link to demands on Council services as well as income.

Current RAG rating **AMBER**

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

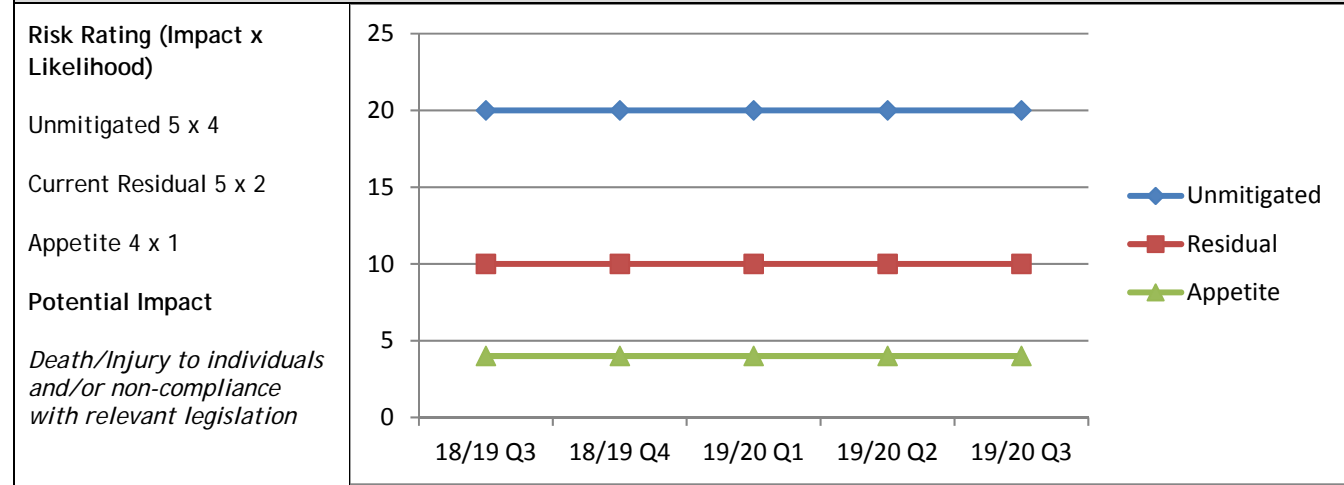
- A33 MRT schemes underway - phases 1 & 2 delivered, phases 3 & 4 due for completion end 2019. (Future phases subject to funding).
- Green Park station project - site mobilisation works commenced in Autumn 2018 with station opening in Winter 2021. Further investment at Reading West.
- Draft Local Transport Plan 4 to be published in Spring 2020 following a visioning consultation undertaken in 2019 with consideration being given to future demand management matters
- The Council's new Local Plan setting out how Reading will develop up to 2036 ensuring housing, economic, environmental and social needs are met adopted in November 2019.
- The Council's new build housing programme is adding to the supply of affordable housing in the town - Phase 1 completes Summer/ Autumn 2019 and will have provided 148 new affordable homes.
- Joint work with Reading UK CIC to market and promote the town and secure investment in a high quality town centre offer and explore opportunities to improve the public realm.
- Agreed Local Industrial Strategy including key matters related to inclusive and sustainable growth

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
A project to install a 3 rd Thames Bridge at East Reading at the base of the A329 is being worked up with neighbouring local Authorities. This would ease traditional bottlenecks at Reading and Caversham Bridges, also reducing Town centre congestion as traffic would no longer be required to travel from the A329 through the Town Centre to the current bridges	Strategic Transport Programme Manager	TBC - subject to funding
Consultation on Local Transport Plan 4.	Deputy Director of P.T & R Services	Spring 2020
Development of a town centre vision / masterplan to be an overarching plan to guide the development of the town including transport and public realm matters.	Deputy Director of P.T & R Services	Autumn 2019

<i>Risk 6 continued</i>			
Current Actions <i>(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)</i>			
<ul style="list-style-type: none"> • Delivery of a comprehensive cultural programme to raise Reading’s profile, including for inward investors, with this being a key shared endeavour with the Council, Reading UK and the University as key partners, including: <ul style="list-style-type: none"> - Re-opening the Abbey Ruins to the public and as a venue for a range of events and activities; - Further development of the Abbey Quarter, including significant investment in the Town hall & Museum; • Delivery of the three year ‘Great Places’ scheme, including a new annual Reading-on-Thames Festival started Sept 18 and due to return Sept 19 • Bid submitted to MoJ to purchase Reading Gaol site in order to secure a new mixed use development including a cultural offer. • Significant additional investment in road repair programme circa £9m. • Agreed appointment of a strategic leisure provider to design, build, manage and operate four leisure centres. Agreed £40m investment in new leisure centres and refurbishments. • Climate emergency - Completion of Reading Climate Change Strategy- published for consultation in spring. Council to set up its own Climate Change Board and developed a revised Carbon Plan. Capital funds of £7m + set out in the 20/21 3 year capital programme. 	Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
	Continue to develop a comprehensive network of sustainable travel choices, such as Park and Ride and enhanced public transport cycling and walking routes.	Strategic Transport Programme Manager	Ongoing - forms a part of the Council’s L.T.P
	Local Authority New Build Programme on Council owned land over the next three years: Phase 2 will deliver circa 100 affordable homes - spend approved; schemes working through Planning Phase 3 schemes will deliver a further net 44 affordable rented Council homes. Spend and scheme approval for 1 site required. Homes England bid submitted and approved subject to financial probity check. Planning Application to be submitted in January.	AD Housing & Communities and AD Property and Asset Management	2020-2022
	Secure appropriate and high quality development / re-development of the Reading Prison site to enhance the attractiveness of the town centre / Abbey Quarter as a destination.	Deputy Director of P.T & R Services	Ongoing and subject to MoJ
	Further develop delivery plans to achieve the 2050 vision and to secure additional resources linked to these plans building on ‘Smart City’ investment already secured.	Deputy Director of regeneration and assets	Ongoing
	Completion of Reading Climate Change Strategy- published for consultation in Spring 2020 and adoption in Summer 2020.	Head of Climate Change	Summer 2020
	Finalise contract with strategic leisure provider Spring 2020. Planning applications to be submitted in Summer 2020 and construction of new centres in winter 2020. New Leisure Centres open in 2022.	2021/22	Ongoing to 2022

Risk 7: The Council doesn't take adequate mitigation to reduce the risk of injury or death from incidents within Council residential accommodation and private high rise within the borough **Risk Owners:** Assistant Director for Housing & Neighbourhoods

Corporate Priority: *Improving access to decent housing to meet local needs*



Rationale for current score:
A significant amount of work has been undertaken and is underway (across the Council and Fire Service) following Grenfell Tower to address the issues raised by that incident. This has reduced the likelihood of a significant fire related incident but the impact remains high.

Rationale for risk appetite
The Council has a low appetite for injury or death to its residents' tenants. Considering that the impact of an incident is potentially a fatality, the Council's residual risk score may never reach our appetite.

Current RAG rating AMBER

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

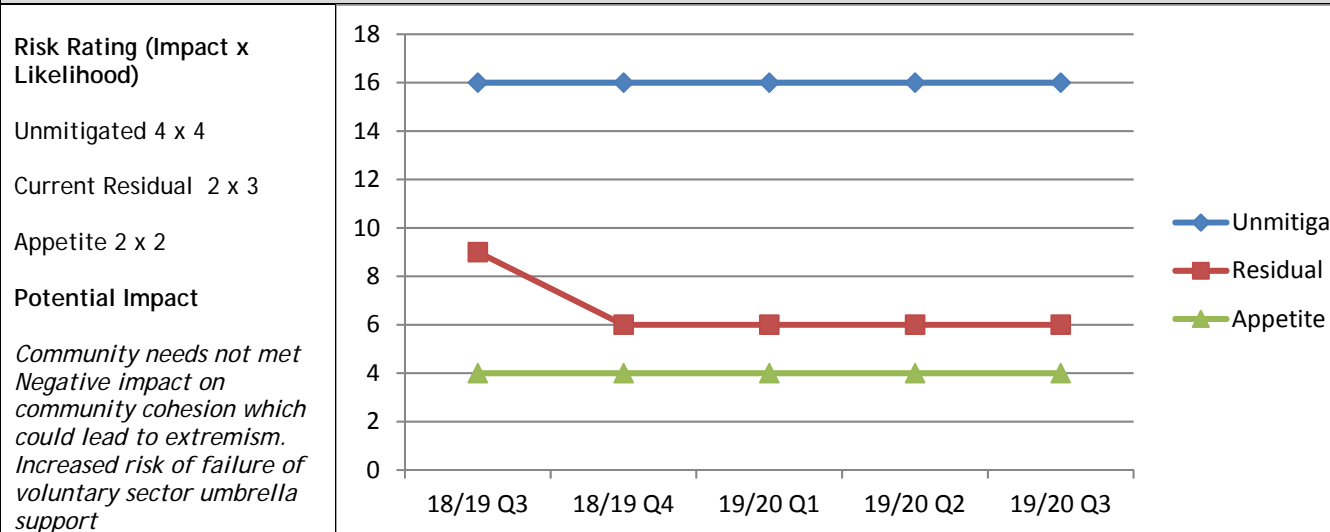
- Detailed Housing Service action plan completed in respect of fire safety post Grenfell Tower. H&S compliance monitoring has been reviewed and strengthened.
- Type 4 intrusive Fire Risk Assessments of sample high rise and other higher risk low rise blocks completed. Overall findings were positive. Advice re additional fire safety measures proposed to proactively improve safety in flatted blocks have been costed and scheduled - this has resulted in a capital requirement over 5 years of circa £6-7m in the Housing Revenue Account. Works have been or are being commissioned according to our 5 year programme of works.
- All 350 RBC flatted residential blocks had an FRA completed as at end December 2017 and are on a rolling programme of assessment per LGA guidance using external and internal capacity. Internal assessors are fully trained but we are now additionally seeking external accreditation.
- A block inspector regularly checks all blocks and housing officers are on site most days to ensure frequent monitoring. From this year every flat within the blocks will have their smoke alarm tested every year and tenants are encouraged to check them weekly.
- Joint RBC and Royal Berkshire Fire and Rescue Service (RBFRS) service inspections of priority high rise following an MoU. 89 residential buildings over 18 meters in height have been identified within the Reading Borough Council administrative area including the 7 local authority blocks.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
In 2018/19 a wider external audit of health and safety practice in Housing has been commissioned. Audit completed in 2018/19 with a focus on Construction, Design and management (CDM). Report and action plan finalised - with external assessor and actions are now complete	AD of Housing & Communities	Completed
Continue to work with and monitor owners response to remove cladding from three high rise properties. Work to remove cladding on two buildings has commenced. Address issues raised following the joint RBFRS inspections and react to emerging issues as they are identified.	Deputy Director of P.T & R Services	Ongoing
Continue to monitor our Corporate response via the Corporate Fire Safety Working Group. In particular, ensure that housing procured for vulnerable adults and children have the relevant agreements and checks in place.	Deputy Director of P.T & R Services	Ongoing

<i>Risk 7 continued</i>	
<p>Current Actions (<i>What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual</i>)</p> <ul style="list-style-type: none">• Working with owners to remove ACM cladding on three high rise buildings. Interim measures in place to secure safety of residents. Regular reporting to MHCLG.• Planning to implement new requirements to review in more detail all residential high rise over 18m, hotels and student accommodation. Data needs to be submitted by March 2020. Also reviewing what action will need to be taken once all the detail comes out from the review. It is anticipated that there will be significant follow up work.• Corporate working group set up to review, agree and implement actions arising. ASC are reviewing the procurement standards and checks within their housing. The issue has been raised with BFFC.	

Risk 8: Partnerships - Failure to develop and maintain key partner relationships results in failure to deliver key shared outcomes
 Risk Owners: Assistant Director Corporate Improvement and Customer Service & Assistant Director Transformation & Performance - DACHS

Corporate Priority: *Securing the economic success of Reading. Improving access to decent housing to meet local needs. Protecting and enhancing the lives of vulnerable adults and children*



Rationale for current score:
 A number of partnerships are embedded to secure strategic and operational outcomes.

Rationale for risk appetite:
 Appetite fairly low as the Council seeks to meet the needs of the community and maximise effectiveness and compliance with statutory requirements though working closely with key partners.

Current RAG rating AMBER

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- Reading 2050 vision document sets out a shared view of key priorities for the future of Reading. We will be working with partners across the town to identify the actions needed to deliver this vision a Reading Futures Commission group made up of key partners is being set up to steer this.
- Community Safety Partnership - brings together the Council, Police and a wider range of partners and agrees clear joint strategic priorities with activity monitored through a number of delivery groups reporting to the partnership; regular and structured liaison is in place between RBC/Police at a range of tiers.
- Local Enterprise Partnership and joint working to influence investment in infrastructure, skills and private sector to support economic growth.
- Cultural Partnership (CP) and Cultural Education Partnership (CEP) to drive delivery of a cultural renaissance and contribute to achieving priority social outcomes, including educational attainment, employment and employability, health and well-being (targeting more vulnerable groups / communities) - future shape of CP to be determined
- We have set up quarterly meetings of the chief executives voluntary and community sector sounding board to identify areas for joint working on key areas of concern

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Work to understand and improve partnership, voluntary sector and policy strategy across the council.	AD Corporate Improvement	Q2 20/21
Review the quality of partnership work and consider whether to reintroduce a Local Strategic Partnership body	AD Corporate Improvement	Q4 20/21
Review of Pilot work with the voluntary sector to deliver the adult social care front door function thus enhancing our wider preventative offer and reducing the need for reliance on statutory services	Assistant Director of Transformation and Performance	Jun 20

<i>Risk 8 continued</i>			
<p>Current Actions (<i>What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual</i>)</p> <ul style="list-style-type: none"> • Key stakeholder meetings are held with key partners on an ongoing basis • One Public Estate Partnership - to oversee and implement shared property ambitions across the public estate. • CSC - participation in statutory and strategic partnerships to include Local Safeguarding Board, Children’s Trust Board, Children’s Services Improvement Board, Health & Wellbeing Board. Strategic Management Group (TVP) • Undertaking an audit of current partnerships and partnership boards attended across the organisation. To inform proposals for future partnership approach and efficacy of existing partnerships. • Adult Social Care provider forums meet quarterly with a focus on new ways of working, areas for service developments and markets challenges • Adult Social Care and Health Integration and collaborative working is discussed at the Berkshire West 7 Programme Board that meets monthly. • 	<p>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</p>		
	<p>Launch of the Market Position Statement with Adults Social Care providers to provide clarity on the services direction of travel, service deficits and market shaping opportunities</p>	<p>Assistant Director of Transformation and Performance</p>	<p>June 20</p>
	<p>Market shaping events held across service areas providing clarity around areas of development for Adult Social Care with a view to finding creative solutions to meet needs</p>	<p>Assistant Director of Transformation and Performance</p>	<p>March 20</p>

<p>Risk 9: BFfC - Failure of the new Children’s Company to improve service levels and financial overspend, results in poor performance and accelerated adverse financial impacts (as failure to improve overspend means the Council is unable to access the delivery fund grant)</p>		<p>Risk Owner: Assistant Director for Procurement & Contracts</p>																					
<p>Risk Rating (Impact x Likelihood)</p> <p>Unmitigated 4 x 4</p> <p>Current Residual 4 x 2</p> <p>Appetite 2 x 2</p> <p>Potential Impact</p> <p><i>Financial overspend, poor service provision and impacts on children</i></p>	<table border="1"> <caption>Risk Metrics Data</caption> <thead> <tr> <th>Quarter</th> <th>Unmitigated</th> <th>Residual</th> <th>Appetite</th> </tr> </thead> <tbody> <tr> <td>19/20 Q1</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q2</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q3</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q4</td> <td>16</td> <td>8</td> <td>4</td> </tr> </tbody> </table>		Quarter	Unmitigated	Residual	Appetite	19/20 Q1	16	8	4	19/20 Q2	16	8	4	19/20 Q3	16	8	4	19/20 Q4	16	8	4	<p><i>Rationale for current score:</i></p> <p><i>Brighter Futures for Children is a new company and as such governance processes between Council and Company are still settling in and being developed.</i></p> <p><i>Rationale for risk appetite</i></p> <p><i>Delivery of services for Children is of the highest importance.</i></p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>Current RAG rating RED</p> </div>
Quarter	Unmitigated	Residual	Appetite																				
19/20 Q1	16	8	4																				
19/20 Q2	16	8	4																				
19/20 Q3	16	8	4																				
19/20 Q4	16	8	4																				
<p>Current Actions (What we are currently doing about the risk - Causes Unmitigated Score to reduce to Residual)</p> <ul style="list-style-type: none"> Contract governance arrangements have been set up to provide monthly reporting overviews on the BFfC finances, to enable early sight of any financial issues and concerns Part of the financial reporting includes updates on the delivery of the transformation plan to support both service improvements and efficiencies There are also informal meetings in place between RBC officers and the BFfC Officers, specifically regarding Finance, SLA performance and Transformation update BFfC Board and RBC have requested mitigation plans to address any overspend, which have been proposed and are being implemented From a service perspective, there is a monthly Children’s Services Improvement Board which also provides oversight and partner support to the BFfC overall Improvement Plan. Whilst this focusses on Children’s Services, the plan requires close working with Education and Early Years on overall system improvement 		<p>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</p> <table border="1"> <thead> <tr> <th></th> <th>Officer (s) responsible</th> <th>Target date</th> </tr> </thead> <tbody> <tr> <td>Ensure the appropriate informal meetings are set up</td> <td>Fiona Betts</td> <td>Complete & ongoing</td> </tr> <tr> <td>Continue to work with BFfC to ensure appropriate sharing of performance data and actions (both BFfC and RBC)</td> <td>KG/ Fiona Betts</td> <td>Complete & ongoing</td> </tr> <tr> <td>Agreement of the FY2021 Company Contract Sum and BFfC Business Plan</td> <td>JY/ PS</td> <td>Jan 2020</td> </tr> <tr> <td>Support the Improvement of recruitment and retention of staff at all levels with BFfC via the HR support SLA</td> <td>SS/JY</td> <td>Ongoing</td> </tr> </tbody> </table>			Officer (s) responsible	Target date	Ensure the appropriate informal meetings are set up	Fiona Betts	Complete & ongoing	Continue to work with BFfC to ensure appropriate sharing of performance data and actions (both BFfC and RBC)	KG/ Fiona Betts	Complete & ongoing	Agreement of the FY2021 Company Contract Sum and BFfC Business Plan	JY/ PS	Jan 2020	Support the Improvement of recruitment and retention of staff at all levels with BFfC via the HR support SLA	SS/JY	Ongoing					
	Officer (s) responsible	Target date																					
Ensure the appropriate informal meetings are set up	Fiona Betts	Complete & ongoing																					
Continue to work with BFfC to ensure appropriate sharing of performance data and actions (both BFfC and RBC)	KG/ Fiona Betts	Complete & ongoing																					
Agreement of the FY2021 Company Contract Sum and BFfC Business Plan	JY/ PS	Jan 2020																					
Support the Improvement of recruitment and retention of staff at all levels with BFfC via the HR support SLA	SS/JY	Ongoing																					

Risk 10: Adult Safeguarding - Risk of death harm or injury to vulnerable persons for whom we have a responsibility

Risk Owners: Executive Director of Social Care and Health

Corporate Priority: *Protecting and enhancing the lives of vulnerable adults and children*

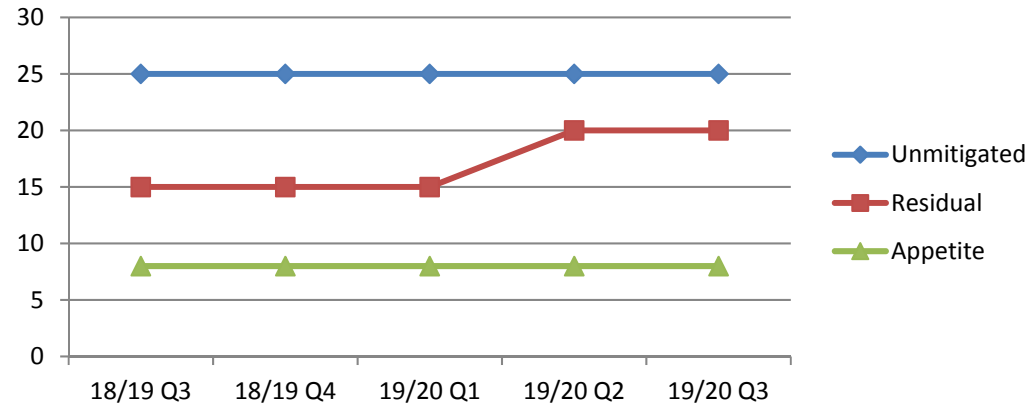
Risk Rating (Impact x Likelihood)

Unmitigated 5 x 5

Current Residual 5 x 4

Appetite 2 x 2

Potential Impact: Death or injury. Loss of reputation. Fines/penalties. Insurance claims. Legal challenges



Rationale for current score:

The nature of the business can result in vulnerable people being at risk of death or serious injury.

Rationale for risk appetite

Due to a number of measures being in place e.g. staffing, learning events, management oversight the risk appetite is low.

Current RAG rating **RED**

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- A Monthly Risk Enablement Panel is held for practitioners and managers to bring high risk cases for discussion and guidance (since Sept 2019). This includes escalation to multiagency panel if required. Ad hoc REP also held where cases are presenting multiple risks and pressures for partner agencies
- Safeguarding Manager sign off of all enquiry closures to ensure risks are mitigated and transferrable risks addressed
- Desktop sample audits are taking place re: open concerns and enquiries. This results in cases being flagged and discussion with practitioners and managers taking place by the Safeguarding Lead (undertaken monthly or more frequently where able).
- Monthly Safeguarding Managers meeting with Safeguarding lead and all TM and ATM to discuss practice, cases and management of safeguarding work across operational teams (since Oct 2019). Contracts team now invited to attend meeting to update on Provider concerns and share intelligence regarding pressures/ issues with providers. (starting Feb 2020)

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Director level oversight / weekly meetings with Safeguarding Lead to track key cases and discuss live safeguarding issues across the department	Deputy Director	31.3.20
Quality Assurance Framework to be revised to incorporate operational service standards. Quality Assurance Board to commence.	Head of Strategic Commissioning - DACHS	31.3.20
Develop Council wide response to Modern Slavery	Public Health Consultant	31.10.19
Action plan in place for the safeguarding service and being monitored across the directorate.	Deputy Director	31.3.20

This page is intentionally left blank

Agenda Item 7

READING BOROUGH COUNCIL REPORT BY

EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 th January 2020		
TITLE:	IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE & CONSUMER SERVICES
SERVICE:	AUDIT	WARDS:	BOROUGHWIDE
LEAD OFFICER:	JACQUELINE YATES	TEL:	x74710
JOB TITLE:	EXECUTIVE DIRECTOR OF RESOURCES	E-MAIL:	Jackie.Yates@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The outcomes of all internal and external audit reports are reported to this Committee.
- 1.2 The April 2018 Audit and Governance Committee agreed that to provide a greater focus on the importance of implementation of agreed audit recommendations an implementation tracker report would be reported to all future meetings of this Committee. This is the seventh report on the recommendation's tracker.
- 1.4 Appendix 1 attached sets out all audit recommendations not yet completed, the officer responsible for implementing them and progress with delivery.

Appendix 1 - Implementation of Audit Recommendations Tracker - January 2020.

2. RECOMMENDED ACTION

- 2.1 The Committee are asked to note the report.

3. POLICY CONTEXT

- 3.1 This report supports the Council's objective of ensuring that the Council is fit for the future.

4. THE PROPOSAL

- 4.1 A summary of those Internal Audit recommendations which remained outstanding at the last Committee together with an updated management response is provided in Appendix 1 attached. Those recommendations which were reported as closed (12) at the last meeting have been removed from the tracker and 38 new recommendations have been added to the report since the last meeting.

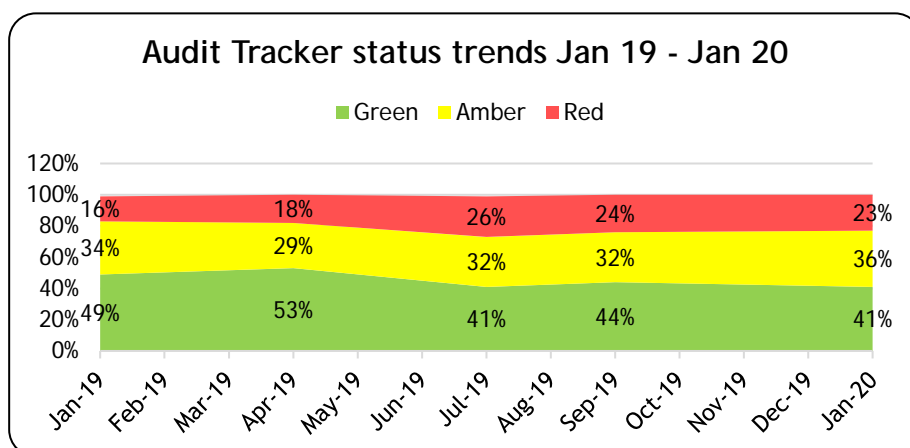
- 4.2 Prior to reporting to Committee officers responsible for implementing the specific recommendations are asked to update the 'Audit implementation tracker'. Each recommendation is marked with a percentage complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 26% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.
- 4.3 Once recommendations are reported as being 100% complete to the Committee they are removed from subsequent reports.
- 4.4 Where there is a lack of progress with implementation, e.g. successive missing of implementation dates etc. The Assistant Director and responsible officer (if they are different) will be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.
- 4.5 There are 98 Internal Audit recommendations on the tracker attached at Appendix 1, the status is as follows

Status	Percentage	Number
Green	41	40 (21 complete)
Amber	36	35
Red	23	23

21 recommendations are completed and will be deleted from the next report.

RAG Status	Audit & Governance Meetings		
	Sept 19	Jan 2020	Trend
Green	44%	41%	Decrease
Amber	32%	36%	Increase
Red	24%	23%	Decrease

The graph below shows trends in status for recommendations presented to Audit & Governance meetings over the past year. There has been a 1% decrease in those recommendations rated red since the last report.



5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The proposals contained in the report support the Council's Corporate Plan priority to:
- Remain financially sustainable to deliver its service priorities.

8. LEGAL IMPLICATIONS

- 8.1 The Council has a duty under the Accounts and Audit Regulations to ensure it has in place a financial control framework which is fit for purpose. It also has a duty to ensure Value for Money in the provision of services.

9. FINANCIAL IMPLICATIONS

- 9.1 Whilst there are no specific financial implications arising directly from this report, the timely implementation of audit recommendations is critical in strengthening the Council's internal control and governance arrangements.
- 9.1 The Council's Chief Internal Auditor's reports have over several years repeatedly reported that audit recommendations made in previous audits have not been implemented. This does not represent value for money from either an audit or wider organisational perspective.
- 9.2 Poor systems of internal control and financial governance potentially leave the Council exposed to loss and will result in higher external audit costs due to the lack of assurance they provide and the consequential higher testing thresholds required by the Council's external auditors.
- 9.3 Whilst there are still many recommendations that are RAG rated red, there has been positive engagement with the arrangements and significant improvement since implementing the new tracking and reporting process.

10. BACKGROUND PAPERS

- 10.1 Internal Audit Reports presented to Audit and Governance Committee, Chief Internal Auditors Annual Reports.

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
1	DoR	Bank rec & control account reconciliations	<p>1. A corporate approach for producing reconciliations, evidencing balances and for monitoring the completion status, issues and their resolution needs to be produced and agreed.</p> <p>2. Greater staff/resource resilience is required to ensure the reconciliations are completed on a timely basis throughout the year.</p> <p>3. Departments should be required to provide a reconciliation position statement each month.</p> <p>4. Response will be addressed in rec 5 2017-18 action plan</p> <p>5. In conjunction with recommendation 3, reconciliation needs to be brought up to date.</p> <p>6. The completion and review of the bank reconciliation status MUST be a monthly key priority.</p>	16/17	9-Feb-17	4-Oct-17	Matt Davis - Assistant Director of Finance	All these recommendations have been implemented with the exception of inclusion in the monthly monitoring (recommendation 6) which is currently being reviewed and this recommendation will be included as part of that review	10-Jan-20	76 or more	Green
2	DoR	Bank rec & control account reconciliations	<p>Following implementation of recommendation 1 of last years action plan, business process documents should be written for each reconciliation process to include:</p> <ul style="list-style-type: none"> • Purpose of the procedure (impact on council) • Clearly define the outcome of the process • Name the process in accordance with naming conventions • Define the start and end of the process • Outline who does what and responsibilities - not person specific but role specific • Tools to complete the process, Systems, printing, marking etc. • Exceptions - if process goes wrong, system down etc. • Individual steps to get from start to finish • Reports used etc. • What to do when completed - balanced and unbalanced, actions, financial levels, responsibilities and authority • Review and sign off by the Assistant Director of Finance • Reporting framework • Evidence • Storage & protection 	16/17	9-Feb-17	4-Oct-17	Matt Davis - Assistant Director of Finance / Wai Lok Technical Lead	The Technical Accounting team are using the new procedures and will review them fully once the backlog of issues with the Statement of Accounts have been cleared. Reconciliations are being submitted monthly to the Chief Accountant for review. The bank reconciliation processes have now been documented and documentation of the other reconciliations will be implemented and reviewed as part of implementing the monthly tracker process. No further progress has been made on these recommendations due to closing of accounts and budget preparation taking precedence. A minor restructure within finance has created greater capacity for and focus on reconciliation processes	10-Jan-20	76 or more	Green
3	DoR	Creditors/AP	Operational issues identified should be addressed in new procedure manual to avoid reoccurrence.	18/19	1-May-18		Matt Davis - Assistant Director of Finance/ Christopher Beauchamp - Exchequer Manager Jennifer Bruce - Financial Systems Manager	The Technical Accounting team are using the new procedures and will review them fully once the backlog of issues with the Statement of Accounts have been cleared. Reconciliations are being submitted monthly to the Chief Accountant for review. The bank reconciliation processes have now been documented and documentation of the other reconciliations will be implemented and reviewed as part of implementing the monthly tracker process. No further progress has been made on these recommendations due to closing of accounts and budget preparation taking precedence. A minor restructure within finance has created greater capacity for and focus on reconciliation processes	10-Jan-20	51 to 75	Amber
4	DoR	Creditors/AP	Documented processes for all areas of operation linked to clearly defined roles and responsibilities for members of staff. This would include identifying the business interfaces and expectations around processing, time taken volumes of business for areas like Mosaic payments or expenditure limits on cost centre codes etc.	16/17	25-Mar-17	1-May-18	Matt Davis Assistant Director, Chris Beauchamp - Exchequer Manager	SLA set up for Brighter Futures for Children (BFFC). For RBC our Fusion system is under review, this review is looking into our current setting and interfaces between Fusion and Mosaic/Planet FM. These will need to be reviewed in light of the Oracle health check. As above completing this recommendation is dependant upon the review of operating procedures around the accounts payable process	10-Jan-20	51 to 75	Amber

Page 91

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
5	DoR	Creditors/AP	Need to clearly identify the strategic contribution of AP to the authority and what is required to make AP business process(es) effective for efficient use of AP for the council.	16/17	23-Mar-17	1-May-18	Matt Davis - Assistant Director of Finance Chris Beauchamp - Exchequer Manager	The strategic contribution is for accounts payable to enforce controls of expenditure on the Council. The main focus of this will be the roll out of supplier portal, to reduce costs to the council in terms of processing. This has been delayed due to issues around the Fusion open purchase order report that has prevented a clean up of open purchase information, clean up is happening now. The portal has been tested and is working, suppliers to be invited to use portal and to send invoices directly into the Fusion scanning/imaging solution, mass/auto matching within fusion to be considered once 75% of suppliers on-board with portal/scanning solution. Open PO's/receipts to be address for each supplier when invited to Supplier Portal. P2P is not voluntary and all invoices being processed through Fusion do have PO No.'s. The above is covered by the P2P compliance project. Suppliers currently being added to the supplier portal on an add hoc basis (if requested) and all the purchase orders are up to date, mass roll out to begin in September 2019	10-Jan-20	51 to 75	Amber
6	DoR	Creditors/AP	Need to review the supplier database and cull inactive suppliers as well and consider if centralisation of procurement would be more cost efficient in terms of ordering and paying for goods and services.	16/17	23-Mar-17	1-May-18	Chris Beauchamp - Exchequer Manager	Cull of inactive suppliers all done. The role of supplier set up and maintenance is moving to procurement who are currently recruiting to the position, they are also undertaking a project to create a preferred supplier list. This is no longer an AP responsibility. Supplier portal roll out has been delayed.	14-Jan-20	51 to 75	Amber
7	DoR	Debtors	All staff who raise invoices should be reminded that: a) invoices should be raised accurately and on a timely basis; b) each invoice should bear the necessary information or detail to reduce the likelihood of subsequent customer queries; c) as a principle services should not continue to be provided until outstanding invoices have been paid; d) there should be clear supporting records and information concerning the invoice that is easily accessible and understandable in the event of future query or need.	17/18	5-Jun-17	7-Feb-18	Chris Beauchamp - Exchequer Manager	Cull of inactive suppliers all done. The role of supplier set up and maintenance is moving to procurement who are currently recruiting to the position, they are also undertaking a project to create a preferred supplier list. This is no longer an AP responsibility. Supplier portal roll out has been delayed.	14-Jan-20	51 to 75	Amber
8	DoR	Debtors	It is further suggested that the role and work undertaken by Legal Services in the recovery of unpaid items is reviewed and re-evaluated to ensure it remains appropriate and fit for purpose. Once it is clear what is agreed it is recommended that this is defined in an SLA between Legal Services and Income & Assessment.	17/18	5-Jun-17	7-Feb-18	Chris Beauchamp - Exchequer Manager	A Service Level Agreement (SLA) with legal is still being developed to clarify the role of legal in the recovery of unpaid debt. Regular monthly meetings between legal services and income and assessment are underway until the SLA is being is fully developed and agreed - No change - ETA March 2020	14-Jan-20	51 to 75	Amber
9	DACHS	Direct Payments	It is strongly recommended that the strategy to deliver pre-paid cards is reviewed and where appropriate tightened so that (unless there are good and documented reasons not to do so that are assessed on a case by case basis) the principle of their adoption (of pre-paid cards) becomes understood and accepted as the norm. It is also recommended that management identifies whether there needs to be a programme of education or support across relevant areas in the directorate (including care management colleagues) so that the take up is increased and it is further suggested that targets are set for this to happen. An option may be for the Council to remove the choice aspect and explore moving all (new) clients straight on to Pre-paid cards, as some other local authorities already do.	17/18	24-Nov-17		Stephen Saunders, Principal Personal Budget Support Officer	Since January 2019 pre-paid cards have been the default offer for all new and reviewed cases. Over 80% of all direct payment recipients are now operating that payment via a pre-paid card. Pre-paid cards continue to be our default offer and are monitored through ERRG and performance statistics are recorded weekly.	20-Dec-19	Complete	Green

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
10	DACHS	Financial Deputies	The premise of the team needs to be reviewed. If the team is to be cost neutral, this needs to be carefully costed out to ensure that this is achievable (particularly in terms of income targets).	17/18	16-Feb-18	01-Jun-18	Jo Purser, Locality Manager Adult Social Care Long Term Services	A review of the Deputies teams functions is being completed by Jon Dickinson, this will be completed by April 2020. The service will be bench marked and good practice highlighted.	10-Jan-20	76 or more	Green
11	DoR	General Ledger	There needs to be consistent control over data entry from feeder systems that standardises and controls data input to reduce the need for journals to amend miscoded items. The number of Oracle Fusion codes needs to be reviewed with a view to identifying key codes and removing redundant or unused codes.	17/18	6-Apr-17	31-May-18	Matt Davis - Assistant Director of Finance mike	Daily reports produced and sent to owners of feeder systems for checking that totals loaded correctly. The cost centre hierarchy has had a full review and was totally rebuilt in July, but there is still work outstanding on the subjective hierarchy to carry out the same process to ensure that its in line with the subjective analysis at the back of SeRCOP, and meets reporting requirements going forwards.	22-Aug-19	51 to 75	Amber
12	DoR	General Ledger	All journals need proper designation as to the type of journal and its purpose.	18/19	4-Jun-18		Wai Lok, Technical Lead	An initial review has been conducted by the Technical Accountant which has not identified any significant issues with current practice. A further review will be conducted once the Statement of Accounts issues are resolved.	10-Jan-20	76 or more	Green
13	DoR	General Ledger	The number of codes that are being used for one off transactions needs to be reviewed to ensure that this is the most efficient way to record financial information.	18/19	4-Jun-18		Wai Lok, Technical Lead	The Financial Systems Team have been working with Oracle as part of the overall review of the Financial System and codes. Inter company accounting transactions have been implemented successfully. Further advice on the use of codes is expected to be provided by Oracle following their review of the Fusion System.	10-Jan-20	51 to 75	Amber
14	DoR	HB Subsidy	It is recommended that: a) backfill for seconded positions needs to be in place earlier. b) consideration is given to the number of contractors in place in key positions within the team. c) a clear plan is put in place for quality checking going forward. This needs to include the identification and reporting of issues relating to individuals to allow them to be addressed in a timely manner.	16/17	17-Sep-17		Sam Wills - Interim Income & Assessment Manager	10% Quality checking remains in place with contractor. Regular training updates provided to staff as well as continued use of a subsidy expert. Achieved zero subsidy loss in audit of 17/18 claim & 18/19 claim. Use of agency staff ceased, and minimal use of resilience contract.	14-Jan-20	Complete	Green
15	DoR	Health & Safety	There needs to be confidence in the integrity of the staff health and safety training data held on I-Trent and that it is accurate and kept up to date so that reliance can be placed upon this. This may involve some further work to achieve this and possibly some prioritisation of resources by Training / HR.	16/17	8-Feb-17	29-Sep-17	L&D - Russell Gabbini	The Organisational and Workforce Development Manager is leading on the training actions. Although data cleanse has now taken place, the H&S Manager is concerned that data re level of staff responsibilities is incorrect. Assistant Director of HR and OD, H&S Manager and OD Manager to develop an action plan to resolve this issue. Where it is clear that staff have a confirmed level of responsibility, staff are being targeted to undertake the correct level of responsibility. When we are confident that the data is correct, a programme of refresher training will be delivered commensurate to appropriate levels of responsibility. A pilot exercise is underway, using two service areas to ascertain whether the data re responsibilities can realistically be collated by managers within directorates. This will be complete by March 20	14-Jan-20	51 to 75	Amber

Page 96

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
16	All	Health & Safety	Once the exercise to cleanse data has been completed, where it has become flagged that staff training is not up to date, then a programme of training to remedy this should be implemented.	16/17	8-Feb-17	29-Sep-17	L&D - Russell Gabbini	The Organisational and Workforce Development Manager is leading on the training actions. Although data cleanse has now taken place, the H&S Manager is concerned that data re level of staff responsibilities is incorrect. Assistant Director of HR and OD, H&S Manager and OD Manager to develop an action plan to resolve this issue. Where it is clear that staff have a confirmed level of responsibility, staff are being targeted to undertake the correct level of responsibility. When we are confident that the data is correct, a programme of refresher training will be delivered commensurate to appropriate levels of responsibility. This will be complete by March 20	14-Jan-20	51 to 75	Amber
17	DoR	Information Governance and Data Protection	All staff identified as being key to a properly managed information governance process should have their roles and responsibilities reflected in their job descriptions.	16/17	7-Oct-16	9-Apr-18	Chris Brooks - Assistant Director of Legal & Democratic Services	This is to be actioned. Discussions are in hand with HR to determine whether it is appropriate that the roles and responsibilities of Information Governance are to be added to Job Descriptions. Chris to meet with Shella Smith to discuss.	15-Jan-20	25 or less	Red
18	DoR	Information Governance and Data Protection	Information Asset Owners (IAO) need to be formally appointed for each system that processes personal data with responsibility for ensuring that it operates within the policies and procedures governing information security and data protection including ensuring access to data is only by authorised persons.	16/17	07-Oct-16	9-Apr-18	Chris Brooks - Assistant Director of Legal & Democratic Services	IAO guide drafted and taken to CMT on 30.04.2019. The report set out who the role of IOA sits with Heads of Service and Assistant Directors unless delegated. Chris emailed all Head of Service and Assistant Directors for nominations. Data Protection Officer is currently developing the ROPA spreadsheet for each directorate which will document IOA's. The Caldicott Guardian for Adults has taken this to DMT to progress	10-Jan-20	51 to 75	Amber
19	DACHS/ DCEEH	Mosaic Fusion Year end reconciliation audit	Increased emphasis needs to be placed on the importance of ensuring that data held within Mosaic is of an appropriate quality. This includes ensuring that placements are reflected in a timely manner (purchase orders created, amended and closed), so that commitments are accurately reflected and discrepancies and missing invoices can be identified and addressed.	16/17	17-Oct-16	01-Nov-17	Jon Dickinson - Deputy Director of DACHS	This continues to be monitored on a month to month basis at Performance board and continues to be significantly lower than before. Weekly reports are distributed to managers for data accuracy. Any outstanding data quality issues are being challenged at the monthly performance board.	8-Jan-20	76 or more	Green
20	DoR	Mosaic Fusion Year end reconciliation audit	There should be clearly documented policies and procedures for the year end reconciliation and associated accruals process. These should be available to all relevant individuals and reviewed and updated as necessary on a regular basis to reflect current practice.	16/17	17-Oct-16	01-Nov-17	Nick Penny Strategic Business Partner - DACHS	Notes are currently being prepared by the DACHS Finance team and will be signed off by the Strategic Business Partner.	14-Jan-20	76 or more	Green
21	DACHS	Public Health	The recharge of central establishment costs to the public health grant should be done in a timely fashion and in such a way as those costs are transparent and commensurate with the resources employed by the authority to administer the grant monies.	17/18	29-Sep-17		David Munday Consultant in Public Health	The corporate recharges for 2019/20 are being processed in January, there is modelling that sits behind this so that the charges to public health are transparent.	16-Jan-20	76 or more	Green

Page 97

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
22	DEGNS	S106	The roles and separations of duties for the Policy Team and Administration Team need to be reviewed to ensure there is inclusion and oversight for the full monitoring of all S106 monies.	16/17	30-Sep-16	14-Jul-17	Mark Worringham - Planning Policy Team Leader	In addition to new written procedures and staff training, the Planning service has now implemented a bespoke recording and monitoring system (Exacom) that coherently addresses the main control requirements for Section 106 processes. A regular or complete reconciliation between the respective record systems in Planning used to identify, track and manage S106 amounts and financial systems that record S106 amounts has not been possible until recently. This is mainly because of resource issues in Finance. A report from Finance was received in January 2019, and reconciliation has been carried out between Planning and Finance records. There remain some inconsistencies, most of which have been accounted for, but outstanding issues being followed up. A finance report to enable reconciliation has been requested on a more regular basis, but at August 2019, the most recent report received was January 2019. Access to Finance systems was requested and agreed in principle to allow Planning to generate reports and relieve pressure on Finance. However, this access has not yet been provided.	13-Jan-20	76 or more	Green
23	DEGNS	S106	The methodology for recording, collecting and monitoring the payment status of S106 monies need to improved urgently. In particular: a. It is strongly recommended the corporate debtor system should be used for the monitoring and collection of all S106 monies. Each sales requisition should be authorised by the PSM. In particular there is a need to establish clear separation of duties between the instigation, recovery and the monitoring of monies. b. The obligation index increases and revised amounts should always be recorded on Acumen. c. Provisional target dates should be established to monitor the status of payment triggers and for prompting the sales requisition. d. A monitoring procedure needs to be produced for reviewing the status of triggers and payments (who, how, when etc.). e. Oracle Fusion codes should be recorded on Acumen, and a record of receipts should also be recorded. Obligations, finance receipts and balances on Oracle Fusion balances should be regularly reconciled and reviewed by management. Evidence of reconciliations should be retained for an audit trail.	16/17	30-Sep-16	14-Jul-17	Mark Worringham - Planning Policy Team Leader	The Exacom System and updated procedures are now in place and are used in operations. This provides an appropriate methodology for recording, collecting and monitoring the payment status of S106 monies. After discussions with Finance it was agreed by the Assistant Director of Finance that the corporate Academy system for raising invoices was not appropriate for the purposes of raising and monitoring S106 invoices. It offers no advantages over the use of the facilities and reporting functions of the Exacom system. Indexation and revised amounts area recorded in Exacom. Trigger dates are a function of Exacom. Monitoring of triggers and payments is being undertaken by the Planning Policy Team Leader. Oracle Fusion codes are recorded on Exacom and receipts/ transaction numbers are also recorded on the system. Attempts have been made to reconcile planning records with Fusion, but there have been challenges in obtaining data in a timely manner because of resource issues in Finance. A Finance report was received in January 2019, and reconciliation has been carried out, and reports are requested on a regular basis to enable reconciliation. However, none has been received from Finance since January 19. A review to the procedure is being carried out, and is currently with management to be signed off. Access to Finance systems was requested and agreed in principle to allow Planning to generate reports and relieve pressure on Finance. However, this access has not yet been provided.	13-Jan-20	76 or more	Green
24	DOR	Use of Cash Vouchers & Cash Accounts	Documented procedures should be produced to:- a) stipulate the purpose of petty cash accounts e.g. what is considered to be appropriate expenditure, and what is not b) specify the recording, reconciliation and reporting requirements including the transfer of details on to Oracle Fusion c) define the control requirements for the safeguarding of cash and vouchers.	16/17	2-Nov-16	14-Jul-17	Matt Davis - Assistant Director of Finance Christopher Beauchamp - Exchequer Manager	12 petty cash/voucher floats now closed. Remaining RBC petty cash/voucher schemes to be closed in the coming months. No Change - ETA April 2020. Review to be undertaken to ensure that adequate controls and procedures are in place regarding usage of cash by the Deputies team.	14-Jan-20	51 to 75	Amber

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
25	DOR	Use of Cash Vouchers & Cash Accounts	<p>Controls need to be introduced within the APT to confirm the completeness and accuracy of the floats in circulation and to ensure that petty cash claims are appropriately authorised. This should involve:-</p> <p>a) Conducting an annual review to ensure the records are correct and up to date.</p> <p>b) Introducing a system for recording the issue, transfer and return of floats. Where floats are transferred between officers a copy of the transfer note must be forwarded to the APT.</p> <p>c) Introducing a check control whereby the APT confirms the accuracy of the float balance and of the authorisation details each time a claim is made.</p>	16/17	2-Nov-16	14-Jul-17	Matt Davis - Assistant Director of Finance Christopher Beauchamp - Exchequer Manager	12 petty cash/voucher floats now closed. Write off will be required as starting balances not recorded on all floats, all floats have also been processed on the post office account with limited information. New accounts to be set up in Fusion for any remaining floats and a balance agreed with teams. No Change - April 2020. . Review to be undertaken to ensure that adequate controls and procedures are in place regarding usage of cash by the Deputies team.	14-Jan-20	51 to 75	Amber
26	DEGNS	Waste Operations	Trade waste contracts should contain accurate details of the number of bins and frequency of collection. This should agree with records in Flare. Care needs to be taken to ensure that charges made for trade waste as a minimum cover the costs of providing the service.	16/17	12-Dec-16	24-May-17	Michelle Crick - Waste Services Manager/ David Moore - Neighbourhood Services Manager	A waste management software system has been purchased and a soft roll out for green waste has been completed. Roll out to all crews to take place at end April and then the Trade Waste module will be implemented. The Whitespace system is in place and has been successfully tested for Green Waste and for Domestic waste with real time data being gathered. The system will go live at the call centre on 22nd July subject to the missed bins coordination with the Firmstep system being completed by the web team. A demonstration of the trade waste element of the system has been received and work is beginning to populate this system with a view to going live in September. Missed bin reporting forms for Firmstep are not yet complete and it is unlikely that the system for missed bins will be operational before the end of September. Trade waste roll out will then follow after that, but resource in the web team is preventing completion of this project. The missed bin work is scheduled for completion by end Jan. Resources then will be allocated to complete the Green Waste module before looking at other modules that need completing	15-Jan-20	76 or more	Green
27	DoR	Additional Payments	<p>There should be a clear policy for each type of allowance and additional payment. These should be reviewed on a regular basis and updated as necessary.</p> <p>All additional payments should be made in accordance with the relevant policy and be consistent across teams, departments and directorates and adhered to in every instance.</p> <p>Policies and procedures should be publicised and promoted to relevant staff and managers and be available on Iris.</p>	18/19	31-Mar-19		Shella Smith - AD of HR and Organisational Development	A review of all employment policies is already underway. The revised policies will need to be consulted on or negotiated with the recognised trade unions (as appropriate) and approved by Personnel Committee. The review is due for completion by March 2020. The policies covered in this audit will be prioritised.	10-Jan-20	26 to 50	Red
28	DoR / DEGNS	Network Security (ICT)	Full visibility of the transport sections ICT needs to be established to ensure that a consistent corporate standard for network security is applied	18/19	18-Oct-18		Martin Chalmers - Chief Digital & Information Officer Cris Butler - Strategic Transport Programme Manager	It has been ascertained that the transport network is isolated from the corporate network, with contracts in place with external system providers who cover penetration testing of that network separately. Audit have now confirmed the transport systems do not pose a risk to the corporate network. However, as a part of the corporate restructure and future new ICT Operating Model, officers are tasked with reviewing how transport systems are currently managed and supported, with a view to transferring them onto the corporate network / new operating model as soon as practicable. the Transition Manager has been working with Channel 3 (the Third party organisation assisting the Council with selecting, procuring and transitioning to a future ICT model) who have completed their initial options appraisal, and expect to now move to a second Discovery Phase to help inform future procurement specifications starting Jan 2020.	2-Jan-20	51 to 75	Amber

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
29	DoR	Network Security (ICT)	Council make Cyber Security and Cyber awareness training mandatory for staff	18/19	18-Oct-18		John Barnfield (On behalf of) Russell Gabbini - Organisational and Workforce Development Manager	After evaluation of a number of online training packages, a business case has been presented for the purchase of CC2i Dojo Training for Cyber Security, Information Governance and Councillor Security @ a £7,700 one year cost. Workforce Development will now download the modules to Learning Pool, and prioritise the roll out of training to staff. A second Phase of LGA Cyber Security Funding to be for bids in Feb 2020, so the cost of this training may be recovered if the Council is successful in bidding,	2-Jan-20	51 to 75	Amber
30	DoR	Network Security (ICT)	The council's disciplinary procedures are amended to reflect the seriousness of not ensuring that laptops are properly patched.	18/19	18-Oct-18		John Barnfield - ICT Technology and Services Manager	The Council's existing ICT Policies already clearly link to the Council's HR Disciplinary Procedures / Code of Conduct and Member Code of Conduct processes. The ICT Policy Statement and ICT Use and Information Policy make clear that failure to adhere to policy may result in disciplinary action. The ICT Policy and Golden Rules have been amended to reinforce need to reload desktops and will be published on the new intranet. All Policies have been reviewed and updated where necessary for 2019/20. CMT and December Policy Committee approved the ICT Policy Changes, along with a delegation to the Director of Resources/Lead Member to approve future ICT Policy changes to allow faster publication of policy revisions in the future. Formal roll-out to Staff and Councillors will commence in January. Meanwhile based on the recommendations being issued by the National Cyber Security Pathfinder conferences, reminder emails are being issued to Staff to remind them of the increasing Cyber security threats and the actions they need to be taking to manage risks in this area including reloading laptops regularly.	2-Jan-20	76 or more	Green
31	DoR	Network Security (ICT)	There should be regular threat monitoring reports produced by Northgate that include potential hacking incidents and virus software activation to contain threats to enable RBC to take preventative action on staff activity if appropriate.	18/19	19-Sep-18		John Barnfield - ICT Technology and Services Manager	External e-mail and web URL scanning, external firewall protection, server anti-virus and desktop anti-virus software all in place and provide continuous automated threat protection. To implement dashboard style Proactive Event Monitoring and Alerting will require investment in additional SOC/SIEM products. Unfortunately the LGA failed to allocate funds to the Assuria Proposal, so further market investigation has bought forward a similar scalable cloud hosted dashboard based product called Log point, and a business case will be prepared to look at options for funding the £20K 1 year cost as a Reading only purchase.	2-Jan-20	26 to 50	Red
32	DEGNS	Bus Subsidy Grant 17/18	Corporate Finance in conjunction with Services should ensure the accounts for funds received under the auspice of a grant determination are produced for certification on a timely basis.	18/19	7-Nov-18		Nick Penny Strategic Business Partner	The Finance team will review all DEGNS revenue grants and work with relevant individuals within the service to ensure that where they require an audit that the process is monitored closely and managed. The 18/19 relevant grants have been signed off.	14-Jan-20	76 or more	Green
33	DEGNS	Integrated Transport Grant 17/18	Corporate Finance in conjunction with Services should ensure the accounts for funds received under the auspice of a grant determination are produced for certification on a timely basis.	18/19	7-Nov-18		Nick Penny Strategic Business Partner	The Finance team will review all DEGNS grants and work with relevant individuals within the service to ensure that where they require an audit that the process is monitored closely and managed. The 18/19 relevant grants have been signed off.	14-Jan-20	76 or more	Green

Page 100

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
34	DACHS	Continuing Healthcare	It is recommended that the Head of Service works with CCG partners to establish and agree a locally set of documented specifications and standards that detail what the joint arrangements for the procedures and timescales for the application, assessment and recording of CHC cases should be. Once agreed these should be signed off by both parties and all relevant staff advised accordingly.	18/19	27-Nov-18		Jo Purser, Locality Manager Adult Social Care Long Term Services	Locality manager continues to work with the CCG to ensure the CHC framework is followed. The development of a local disputes policy and implementation is required.	14-Jan-20	51 to 75	Amber
35	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that the existing guidance for Gifts, Hospitality and Declarations of Interests should be reviewed for consistency, ambiguity and clarity. In particular a single Gifts and Hospitality Policy introduced which is linked to any further detailed advice and standards that employees must adhere to, such as the Code of Conduct. The policy should include examples of Gifts and Hospitality that can be accepted or rejected, as before, as well as guidance about how to treat such offers, how offers should be recorded, when and who to send the information to and who to contact for further advice.	18/19	18-Dec-18		Chris Brooks, AD of Legal and Democratic Services Shella Smith, AD of HR and Organisational Development	A revised Gifts and Hospitality Policy has been drafted and will be presented to CMT for approval in February 2020	10-Jan-20	26 to 50	Amber
36	CRO	Employee Gifts, Hospitality and Declarations of Interest	To fully demonstrate commitment to the Nolan Principles it is recommended that an annual declaration of returns is completed by all staff members for individual Gifts, Hospitality or new Declarations of Interest forms. Furthermore, as per CMT's mandate in November 2017, it should be determined whether specific service areas should be targeted to ensure full and complete declarations are completed regularly. The Head of HR and Organisational Development will need how best to achieve this i.e. by using NetConsent or potentially via i-Trent.	18/19	18-Dec-18		Chris Brooks, Chris Brooks, AD of Legal and Democratic Services Shella Smith, Head of HR and Organisational Development	We believe that an annual reminder should be sent to employees to confirm that they should be aware of the policy and that declarations should be made in accordance with it. This should relate to offers of gifts and hospitality that are both accepted and declined and all declarations of interest. Prior to the implementation of an automated system, we will explore alternative means for achieving this requirement. Using iTrent for this purpose can be explored after phase 1 and 2 of the project to improve its functionality has been completed. This is likely to be in Spring 2020.	10-Jan-20	51 to 75	Amber
37	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that all offers of gifts and hospitality and declarations of interests are recorded on a corporate system (potentially on i-Trent when the facility becomes available) and for a summary report on reported activity to be reported by the Head of HR and Organisational Development to CMT each year.	18/19	18-Dec-18		Shella Smith, AD of HR and Organisational Development	Agreed. This will be explored after phase 1 and 2 of the project to improve iTrent functionality and roll out self-service has been completed. This is likely to be Spring 2020.	10-Jan-20	51 to 75	Amber
38	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that the option potentially being considered to use i-Trent to record all declarations of interests, gifts and hospitality is supported by Audit and should be progressed as soon as is practicable.	18/19	18-Dec-18		Shella Smith, AD of HR and Organisational Development	Agreed. This will be considered once the iTrent self service roll-out is complete, in March 2020	10-Jan-20	25 or less	Red
39	DEGNS	Commercial leases	Consideration should be given to bringing together (centralising) the management and administration of (non-housing) properties under one team. This could include acquisition, disposal as well as lease and income management. Any such proposal would have to be financially variable and appropriately resourced.	18/19	05-Dec-18		Charan Dhillon Assistant Director, Property & Asset Management	The development of a Corporate Landlord Model will facilitate this work. The priority is to enhance existing practices and processes and undertake a reorganisation of the Property & Asset Services ensuring it is fit for purpose and able to effectively deliver existing responsibilities as well as this improvement.	3-Jan-20	25 or less	Amber
40	DEGNS	Commercial leases	There is a need for a corporate integrated property asset system that is fully compliant with accounting requirements. This is something we would encourage, in order to reduce staff time spent managing the spreadsheet and ensure greater accuracy in (financial) reporting.	18/19	05-Dec-18		Charan Dhillon Assistant Director, Property & Asset Management Matthew Davis, Assistant Director of Finance	A software solution has been purchased from CIPFA by the Finance Service, being the only fully International Financial Reporting Systems (IFRS) compliant product found available. The Property & Assets Service is trialing the Asset element of this software, to assess its effectiveness, with a view to purchase early 2020 if the demonstration evidences the required outputs will be achieved.	3-Jan-20	51 to 75	Amber

Page 101

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
41	DoR	Debtors - follow up review	<p><i>New recommendation</i></p> <p>The procedures and processes for managing and monitoring sundry debt need to be strengthened to actively reduce and prevent the current level of debt. The following areas should be considered:-</p> <ul style="list-style-type: none"> * distribution of aged debtors report should be specific to the service. * all services should promote payment at the point of supply of service etc. * arrears should be analysed to identify services and reasons for arrears so that a targeted approach can be instigated. * services should be required to provide an account of the reasons for their arrears alongside the reasons for their budget variance status as part of the regular budget monitoring process/es. 	18/19	29/01/2019		Chris Beauchamp Exchequer Manager	New processes and procedures for managing the sundry to be introduced when Accounts Receivable move to Oracle Fusion this will specific reports to services and report to enable the collection teams to be more efficient - No Change however there are new processes are in place with regards to ASC debt and its collection	14-Jan-20	25 or less	Red
42	DoR	Business Rates	The Property Inspector should update the Local Taxation Inspector and Inspections procedure documents.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	The current local taxation inspector has created procedure documents to ensure we have no single point of failure and ensures we have succession planning should there be changes to existing staff (ongoing).	14-Jan-20	76 or more	Green
43	DoR	Business Rates	The Control Team should set out as policy a requirement to retain evidence of authorisation and review in a location that will be accessible in the event of staff change.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	Procedures continue to be reviewed to ensure they are up to date and contain the elements highlighted in the audit report.	14-Jan-20	25 or less	Red
44	DoR	Business Rates	The Control Team should consider the feasibility of obtaining the data underlying the RBC Academy Balance Report and the VOA Schedule of Alterations Report in order to periodically review the data for potential errors and/or inconsistency.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	We are reviewing the feasibility of full Valuation Office Agency (VOA) /RBC reconciliation, with an aim to have this completed by June 2020 if not too resource intensive.	14-Jan-20	25 or less	Red
45	DoR	Business Rates	The Property Inspector should consider the feasibility of obtaining the data underlying the RBC Band Analysis Report and the VOA Banding Totals Report in order to periodically review the data for potential errors and/or inconsistency.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	We are reviewing the feasibility of full Valuation Office Agency (VOA) /RBC reconciliation, with an aim to have this completed by June 2020 if not too resource intensive.	14-Jan-20	25 or less	Red
46	DoR	Business Rates	The Control Team should update the procedure documents for the performance of daily and monthly reconciliations in order to set out how the reconciliations will be verified and the requirement to retain evidence of review in a location that will be accessible in the event of staff change.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	Procedures continue to be reviewed to ensure they are up to date and contain the elements highlighted in the audit report.	14-Jan-20	25 or less	Red
47	DoR	AP Creditors	Sign off and complete recommendations from previous audit report concerning ensuring Supplier database reflects best procurement policy.	18/19	05/04/2019		Matt Davis, Assistant Director of Finance Christopher Beauchamp, Exchequer Manager	Minor finance restructure has split the supplier set up between accounts payable and procurement role. Recruitment for the role in procurement to allow this segregation has commenced - still in progress - no Change	14-Jan-20	51 to 75	Amber
48	DoR	AP Creditors	Issues around the supplier portal need to be resolved and the audit trail to supporting documentation reinstated .	18/19	05/04/2019		Matt Davis, Assistant Director of Finance Christopher Beauchamp, Exchequer Manager	Older style PO now closed, PDF linking Mosaic invoices still not working and the supplier portal has been delayed for further testing. Both of these now fall under the AP Transformation project being performed by Jenny Bruce and Matt Davis	14-Jan-20	51 to 75	Amber

Page 102

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
49	DoR	AP Creditors	Consideration should be given to bringing the supplier set up function in house and subject to documented processes.	18/19	05/04/2019		Matt Davis, Assistant Director of Finance Christopher Beauchamp, Exchequer Manager	Job specification completed and procurement are currently recruiting for this roles interviews - interviews have not happen and will need to be chased up with Procurement.	14-Jan-20	51 to 75	Amber
50	DoR	Data Storage	RBC urgently needs to establish proper governance processes in respect of data creation and storage as it is currently at a high risk of breaching GDPR requirements in respect of only storing data needed for processing.	18/19	05/04/2019		Chris Brooks, SIRO Assistant Director for Legal & Democratic Services Martin Chalmers Chief Digital & Information Officer	Papers have been taken to CMT setting out the assignment of Information Asset Owners. The Council has just undertaken an ISO27001 Information Gap Analysis and those findings and recommendations will further inform remedial work following presentation of the report in September. An officer action group has been assembled involving Legal, Audit, HR, Corporate Improvement, Digital Transformation & Digital to take this forwards.	10-Jan-20	25 or less	Red
51	DoR	Data Storage	A corporate programme to address the creation and storage of data needs to be created to ensure that going forward data is stored in a structured manner that facilitates easy recovery and reduces the cost of storage. The objective should be to remove, where possible, all "personal" data storage and integrate data creation and storage with business operations. Data that needs storing should be kept in corporate storage spaces that encourage a structured approach which can be managed by date or subject according to statutory requirements.	18/19	05/04/2019		Chris Brooks, SIRO Assistant Director for Legal & Democratic Services Martin Chalmers Chief Digital & Information Officer	A Formal ISO27001 Information Governance Gap Analysis has been run with IT Governance and those findings and recommendations will help inform further remedial action. Report is due to be presented in September. An officer action group has been assembled involving Legal, Audit, HR, Corporate Improvement, Digital Transformation & Digital to take this forwards. The Microsoft Office 365 project is looking at the implications of data migration to the cloud, and will seek to put in place controls that manage data migrated on-going.	15-Jan-20	25 or less	Red
52	DoR	Data Storage	Existing data that is being stored needs review with an ambition of deleting all non essential data before transitioning to Office 365 and cloud based operation.	18/19	05/04/2019		Chris Brooks, SIRO Assistant Director for Legal & Democratic Services Martin Chalmers Chief Digital & Information Officer	Office 365 Project roll out with Northgate and their Gold Partner Risual. Workshops have been held which will now go forwards to inform the data migration strategy. Advice has also been sought from other Berkshire Unitary Authorities to learn from their migration experiences and recommendations.	16-Jan-20	25 or less	Red
53	DoR	Data Storage	A decision needs to be taken regarding the future of the Mailmeter product. Microsoft will have products available that will match what it does for email access so an option review needs to establish whether to retain the software.	18/19	05/04/2019		Chris Brooks - Assistant Director of Legal & Democratic Services	A corporate instruction has been given to cull Mailmeter data to 3 years. In order to do this an additional Waterford's Product has been purchased (ComplyKey) and installed on an upgraded server needed to execute the cull. This server has now processed the backlog of email which built up through the upgrade process. Once outstanding Data Protection Subject Access Requests have been processed, the cull to 3 years can be instigated. This will manage the GDPR Data Protection Risk associated with held email, and then its future can be determined as part of the O365 Microsoft Strategy. The project for O365 is being taken forward with Northgate and their Microsoft gold Partner Risual, with their recommendations feeding into to a further decision process.	16-Jan-20	26 to 50	Amber

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
54	DEGNS	Homes for Reading	<p>It is recommended that Homes for Reading establishes a standard proforma for the documentation of its systems and procedures, including:</p> <p>a) ensuring these are reviewed and where necessary, updated at regular intervals;</p> <p>b) ensuring that the date of review / update is clearly identified; and</p> <p>c) that these procedures are reviewed, agreed and approved by an appropriate person.</p>	18/19	12/04/2019		Zelda Wolfle Assistant Director Housing & Communities	<p>HfR has implemented a standard format for procedures, including version control and review processes for key company policy including Health and Safety, Complaints and Fair Wear and Tear, Financial authorisation, Signatories etc.</p> <p>HfR has also implemented key process procedures to aid the flow of activity and to control decision making via gateway authorisations. This processes are available to all service providers.</p> <p>Whilst version control is in place, it is agreed by HfR to implement timescales governing the frequency of review to ensure its processes remain current. SAG to review systems and procedures required in view of the new operating model once the governance has been approved by the Board. Board to meet in February.</p>	15-Jan-20	51 to 75	Amber
55	DEGNS	Homes for Reading	Housing should consider repeating the local market testing exercise for the supply of goods and services to ensure that RBC procurement guidelines are being met and best value is achieved.	18/19	12/04/2019		Zelda Wolfle Assistant Director Housing & Communities	HfR has raised this issue with all its Service Providers. HFR spend with suppliers is likely to reduce in 19/20 as a result of its revised operating approach. HFR is seeking to monitor the spend on white goods and cleaning etc., and will agree at Board whether to procure suppliers directly or ask service providers to update existing contract arrangements. Issue to be discussed at SAG meeting following Board Meeting approval in February	15-Jan-20	51 to 75	Amber
56	DACHS	Direct Payments - follow up	In order to demonstrate and tighten controls over the use of public funds it is recommended, to improve the monitoring of pre-paid cards, that a verified list of suppliers and account numbers is used to be quickly checked, regularly updated and used to substantiate service users' pre-paid card expenditure.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	A verified list of 90 suppliers and account numbers has been implemented. The only outstanding element of this is a process to verify account numbers of regular PAs (there will be less of these to add than suppliers). Options for this have been discussed with Audit and put forward for a decision in the new year.	20-Dec-19	76 or more	Green
57	DACHS	Direct Payments - follow up	To assist with the current back log of monitoring reviews, it is recommended that alternative monitoring strategies are considered. For example DPB service users could be split into different review periods, with those with the longest outstanding reviews allocated to the first review periods with reminder letters being sent 2 months prior to the review month so that the supporting documents are received the month before, giving the PBST sufficient time to ensure the required documents are received on time for the review to be carried out. The PBST should establish a target by which the backlog of reviews should be cleared within a certain date and then creating a set routine for the team and service users in the future. It is also recommended that PBST performance is monitored by senior management and included as part of the DMT's regular review of performance management.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	A Proportional Monitoring Scorecard has been developed and implemented in Mosaic. Significant progress has been made on the backlog with only 20% now more than 3 months overdue. Performance statistics for the team have been developed and are recorded weekly. 170 cases are up to date, with 75 less than 3 months and 70 more than 3 months overdue. This compares to figures from April when 57 were up to date, with 32 less than 3 months and 192 more than 3 months overdue. The intention is for these figures to become part of the DACHS performance board reports.	20-Dec-19	76 or more	Green
58	DoR	Payroll	The payroll control codes balancing procedure document should be updated to reflect current practice and be stored in a location where it will be available to staff.	18/19	26/06/2019		Sharon Brown, Payroll & Pensions Manager	A review of the payroll control code reconciliation process has been undertaken and the new process has been documented ready to be added into the payroll procedure guide which will be sent to Technical account to review and make amendments prior to finalisation	19-Aug-19	76 or more	Green

Page 101

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
59	DoR	Payroll	The Technical Accountant should set out detailed written guidance notes setting out how the Payroll to GL reconciliation should be produced and agreed. This should include: - Assigning roles, responsibilities and accountability. - Define the scope, purpose and reporting framework for reconciliations. - Approve the accounting approach and the format of the reconciliation templates used e.g. layout, calculations, descriptions, headings, referencing etc. - Define the framework for monitoring the completion status, technical issues, reporting of misbalances and their resolution.	18/19	26/06/2019		Wai Lok, Technical Lead	An initial review has been conducted by the Technical Accountant which has not identified any significant issues with current practice. A further review will be conducted once the Statement of Accounts issues are resolved.	10-Jan-20	76 or more	Green
60	DoR	Payroll	The Technical Accountant should ensure that items outstanding on the monthly Payroll to GL reconciliation are addressed in a timely fashion in order that the reconciliation is complete and a true and fair reflection of activity.	18/19	26/06/2019		Wai Lok, Technical Lead	An initial review has been conducted by the Technical Accountant which has not identified any significant issues with current practice. A further review will be conducted once the Statement of Accounts issues are resolved.	10-Jan-20	76 or more	Green
61	DEGNS	Cedar Court	It is strongly recommended that the operational controls for both regulating and administering bookings and admissions are reviewed and strengthened. This should include the confirmation of:- * availability and scheduling of reservations * terms and conditions of use and the legal responsibilities of the council and hirer * statutory responsibilities associated with letting are identified and complied with i.e. health and safety. * arrivals and departures i.e. keys are signed in and out * any budgetary issues	19/20	21/08/2019		Zelda Wolfle Assistant Director Housing & Communities	Guest Rooms were closed pending review. Guest rooms have been reviewed and are currently not fit for purpose. Bookings for guest rooms were very low at 8% and no issues have arisen whilst the guest rooms have been closed and there are plenty of local hotels and B&B's locally for family and friends to stay when visiting tenants. It is therefore proposed that the guest rooms are closed permanently and options to turn them back into lettable flats are being worked through.	15-Jan-20	Complete	Green
62	DEGNS	Cedar Court	Although Cedar Court is proactively developing procedures to effectively account for all income in future, the following improvements are needed:- * the petty cash float should be banked and procurement cards will be obtained for low level expenditure * a sales invoice / receipt of payment system will be needed and sales invoices should record the treatment of VAT. * payment in respect of room hire should be made by bank transfer and payment card in future (short term interim cheque payments arrangements have been put into place until electronic systems are available) * bills should be paid in advance of service and all arrears are identified * there should be a separation of duties between bookings and payments * staff should receive training on the new systems and the importance of compliance emphasised * occupancy, payments and compliance to procedures should be actively monitored and evidenced * income codes established on Fusion should be used to account for income	19/20	21/08/2019		Zelda Wolfle Assistant Director Housing & Communities	Petty cash float has been banked and payment cards are in place for low level expenditure. Guest room has been closed and options for alternative use of guest room are being considered. Controls no longer necessary	15-Jan-20	Complete	Green
63	DEGNS	Cedar Court	Accounts for the amenity shop should be reconciled back to the operational float and should include stock as well as funds.	19/20	21/08/2019		Zelda Wolfle Assistant Director Housing & Communities	Shop has been closed. Historically there was very little use of the shop by tenants. Items that were purchased on a reasonably regular basis are now being sold through the restaurant on site. The shop will remain closed and options for use of the space will be considered. Controls no longer necessary.	15-Jan-20	Complete	Green

Page 105

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
64	DoR	Freedom of Information	The existing guidance should be communicated effectively, but before doing so the guidance should be reviewed, updated and approved.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services	The existing guidance for FOI's for staff has been updated and reviewed and is on the intranet. The Assistant Information Officer provides the link to the guide when send on each request to the relevant service.	10-Jan-20	51 to 75	Amber
65	DoR	Freedom of Information	Procedures should sufficiently document all steps and processes to be followed and include service standards and performance targets based on statutory requirements. Sufficient time should be built into the process to quality assure the adequacy/completeness of responses. Procedures should also detail the escalation process, both for no response to information by services and for internal reviews and ICO appeals.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services	The FOI guidance for staff details the escalation process, both for no response to information by services and for internal reviews and ICO appeals.	10-Jan-20	51 to 75	Amber
66	DoR	Freedom of Information	All staff should have access to procedures and be trained to comply with them. New and existing staff should be required to complete training and periodic refresher courses on all aspects of Freedom of Information, approved procedures etc.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services	No training yet identified but consultation in process regarding Information Governance.	10-Jan-20	25 or less	Red
67	DoR	Freedom of Information	A defined escalation process should be adopted and followed. This should incorporate when escalation occurs and to whom, complaints which have been referred for an internal review and appeals made to the Information Commissioner's Office.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services	Escalation process agreed and communicated to AD's and. Currently this is a manual process and looking to automated through CRM Firmstep	10-Jan-20	Complete	Green
68	DoR	Freedom of Information	Ideally there should be one central administrative team for FOI requests with one agreed process followed. This should include one email address and one logging and tracking process.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	Formal Consultation to centralise all FOI functions under one team. Process underway and consultation to close 7 Feb. Expected that the new team will be in place by end of March 2020	10-Jan-20	51 to 75	Amber
69	DoR	Freedom of Information	Consideration should be given to using commercial software which tracks requests and warns of approaching deadlines, monitors performance and makes previously disclosed information available on our website, so that the wider public not just the requester can use it.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	A business case has been prepared for Firmstep FOI module which would monitor performance and track requests. This is to be taken to the Digital Futures Board. Paper to be taken to Digital futures for approval. Expected to be implemented by end April 2020	10-Jan-20	51 to 75	Amber
70	DoR	Freedom of Information	We should ensure that online request forms, including emails, automatically send the requester an acknowledgement that includes the text of the request and its date of submission.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	Functionality linked to item 69 - to be implemented by end April 2020.	10-Jan-20	51 to 75	Amber
71	DoR	Freedom of Information	Performance standards (e.g. target set for 95% of responses to be completed within 20 days) on FOI response times should be detailed in the Corporate and Service Plans, with performance reported on a quarterly basis to CMT.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	CMT receiving weekly reports to improve turnaround and completion rates. New performance targets to be established following new centralised team set up.	10-Jan-20	25 or less	Red

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
72	DoR	Freedom of Information	Monthly reports should be produced for DMT's detailing activities and statistics on the number of requests etc. Targets not met are identified and the reasons investigated and appropriate remedial action taken on a timely basis.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	The Assistant Information Officer and Customer Relations Manager produce a weekly reports on any outstanding FOI requests and on any internal reviews.	10-Jan-20	25 or less	Red
73	DoR	Freedom of Information	Annual performance reporting should include, but not be limited to: <ul style="list-style-type: none"> • Number of requests each year • Percentage of requests responded to on time • Number received during the quarter • Timelessness of issuing a substantive response • The rates of disclosure of requested information • The numbers of exemptions applied when withholding information • The outcome of internal reviews and external appeals. 	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	A feature of the Firmstep FOI module will allow to produce such reports. At the current time all requests and internal reviews are logged and recorded if responded to on time. Quarterly report data to be wrapped into Annual summary	10-Jan-20	51 to 75	Amber
74	DoR	Freedom of Information	The Council's Monitoring Officer (or nominated officer) should monitor the progress of all requests to verify that they are processed in accordance with specified timescales (performance indicators).	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	A report on outstanding FOI's is produced to CMT on a weekly basis.	10-Jan-20	51 to 75	Amber
75	DoR	Freedom of Information	The existing Publication Scheme should be reviewed to ensure it complies with the ICO's model publication scheme. The scheme should also ensure that the contents of all publications comply with statutory regulations and guidelines in relation to the information published, advice on accessing additional information etc. The Publication Scheme should be reviewed on an annual basis and include as much information as possible.	19/20	22/08/2019		Isabel Edgar Briancon, Assistant Director for Corporate Improvement and Customer Services	A multi-disciplinary officer working group has been established to lead development of the council's Information Governance Strategy. This work included review of the publication scheme as per this audit recommendation. A business case as been completed for the implementation of a new system to manage FOI enquiries. The solution will provide customers with the ability to search and access previous enquiries.	14-Jan-20	51 to 75	Amber
76	DoR	Freedom of Information	The Council should (a) explain the FOI complaints process on the website, making it clear that the right of appeal to the ICO is normally only available once internal review has been completed (unless the complaint is about a significant delay) and (b) state their target time for completing internal review.	19/20	22/08/2019		Chris Brooks, AD Legal & Democratic Services	To be actioned. All responses outline right of appeal procedure	10-Jan-20	25 or less	Red
77	DoR	Cemeteries and Crematorium	It is recommended that the service's policies and procedures are reviewed on a regular basis and approved by the Head of Service.	19/20	29/07/2019		Lisa Munga, Registration & Bereavement Services Manager Brenda Ellis, Bereavement Services Operations Manager	Most policies are up to dated, however, a full list is yet to be compiled with review dates.	10-Jan-20	51 to 75	Amber
78	DoR	Cemeteries and Crematorium	The Registration & Bereavement Service Manager should in conjunction with RBC's Parks & Open Spaces Manager ensure compliance with RBC's own Contract Procedure Rules so that an up to date agreement or contract is put in place for the grounds maintenance and digging of graves service.	19/20	29/07/2019		Andy Gillespie, Parks & Open Spaces Manager Lisa Munga, Registration & Bereavement Services Manager	This has been raised with the Parks team - follow by the end of Jan 2020	10-Jan-20	25 or less	Red
79	DoR	Cemeteries and Crematorium	The procedures and processes for managing and monitoring debt need to strengthened to actively reduce and preventing debt arising by prompt invoicing and regular distribution of aged debtors reports. It is recommended that the Registration & Bereavement Service Manager agrees this further with the Accounts Payable Manager.	19/20	29/07/2019		Chris Beauchamp, Accounts Payable Manager Matt Davis, Assistant Director of Finance	New process in place for managing the collection of aged debts.	14-Jan-20	Complete	Green

Page 107

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
80	DoR	Cemeteries and Crematorium	It is recommended that the Bereavement Service Operations Manager establishes a policy to support the internal control check framework detailing the different internal monitoring procedures and ensuring work is carried out according to the service's policies and guidelines.	19/20	29/07/2019		Brenda Ellis, Bereavement Services Operations Manager	This work is in progress and there are assurances in places that all work is carried out according to the service's policies and guidance	15-Jan-20	26 to 50	Amber
81	DACHS	Eligibility Risk and Review Group	The ERRG should consider developing a standard approach to the way(s) that information around decisions is captured and recorded so that there is a consistent approach that fully reflects the process(es) followed. As part of this, the ERRG may wish to consider: (a) developing a formal policy / procedure with respect to the decision making process that can be applied and referenced in decisions taken. (b) agreeing a set approach to the information that will be recorded with respect to each decision, including where this will be held on Mosaic (c) periodically performing reviews / audits of the information held with respect to ERRG decisions and records in order to confirm that it complies with requirements.	19/20	21/08/2019		Paula Johnston, Locality Manager	The decision making process is outlined in the ERRG terms of reference which is provided to all participants in the ERRG, and all operational staff. This includes a set approach to the information that will be recorded in terms of the basis for the decision made and where it is recorded. The Assistant Director is reviewing around 50% of the decisions recorded weekly to ensure that they comply with requirements.	2-Jan-20	Complete	Green
82	DACHS	Eligibility Risk and Review Group	The ERRG should: (a) Send periodic reminders to staff regarding its policies, procedures and expectations with respect to the recording of information within Mosaic. (b) Periodically review information held within Mosaic to ensure that records are completed correctly.	19/20	21/08/2019		Jon Dickinson - Deputy Director of DACHS	TOR has been updated Jan 2020 and these will be distributed to all staff to ensure understanding and compliance of ERRG is adhered to. Ad hoc audits/reviews of Mosaic records following ERRG decisions are carried out to ensure records are clear and complete.	8-Jan-20	26 to 50	Amber
83	DACHS	Eligibility Risk and Review Group	The terms of reference for the ERRG should be reviewed and approved annually.	19/20	21/08/2019		Jon Dickinson - Deputy Director of DACHS	Terms of Reference for ERRG have been reviewed and signed off and will be distributed to all staff	8-Jan-20	Complete	Green
84	DACHS	Eligibility Risk and Review Group	The ERRG is advised to develop an attendance log for meetings in order that it can demonstrate that decisions have been taken by appropriate personnel and in compliance with the terms of reference for the group.	19/20	21/08/2019		Jo Purser, Locality Manager Adult Social Care Long Term Services	Attendance log developed and in place	11-Nov-19	Complete	Green
85	DoR	VAT internal controls	The VAT Manual should be reviewed and approved on at least an annual basis and a notification made to staff if updates and amendments have been made.	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed, VAT manual reviewed and approved	10-Jan-20	Complete	Green
86	DoR	VAT internal controls	The processes and procedures for the completion of the monthly VAT return should be fully documented: - the control design should be documented and the requirements upon officers set out	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed, VAT procedure documented	10-Jan-20	Complete	Green

Page 108

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
87	DoR	VAT internal controls	The responsibility for the completion of all elements of the monthly VAT return should be set out, documented and monitored in order to ensure that the process is followed.	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed. Process documented and monitored	10-Jan-20	Complete	Green
88	DoR	VAT internal controls	The VAT Accountant / Chief Accountant should set out within working papers the detailed rationale for the treatment of errors. The Accountancy team should ensure that there are knowledge transfer arrangements in place in the event that key staff leave the organisation.	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed. Treatment of errors documented	10-Jan-20	Complete	Green
89	DoR	VAT internal controls	The VAT Accountant / Chief Accountant should document information, format and structure to be held within the working folders of the monthly VAT return.	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed and documented	10-Jan-20	Complete	Green
90	DoR	VAT internal controls	(a) The checks to be performed by the reviewers of the monthly VAT return and the arrangements that are in place when staff are absent should be documented. (b) The VAT and Tax Accountant should ensure that meetings are organised in a sufficiently timely fashion to ensure that there is opportunity for appropriate officers to review the completed return.	19/20	30/09/2019		Mike Hirst, Chief Accountant	Completed. Checks and reviews undertaken	10-Jan-20	Complete	Green
91	Cross cutting	Secure Communication	Until there is a coherent mandatory regime for email communication the authority needs to reinforce messages around secure communication and basic data security awareness around knowing who you are talking to and confirming that communication is secure.	19/20	01.04.20		John Barnfield, ICT Technology & Services Manager	Important System Information Messages have been issued to all staff reminding them of the need for and measures to take to ensure communications are secure. These will continue as an on-going reminder to staff, CC2i Dojo On-line Training is also being purchased that also provides Cyber Security, Information Governance and Councillor Security Training options that will help to cement security awareness.	2-Jan-20	51 to 75	Amber
92	Cross cutting	Secure Communication	There are reporting solutions available from Third Parties that will check and report correct compliance with the standard against listed domain names. Some authorities are using this approach to trigger further email processes or "force domain TLS" between correctly configured organisations for additional security. Until the Standard has been universally correctly implemented across the Public Sector, this further intervention is all that will ensure email is protected appropriately. This will need further work and investigation by the Council's ICT Partner Northgate Public Services limited, and should be understood this is to overcome the problems created by other Public Sector bodies adopting the standard incorrectly.	19/20	01.04.20		John Barnfield, ICT Technology & Services Manager	A Work Scoping Request has been raised with Northgate to scope out the work for these changes and to quote for the associated works. This can then be commissioned, prioritised and scheduled within the Council's overall ICT Programme of work.	2-Jan-20	25 or less	Red
93	DEGNS	Food hygiene inspections	The Food and Safety Team should carry out interventions at all food hygiene establishments in the area, at a frequency which is not less than that determined under the intervention rating scheme set out in the FLCoP (Food Law Code of Practice).	19/20	25.9.19		Aoife Gallagher, Principal Environmental Health Officer Lisa Richards, Licensing Food & Safety Manager	Existing risk rated businesses are up-to-date. Still to put in system where unrated premises are done within 28 days.	13-Jan-20	51 to 75	Amber
94	DEGNS	Food hygiene inspections	The service should : 1) Revise the Internal Monitoring procedure to ensure it is fit for purpose and reviewed annually 2) Ensure all internal monitoring activities are carried as described in the Internal Monitoring Procedure.	19/20	25.9.19		Aoife Gallagher, Principal Environmental Health Officer Lisa Richards, Licensing Food & Safety Manager	Internal monitoring procedure updated and implemented	13-Jan-20	Complete	Green

Page 109

READING BOROUGH COUNCIL

REPORT BY ASSISTANT DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 JANUARY 2020		
TITLE:	TREASURY MANAGEMENT STRATEGY STATEMENT (2020/21); MINIMUM REVENUE PROVISION POLICY (2020/21); ANNUAL INVESTMENT STRATEGY (2020/21)		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	AREA COVERED:	COUNCIL WIDE
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	MATT DAVIS	TEL:	0118 937 2954
JOB TITLE:	ASSISTANT DIRECTOR OF FINANCE	E-MAIL:	Matt.davis@reading.gov.uk

1. Introduction

- 1.1 In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 and the CIPFA Prudential and Treasury Management Code (2017), the Council is required to approve a Treasury Management Strategy before the start of each financial year. This report fulfils that obligation.
- 1.2 The Council's Treasury Management Strategy Statement (TMSS), attached at Appendix A, sets out the parameters for the Council's planned treasury activity during 2020/21 under which the Council's treasury team will manage day to day activity. The TMSS reflects the Council's Draft Capital Programme 2020/21 – 2022/23.
- 1.3 The successful identification, monitoring and control of financial risk are central to the Strategy. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from day to day treasury management activity.
- 1.4 The CIPFA 2017 Prudential and Treasury Management Code also requires the Council to prepare a Capital Strategy report which sets out the Council's capital requirements arising from policy objectives, as well as the associated governance procedures and risk appetite.
- 1.5 The Capital Strategy is reported separately from the Treasury Management Strategy Statement and includes non-treasury investments.

2. RECOMMENDATIONS

That the Committee endorse and recommend that Council approve the:

- **Treasury Management Strategy Statement for 2020/21 as set out in Appendix A;**
- **Treasury Management Policy for 2020/21 as set out in Appendix A;**
- **Minimum Revenue Provision (MRP) Policy for 2020/21 as set out in Appendix A;**
- **Annual Investment Strategy for 2020/21 as set out in Appendix A; and**
- **The Prudential and Treasury Management indicators as set out in Appendix A.**

Appendices:

Appendix A - Treasury Management Strategy Statement 2020/21 (including the Borrowing & Investment Strategy, Treasury Management Indicators and Prudential Indicators); Treasury Management Policy (2020/21); Minimum Revenue Provision (2020/21); Annual Investment Strategy (2020/21).

3. Economic background

- 3.1 The UK has had two extensions to its exit from the European Union, the latest extension is until 31st January 2020. In light of the outcome of the general election on 12 December, it is expected that the latest outline deal agreed by the Prime Minister will be passed by Parliament by that date. Despite this, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the end of the transition period in December 2020, which the Prime Minister has pledged will not be extended.
- 3.2 Growth in gross domestic product has taken a hit from Brexit uncertainty during 2019 and the economy is likely to tread water in 2020, with tepid growth of around 1% until there is more certainty after the trade deal deadline is passed.
- 3.3 The Bank of England Monetary Policy Committee (MPC) made a change to its Brexit assumptions to include a deal being eventually passed following the 12 December election, but the Committee expressed increased concern around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain the Bank Rate at 0.75%. The MPC indicated that a rate cut would be more likely if global growth does not pick up or Brexit uncertainty intensifies. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises.
- 3.4 If economic growth were to weaken considerably, the MPC has relatively little room to make an impact with the Bank Rate still only at 0.75%. It would therefore, be up to the Chancellor to provide help to support growth by way of a fiscal boost to the economy through tax cuts, increases in the annual expenditure budgets of government departments and expenditure on infrastructure projects.

- 3.5 Inflation (CPI) has been hovering around the Bank of England's target of 2% for most of 2019, but fell in both October and November to a three-year low of 1.5%. If there was a hard or no deal Brexit, inflation could rise significantly, primarily because of imported inflation on the back of a weakening pound. However, the Bank of England revised its inflation forecasts down to 1.4% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.
- 3.6 In the United States (US) of America, growth reduced after a strong start from 3.1% to around 2% annualised by the end of the year. Growth in employment numbers and inflationary pressures weakened in 2019 compared to prior years, indicating that the economy has been cooling. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in fuel prices.
- 3.7 The Federal Reserve Bank (The Fed), finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August 2019. In response to signs of a weakening economy, the Fed cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75% - rates were left unchanged in December.
- 3.8 EUROZONE (EZ) – Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Annual growth hovered around +1.2% year on year, so there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; annual industrial production was down 4% in June 2019 with car production down 10%. Germany would be particularly vulnerable to a no deal Brexit depressing exports further especially if the USA imposes tariffs on EU produced cars.
- 3.9 The European Central Bank (ECB) ended its programme of quantitative easing in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, has prompted the ECB to take new measures to stimulate growth in 2019.
- 3.10 The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming in the US. These concerns resulted in government bond yields in the developed world falling significantly during 2019. There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest Purchasing Managers' Index (PMI) survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

4. Borrowing

- 4.1 Under the Prudential Code, the Council can borrow to fund capital expenditure if such borrowings are sustainable, affordable and prudent.
- 4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR is the total historic capital expenditure which has not yet been paid for from either revenue or capital resources – it is the Council's underlying need to borrow. Whereas usable reserves and working capital are the underlying resources available for investment.
- 4.3 Historically the Council has borrowed to pay for new assets including schools, roads and community facilities etc. The value of the Council's assets is circa £1.1bn which includes £551m of Housing assets. As at 30th November 2019, the Council had £399m of loans outstanding in respect of these assets for both the General Fund and the Housing Revenue Account (HRA).
- 4.4 The Council took out several tranches of new borrowing totalling £30m in 2019 to fund Capital Programme commitments. By taking out new long term loans, the Council was able to de-risk its exposure to long term interest rate increases. Shortly, after the last of these loans was approved, HM Treasury increased interest rates on all PWLB loans by 1%. By taking out the loans before the increase, the Council saved £0.3m a year in interest costs going forward.
- 4.5 With an orderly exit from Europe, market projections indicate that long term borrowing costs will increase gradually and remain relatively low for some time compared to historic averages. Consequently, the Council does not intend to borrow until it needs to, thereby avoiding the "cost of carry" (the difference between the cost of borrowing and return on investing the funds until such time as the capital expenditure is incurred).
- 4.6 Based on its proposed Capital Programme over the period 2020/21 – 2022/23 the Council has a projected increase in its CFR of £261m. The Programme aims to improve the infrastructure, asset base and effectiveness of service provision for the residents of Reading.
- 4.7 The Capital Programme, after specific grants, s106 contributions and capital receipts has a borrowing requirement of £293m, £262m General Fund and £31m Housing Revenue Account. The majority of General Fund borrowing, relates to invest to save projects or those that generate a financial return, such as commercial investment. The remainder is to facilitate improved service provision. The cost of borrowing together with any associated revenue savings is included within the Council's Medium Term Financial Strategy 2020/21 – 2022/23.
- 4.8 The Executive Director of Resources has delegated responsibility for borrowing and works closely with the Council's treasury management team and advisors, Link Asset Services, on borrowing decisions taking into account several factors including:
 - The cost of borrowing short or long-term
 - Anticipated changes in the cost of borrowing
 - The level of cash balances held under investment
 - The return on invested balances

- 4.9 The Council's long-term borrowing (loans over 12 months in length) is from two sources: the Public Works Loans Board (PWLB) and private banks for debt relating to Lender Option Borrower Option loans (LOBO loans currently stand at £25m). For short term borrowing the Council will continue to use other sources of finance, e.g. loans from other local authorities that it can borrow from at lower rates of interest than PWLB.
- 4.10 The framework for taking borrowing decisions in the coming year is set out in the Council's TMSS, attached at Appendix A. The Council may increase its longer term PWLB borrowing to cover new capital project expenditure in advance of need to minimise the risk of interest rate fluctuations.
- 4.11 The Council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, the prudential and treasury management indicators that need to be approved by Council are set out in Appendix A.

5. Investment

- 5.1 The Council's investments for Treasury Management purposes seek to manage in year fluctuations in cash-flow. Treasury investments can be called on at short-notice and in the main are held in Money Market Funds. These are low-risk investments and give higher rates of interest compared to leaving balances in the Council's bank account. Other investments include the CCLA property fund and loans to the Council's wholly owned companies.
- 5.2 The level of investments fluctuates throughout the year dependent on cash balances. The balance of investments was £73m at the end of November 2019 with an average weighted rate of return of 0.9%. This will earn approximately £0.6m for the Council and is built into the revenue budget.
- 5.3 The Council can legally invest in the following funds and instruments:
- Deposits (Government and public sector bodies)
 - Deposits (Banks and Building Societies)
 - Callable deposits (Banks and Building Societies)
 - Money Market Funds
 - Certificates of Deposit (tradable term deposits)
 - Governments Gilts and Treasury Bills
 - Corporate Bonds
 - Derivatives (where used for risk management)
- 5.4 The Ministry for Housing Communities & Local Government (MHCLG) published updated guidance on investments in February 2018. The previous edition covered treasury investments only, but the latest edition focuses on non-treasury investments. These are commercial investments such as the purchase of investment properties, investments in subsidiaries or investments for service objectives including regeneration.

5.5 Commercial Investments are part of the Capital Programme approved by Members. The borrowing to fund the investments is undertaken under the Treasury Management Strategy.

6. Markets in Financial Instruments Directive (MiFID) II

6.1 MiFID II is the EU directive regulating the provision of financial services within the European Economic Area and became effective on 3 January 2018. The objective of MFIS II is to provide greater safeguards for non-professional clients who invest or trade in financial instruments.

6.2 Local authorities are now classified as retail clients by default, unless they exercise the option to 'opt-up' to 'elective professional client status' subject to meeting certain qualitative and quantitative tests.

6.3 The Council has successfully opted up to professional client status which means it can maintain its ability to maximise interest on its balances and not have to limit its current range of investments. This status has to be agreed individually with each financial institution, broker and adviser and certain conditions have to be met relating to the quantity of transactions carried out and the experience and knowledge of those carrying out those transactions.

6.4 Under the legislation, professional status requires the Council to assume more direct responsibility for its investment decisions. Effectively this is incorporated into the due diligence the Council already undertakes before making any investment.

7. Approved Investments and Counterparties

7.1 The counterparty criteria are kept under regular review and are detailed in annexe A of the appendix to this report. The criteria set out the value and duration limits which are applied in the day to day investment of the Council's cash balances.

7.2 The value and duration limits as well as the minimum credit ratings required of individual institutions seek to minimise the Council's exposure to counterparty risk, i.e. limit any potential loss due to the failure of any single institution or group.

7.3 The credit ratings agencies' criteria are relative measures of financial strength, any changes are notified to the Council's Treasury team on the same day by our treasury advisor, Link Asset Services. Over recent years the agencies have downgraded many financial institutions by removing the implied sovereign support. However, financial institutions have improved their capital ratios to meet new regulatory standards to enable them to withstand market shocks like that experienced during the financial crisis in 2008. This requirement for increased resilience is designed to give higher assurance that institutions will be going concerns in the medium to long term.

7.4 In addition, central banks such as the Bank of England and European Central Bank provide financial support to financial institutions through Term Funding Schemes (TFS) that ensures they have access to enough liquidity at low rates.

The TFS was launched in 2016 and provides funding to banks and building societies at rates close to Base Rate.

8. Risk Controls

Investment Risk

- 8.1 The main risk of investing with others is that the borrower or counterparty defaults on the loan and cannot repay it.
- 8.2 The main controls on investment risk are the application of counterparty criteria which limit the amount and duration of investments with both individual and groups of related counterparties. The criteria are generally based on rating agency evaluations as detailed in Appendix A.

Borrowing Risk

- 8.3 The main risk when deciding to borrow is around the timing of the decision. There is a risk that interest rates will increase before any planned borrowing is taken. The Council receives regular interest rate forecasts which are used to inform decisions on the timing of external borrowing.
- 8.4 The latest guidance requires the use of other information as well as rating agency evaluations. When ratings change, the Treasury team are notified on the same day by our treasury advisors. There are regular internal and external meetings the Treasury team attend to keep abreast of latest topics. The monthly updates from Link Asset Services include other market sources of information, such as the prices of financial instruments and shares. In addition, professional publications and sector specific reports are reviewed by the team to ensure that any decision to borrow is based a broad array of available information.
- 8.5 The Treasury Management policies deal with risk controls, decision making and reporting processes, along with high level administration of the Treasury Management activities.

9. FINANCIAL IMPLICATIONS

- 9.1 Financial implications are contained in the body of this report

10. LEGAL IMPLICATIONS

- 10.1 This report assists the Council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the Council's policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 There are no environmental implications arising from this report.

12. BACKGROUND INFORMATION

- CIPFA Code of Practice for Treasury Management in the Public Services 2017
- CIPFA The Prudential Code 2017
- MHCLG guidance February 2018
- CIPFA Bulletin Treasury and Capital Management Update October 2018

1. INTRODUCTION

Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The treasury management function makes a critical contribution to the effective management of the Council's financial position, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operation, debt financing costs and investment income arising from cash deposits will impact on the Council's budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from day to day treasury management activities.
- 1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Reporting Requirements

- 1.6 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a number of treasury management related strategies and policies for approval by Council.
- 1.7 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals, including:
 - a. The first (this report), which is forward looking and covers:
 - the Council's capital plans, (including prudential indicators);
 - a Minimum Revenue Provision (MRP) Policy, (how residual capital expenditure is charged to revenue over time);

- the Treasury Management Strategy (TMSS) – how investments and borrowing is to be organised, including treasury indicators; and
 - an Investment Strategy – the parameters within which investments are to be managed.
- b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy

Capital Strategy

- 1.8 The CIPFA Code also requires the Council to prepare a Capital Strategy Report which includes the following:
- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - An overview of how the associated risk is managed;
 - The implications for future financial sustainability
- 1.9 The Capital Strategy is reported separately from the TMSS; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure on an asset. The Capital Strategy will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - The debt related to the activity and the associated interest costs;
 - The payback period (Minimum Revenue Provision Policy);
 - For non-loan type investments, the cost against the current market value;
 - The risks associated with each activity.
- 1.10 Where a physical asset is being bought, details of market research, advisers used, and their monitoring, ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment.

Non Financial Investments

- 1.11 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 1.12 If any non-treasury investment is found to have sustained a loss during preparation of final accounts/audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.
- 1.13 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

- 1.14 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

2 Treasury Management Strategy for 2020/21

2.1 The strategy for 2020/21 covers two main areas:

a. Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the Minimum Revenue Provision (MRP) Policy.

b. Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- investment and borrowing;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- creditworthiness policy; and
- the investment strategy.

2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

2.3 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged for members of the Audit and Governance Committee as necessary in line with the requirements of the Code.

2.4 Staff regularly attend training courses and seminars provided by the Council's external treasury management advisers and CIPFA. Staff are also encouraged to study professional qualifications from CIPFA, or other appropriate organisations. The Council reviews the training needs of treasury management officers periodically to ensure that staff receive necessary training to properly discharge their duties.

Treasury management consultants

2.5 The Council uses Link Asset Services as its external treasury management advisors.

2.6 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

- 2.7 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.
- 2.8 The scope of investments within the Council's operations now includes both conventional treasury investments and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council appoints advisers on a case by case basis.

3 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

- 3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below.

Capital expenditure

- 3.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle as set out in Table 1 below.

Table 1 – Capital Expenditure (2018/19 – 2022/23)

Capital expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
£m	Actual	Estimate	Estimate	Estimate	Estimate
DACHS – Adults Services	1.108	0.150	1.405	5.000	1.000
DCEECHS – Childrens Services	4.822	14.243	14.088	4.200	1.870
DEGNS – Environment & Neighbourhood	43.364	44.346	60.506	32.864	32.414
DORS – Resources	1.451	45.093	86.513	58.128	57.599
Others - Corporate	12.016	7.070	1.320	0.685	0.000
Non-Housing Revenue Account Total	62.761	110.992	163.832	100.877	92.883
Housing Revenue Account	15.481	18.977	31.777	24.882	11.503
Council Total	78.242	129.879	195.609	125.699	104.386

Note: The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments

- 3.3 Table 2 below summarises how the above capital expenditure plans are expected to be financed by capital or revenue resources. Any shortfall results in a borrowing need.

Table 2 – Financing of Capital Expenditure (2018/19 – 2022/23)

Financing of capital expenditure £m	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate
Capital receipts	20.081	13.341	13.304	10.206	4.101
Capital grants	18.995	43.662	47.690	11.910	11.069
Capital reserves	7.403	9.264	8.064	8.064	8.064
Revenue	0.097	0.111	0.604	0.000	0.000
Net financing (Borrowing) requirement	31.666	71.402	142.044	107.088	84.591

- 3.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The planned commercial investment capital expenditure figures demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's other remaining activity.
- 3.5 Capital expenditure figures relating to commercial activities included in Table 1 is shown below. Table 3 also sets out the net financing required to fund planned commercial activity as a percentage of the Council's overall net financing need.

Table 3 – Non-Financial Investments (2018/19 – 2022/23)

Commercial activities / non-financial investments - £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure / Net financing need	0.000	32.914	75.000	50.000	50.000
Financing costs	22.135	25.309	23.339	27.725	31.343
Net financing need for the year	31.666	71.402	142.044	107.088	84.591
Percentage of total net financing need %	0%	46%	53%	47%	59%

- 3.6 Whilst a high percentage of non-financial investments are financed through borrowing, they are generally invest to save assets which means that they make a net contribution to the Council's revenue budget

Capital Financing Requirement

- 3.7 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the capital expenditure incurred which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need.
- 3.8 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
- 3.9 The CFR includes other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £25.94m of such schemes netted off within the CFR.
- 3.10 The CFR projections are set out in Table 4 below:

Table 4 – CFR Movement Analysis

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR - non housing	361.220	415.446	530.093	611.390	676.089
CFR - housing	186.800	194.701	210.798	222.367	225.806
Total CFR	548.020	610.147	740.891	833.757	901.895
Movement in CFR	23.061	62.127	130.744	92.866	68.138
Movement in CFR represented by					
Net financing need for the year (above)	31.666	71.402	142.044	107.088	84.591
Less MRP and other financing movements	(8.605)	(9.275)	(11.300)	(14.222)	(16.453)
Movement in CFR	23.061	62.127	130.744	92.866	68.138

4 Minimum revenue provision (MRP) policy statement

- 4.1 The Council is under a duty to annually set aside revenue funds for the prudential repayment of outstanding capital borrowing in accordance with provisions set out in CIPFA's Prudential Code and Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Minimum Revenue Provision. The setting aside of revenue funds for the future repayment of outstanding borrowing is referred to as a Minimum Revenue Provision (MRP) charge. The Council is also allowed to undertake additional voluntary payments if required.
- 4.2 As part of the regulatory framework, Full Council is required to approve a Minimum Revenue Provision (MRP) Policy.
- 4.3 The MRP policy, in accordance with proper practice, considers outstanding capital borrowing to be the Council's Capital Financing Requirement (CFR) rather than external loans taken out to finance capital expenditure. Accordingly, any reference in this policy to the repayment of capital borrowing relates to the setting aside of resources to reflect movements within the Council's CFR rather than to the physical repayment of external debt.

General

- 4.4 Provision for the repayment of outstanding capital borrowing will generally be made in accordance with the guidance and regulations to reflect the estimated life over which the capital assets acquired are anticipated to provide useful economic benefit. A schedule setting out expected lives of standard categories of assets is provided below. However, this may be adjusted on an individual asset by asset basis depending on the specific circumstances. The Council's statutory s151 officer will, as necessary determine individual asset lives for MRP purposes (in accordance with the overriding requirement to allow for the prudent provision for repayment of debt).

Standard Expected Asset Lives

• Major New Builds	40-50 Years
• Freehold Land	50 Years
• Major Extensions	20-40 Years
• Major Refurbishments	20 Years
• Major Transport Infrastructure / Regeneration	30 Years
• Other Transport Schemes	20 Years
• Other Small Capital Schemes	10 Years
• Large Vehicles (Refuse Freighters/Buses etc.)	7-8 Years
• Other Vehicles	5 Years
• Software Licenses	Life of License
• Share Capital	20 Years
• Capital Grants / Loans to Others	Expected Life of asset Held by third party

- 4.5 Of the four standardised methods set out as examples in the statutory regulations for the calculation of MRP, the Council has adopted the "Asset Life Method - Annuity" as the one which best allows for the prudent repayment of capital borrowing over the life of individual capital assets. MRP is the principal element for the repayment of borrowing. The annuity is the repayment profile determined by the useful life of the asset and an appropriate interest rate.

- 4.6 Assets acquired and with notional outstanding capital borrowing will continue to have an annual MRP charge levied at 2% of the identified capital debt balance at 31 March 2011.
- 4.7 Assets under construction which have yet to fully deliver their expected benefits will not be subject to MRP charges to the Revenue Account until such time as they become operational for a full accounting year. Accordingly, on becoming operational, the charge for MRP will not commence until the following financial year.
- 4.8 Any prior error or change in assumption as to expected future asset life may be adjusted for in the current (or future) financial year, subject to any constraints on such adjustment as set out in the Prudential Code or Statutory Regulations.
- 4.9 Whilst the above sets out the Council's general MRP principles and policy, a number of specific instances and circumstances require separate treatment with regard to MRP in order to ensure the charge to revenue is both prudent for the repayment of debt and accurately reflects the economic benefits being realised. These are set out below:

Specific MRP Cases

- 4.10 Capital expenditure financed by finance lease or other service concessions (including Private Finance Initiative schemes) include within their annual payments both an interest and principal repayment element. The principal element included within these payments will be used to represent the MRP charge in accordance with the contractual agreement rather than separately calculating an MRP charge under the usual annuity method.
- 4.11 Capital loans to third parties with terms that include annual principal repayment (either equal instalment or annuity-based) will not be charged a separately calculated MRP charge as the annual principal repayments will be used to reduce the CFR and accordingly reduce the overall capital borrowing.
- 4.12 Short term loans for capital purposes (those with a full repayment date of five years or less) will generate a receipt on their maturity which for capital accounting purposes counts as a capital receipt. On the basis that such capital receipts will be applied to reduce the Capital Financing Requirement – and as such deemed to repay the capital borrowing – no MRP charge will be made on such loans.
- 4.13 Capital loans to wholly-owned subsidiaries will not be subject to MRP charges in circumstances where the net worth of the subsidiary is (or is reasonably expected to be in the short to medium term) in excess of the loan and as such a disposal of those assets would provide sufficient funds to fully repaying the outstanding capital borrowing of the Council.
- 4.14 Charges for the provision to repay capital debt relating to share capital for group holdings will not be applied in circumstances where any proposed debt restructuring and re-gearing is expected to lead to the redemption of called up share capital over the short to medium term.
- 4.15 Where the Council has outstanding borrowing relating to individual and specific investment property assets, in exceptional circumstances where a substantial void period in lettings occur, the Council reserves the right to take a temporary “holiday” in MRP payments for that asset until the property is let or a strategy determined to change the asset use or dispose of the asset and thus generate a capital receipt. Any MRP holiday arising from such a situation will be reversed by correspondingly adjusting future MRP charges over the estimated remaining life of the asset or a capital receipt realised.

- 4.16 Individual assets being subject to an MRP charge will cease to be subject to MRP charges at the point they are identified as surplus and have a likely expectation of generating a capital receipt in the short to medium term.
- 4.17 The Housing Revenue Account (HRA) is not subject to the same statutory annual requirement to make an MRP charge as the General Fund. It is however required to make provision for the repayment of capital debt over the longer term (broadly over the thirty year life of the HRA Business Plan). In prior years, the HRA has set aside 2% per annum of its CFR to meet this obligation. This Policy proposes that this blanket 2% per annum policy is dis-continued and that the HRA is given greater flexibility to make provision for the repayment of debt over the life of its Business Plan. The HRA Business Plan provides for significant investment in modernising its existing holdings as well as new housing stock, the application of a more flexible and long term strategy for debt repayment will ease pressure on HRA balances and enable greater provision of decent homes whilst still allowing the overall level of debt to be repaid over the long term. The Council's s151 officer will continue to ensure that the HRA Business Plan provides for the prudent repayment of debt over the longer term.
- 4.18 Subject to affordability and the sustainability of the budget and Medium Term Financial Strategy, the Council's S151 Officer will continue to explore opportunities for the earlier reduction of outstanding debt for both the General Fund and HRA, and where appropriate and subject to available resources, reserve the power to make supplementary MRP contributions over and above the minimum previously determined as prudent, where longer term financial benefits may be derived.

Capital Receipts

- 4.19 Capital receipts may ordinarily be applied to fund capital expenditure or be set aside for the repayment of debt. An exemption currently applies which allows receipts to be used to fund revenue expenditure which generates future and ongoing savings and service transformation – referred to as the Flexible Use of Capital Receipts.
- 4.20 The Council's S151 Officer will apply General Fund capital receipts so as to optimise the benefit to the Revenue Account whilst being mindful of the long term need to prudently repay capital debt.
- 4.21 To the above end, all capital receipts (unless statutorily or contractually ring-fenced to specific purposes) will be applied to their most beneficial purpose. Where capital receipts are applied to repay debt, such repayments will be applied against the remaining borrowing identified on an asset by asset basis and the MRP liability adjusted accordingly.

MRP Overpayments

- 4.22 A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 nil overpayments were made.

5 BORROWING

- 5.1 The capital expenditure plans set out in section 3 of this report summarise the Council's proposed service capital expenditure activity. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual Investment Strategy.

Current Treasury Management Portfolio Position

- 5.2 The overall treasury management portfolio as at 31 March 2019 and for the position as at 30 November 2019 are shown below for both borrowing and investments.

Table 5 – Treasury Portfolio

Treasury Portfolio	Actual 31.03.19 £m	Actual 31.03.19 %	Current 30.11.19 £m	Current 30.11.19 %
Treasury Investments				
Banks	1.250	2%	0.635	0.8%
Other (Reading Transport, Homes for Reading, Brighter Futures)	22.500	39%	36.200	47.2%
Money Market Funds	18.475	32%	24.900	32.4%
Property Fund	15.000	26%	15.000	19.5%
Total Managed In-House	57.225	100%	76.735	100.0%
Treasury External Borrowing				
Local Authorities	(43.000)	11%	(15.000)	4%
PWLB	(326.297)	82%	(354.126)	89%
LOBOs	(25.000)	6%	(25.000)	6%
Other Loans	(5.000)	1%	(5.000)	1%
Total External Borrowing	(399.297)	100%	(399.126)	100%
Net Treasury Investments / (Borrowing)	(342.072)		(322.391)	

- 5.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying need to borrow, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6 – Borrowing Estimates

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	376.236	399.297	422.893	520.530	585.179
Expected Change in Debt	23.061	23.595	97.637	64.650	46.104
Actual Gross Debt at 31 March	399.297	422.893	520.530	585.179	631.283
Capital Financing Requirement	548.020	610.147	740.891	833.757	901.895
Under / (Over) Borrowing	148.723	187.255	220.362	248.578	270.613

- 5.4 Within the above figures the level of debt relating to commercial activities / non-financial investment is:

Table 7 – Analysis of Non Financial Investment Borrowing

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt for Non-Financial Investments					
Actual Debt at 31 March (£m)	42.753	75.667	150.667	200.667	250.667
percentage of Total External Debt %	11%	18%	29%	34%	40%

- 5.5 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 5.6 The Executive Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Treasury Indicators: Limits to Borrowing Activity

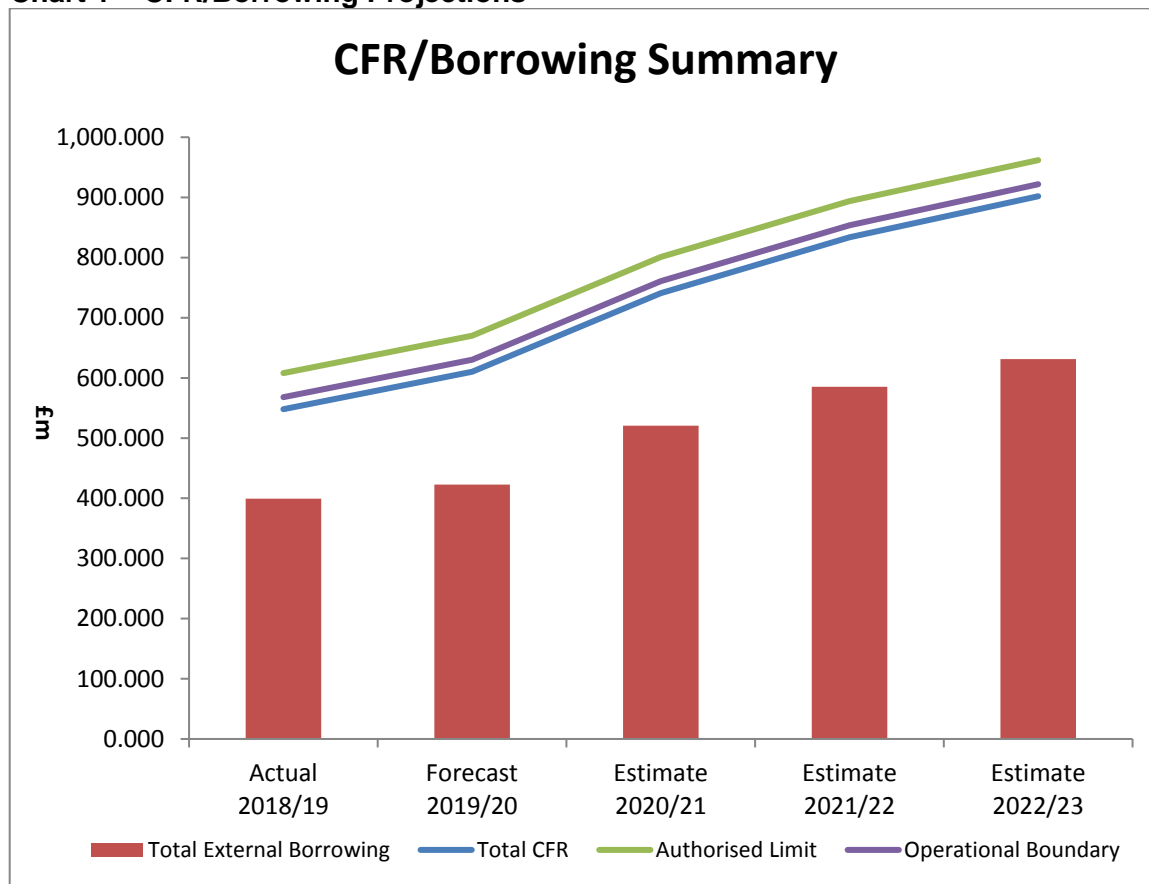
- 5.7 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.
- 5.8 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
- 5.9 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- 5.10 The Operational Boundary and Authorised Borrowing limits are set out below:

Table 8 – Borrowing Limits

Treasury Indicators (£m)	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate
Authorised Limit for External Debt					
Borrowing and Other Long Term Liabilities	568.020	630.147	760.891	853.757	921.895
Headroom	40.000	40.000	40.000	40.000	40.000
Total	608.020	670.147	800.891	893.757	961.895
Operational Boundary for External Debt					
Borrowing	548.020	610.147	740.891	833.757	901.895
Other Long Term Liabilities	20.000	20.000	20.000	20.000	20.000
Total	568.020	630.147	760.891	853.757	921.895

5.11 The graph below provides a graphical representation of projections of CFR and borrowing position up to 2022//23.

Chart 1 – CFR/Borrowing Projections



Prospects for Interest Rates

5.12 The Council has appointed Link Asset Services as its treasury advisors and part of their remit is to assist the Council to formulate a view on interest rates. The following table gives the Council's treasury advisor's central view on prospects for interest rates.

Table 10 – Interest Rate Projections

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

- 5.13 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal prior to December 2020, as the Prime Minister has pledged.
- 5.14 The Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019. According to minutes of its meeting on 7 November, the MPC has become more dovish due to increased concerns over the outlook for the domestic economy and uncertainties around Brexit. If these uncertainties were to materialise, then the MPC would likely cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”.
- 5.15 There is still some residual risk that the MPC could cut Bank Rate in the near future if the UK economic growth remains weak in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise the Bank Rate.
- 5.16 During the first half of 2019-20, gilt yields plunged and caused a near halving of longer term PWLB rates to unprecedented historic low levels prior to Government raising rates on 9th October 2019. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as now expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult with any degree of confidence. Any changes in the UK Bank Rate will also impact on gilt yields.
- 5.17 The overall longer term trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 5.18 In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9th October 2019.

Investment and Borrowing Rates

- 5.19 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- 5.20 Borrowing interest rates fell during the first half of 2019-20 but then jumped up by 100 bps on 9th October 2019. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. However, the unexpected increase of 100 bps in PWLB rates means the gap between longer term borrowing rates and investment rates has materially widened, and as in the long term the Bank Rate is not expected to rise above 2.5%, it is unlikely that the Council will

borrow in advance but will instead look to delay borrowing until funds are required or until the extra 100 bps margin is removed.

Borrowing Strategy

- 5.21 The Council is currently under-borrowed. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used on a temporary basis. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 5.22 The most cost effective borrowing is internal borrowing which would mean running down cash balances and foregoing interest earned at historically low rates in lieu of taking out new borrowing at a higher rate. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential longer term costs if the opportunity is missed for taking loans at rates which will be higher in future years.
- 5.23 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Executive Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp fall in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
 - if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the US and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- 5.24 Any decisions will be reported subsequently to the Audit & Governance Committee.

Policy on Borrowing in Advance of Need

- 5.25 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 5.26 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

- 5.27 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

- 5.28 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, the Council will give consideration to sourcing funding at cheaper rates from the following:
- Local authorities (primarily shorter dated maturities)
 - Financial institutions (including where available insurance companies, pension funds and some banks)
 - Municipal Bonds Agency
- 5.29 The degree to which any of these options proves cheaper than the PWLB Certainty Rate is still evolving, but our advisors will keep us informed of new developments or funders that may be willing to lend to the Council.
- 5.30 The Authority holds £25m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. Although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Approved Sources of Long and Short term Borrowing

- 5.31 The list of approved lenders and types of funding that can be secured with each entity is set out below.

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Overdraft		●
Finance leases	●	●

6 ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

- 6.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Council’s Capital Strategy.
- 6.2 The Council’s Investment Policy has regard to the following: -
- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
 - CIPFA Treasury Management Guidance Notes 2018
- 6.3 The Council’s investment priorities are security first, portfolio liquidity second and then yield, (return).
- 6.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
- i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
 - ii. Ratings will not be the sole determinant of the credit quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.
 - iii. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 - iv. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use as follows:
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity. For example, an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
 - v. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £20m of the total investment portfolio.
 - vi. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix in Table 11.

- vii. **Transaction limits** are set for each type of investment in Table 11.
 - viii. This authority will set a £20m limit for the amount of its investments which are invested for **longer than 365 days**.
 - ix. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
 - x. All investments will be denominated in **sterling**.
 - xi. As a result of the change in accounting standards for 2019/20 under IFRS 9, when investing, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.
 - xii. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1st April 2018. As a result of this exemption, the Council will not need to adhere to IFRS 9 when reporting on its investment in the CCLA pooled property fund.
- 6.5 The key requirements of both the Code and the investment guidance are to set an annual Investment Strategy, as part of the annual Treasury Management Strategy for the following year, covering the identification and approval of the following:
- The guidelines for choosing and placing investments, particularly non-specified investments.
 - The principles to be used to determine the maximum periods for which funds can be committed.
 - Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
 - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.
- 6.6 **Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:
- i. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
 - ii. Supranational bonds of less than one year's duration.
 - iii. A local authority, housing association, parish council or community council.
 - iv. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's (S & P), Moody's and / or Fitch rating agencies.
 - v. A body that is considered of a high credit quality such as a bank or building society. For category 5, this covers bodies with a minimum Short Term rating of A- (or the equivalent) as rated by S & P, Moody's and / or Fitch rating agencies.

- 6.7 Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies as set out in Table 11.
- 6.8 **Non-specified investments** – are any other type of investment (i.e. not defined as specified above).
- 6.9 The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments that meet the above criteria.
- 6.10 **The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information including changes, rating watches and rating outlooks from Link Asset Services as and when ratings change, following which counterparties are checked promptly – on occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Resources, and if required new counterparties which meet the criteria will be added to the list.
- 6.11 **Use of external fund managers** – The Council does not currently employ external fund managers for any part of its investment portfolio and does not plan to do so. If in future, officers determine that an external fund manager will add value to the Council's treasury management function, a report will be brought to the Audit and Governance Committee to first seek approval of a change in policy and subsequently the appointment of a preferred fund manager.

Creditworthiness Policy

- 6.12 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
 - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 6.13 The Executive Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 6.14 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches, rating Outlooks are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.15 The criteria for providing a pool of high quality investment counterparties, (both specified and non-specified investments) is set out in Table 11 below.

6.16 **Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

Table 11 – Investment Criteria

	Credit Rating	Cash Limit	Time Limit
Banks and organisations and securities whose lowest long term credit rating published by Fitch, Moody's or Standard & Poor is:	AAA	£20m each *	5 Years
	AA+		3 Years
	AA		2 Year
	AA-		
	A+		1 Year
	A		
A-			
The Council's current account, Lloyds Bank Plc should circumstances arise when it does not meet above criteria	N/A	£1m	Next Day
UK Building Societies without credit rating	N/A	£10m	1 Year
UK Government (irrespective of credit rating)	N/A	Unlimited	50 Years
UK Local Authorities (irrespective of credit rating)	N/A	£20m each	50 Years
UK Registered Providers of Social Housing whose published long term credit rating is A- or higher	A-	£5m	2 Years
UK Registered Providers of Social Housing whose published long term credit rating is lower than A- or without a long term credit rating	N/A	£2m	1 Year
	Fund rating**	Cash Limit	Time
Money Market Funds	AAA	£20m	liquid
Pooled Funds	AAA	£20m	liquid

Other Limits

6.17 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £20m maximum.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are set out in Annexe 3 to this appendix. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
 - no more than £20m will be placed with any non-UK country at any time;

- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

6.18 As an additional layer of security, a concentration of investments in too few counterparties or countries will be avoided with officers ensuring that the portfolio is diversified across counterparties/countries.

Investment Strategy

6.19 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

6.20 The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's Corporate Plan and values. This would include institutions with material links to:

- human rights abuse (e.g. child labour, political oppression)
- environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels)
- socially harmful activities (e.g. tobacco, gambling)

6.21 Table 12 below sets out the limits on investments that can be longer than 365 days.

Table 12 – Upper limit for principal sums invested for longer than 365 days

	2020/21	2021/22	2022/23
Principal sums invested for longer than 365 days	£20m	£20m	£20m
Current investments as at 31.03.20 in excess of 1 year maturing in each year	Nil	Nil	Nil

6.22 For its cash flow generated balances, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

Investment Return Expectations

6.23 On the assumption that the UK and EU agree a Brexit deal in early 2020 or soon after, the Bank Rate is forecast to increase slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

6.24 The following factors impact on the outlook for interest on invested cash and have been taken into consideration in suggested investment returns:

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

6.25 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2020/21	0.75%
2021/22	0.75%
2022/23	0.75%

Policy on Apportioning Interest to the HRA

6.26 Reform of the Housing Revenue Account Subsidy system was completed at the end of 2011/12, the Council was required to pay MHCLG £147.8m. Prior to 2012/13 The Council would recharge interest expenditure and income attributable to the HRA in accordance with determinations issued by MHCLG. The Council has previously adopted a policy that it will continue to manage its debt as a single pool using a similar regime that applied prior to self-financing which will set out how interest charges attributable to the HRA will be determined, or an appropriate method that does not result in a material change to the average interest rate paid by the Council.

6.27 However, during 2016/17 and 2017/18 some technical details of the methodology have been adjusted to recognise that in essence the £147.8m of loans the Council borrowed at the time of self-financing were primarily taken for HRA debt, and therefore the operation of the single pool should not lead to the average interest rate being charged to the HRA being less than the average rate on the remaining part of those loans.

6.28 The HRA also has a notional cash balance which may be positive or negative. This balance is measured each month and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments (excluding the CCLA Property Fund) and short-term borrowing

End of year investment report

6.29 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

6.30 **APPENDICES**

Annexe 1 – Prudential and treasury indicators and MRP statement

Annexe 2 – Treasury management scheme of delegation

Annexe 3 – List of Approved Countries for Investment

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2022/23 AND MRP STATEMENT

1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
2. Members are asked to approve the following prudential indicators.

Prudential Indicators	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate
Capital Expenditure (£m)					
General Fund	62.761	110.902	163.832	100.877	92.883
HRA	15.481	18.977	31.777	24.822	11.503
Total	78.242	129.879	195.609	125.699	104.386
Ratio of Financing Cost to Net Revenue Stream (%)					
General Fund	12.5%	11.6%	13.3%	16.9%	20.5%
HRA	22.1%	20.3%	18.7%	19.4%	19.6%
Gross Debt and Capital Financing Requirement (£m)					
Gross Debt	399.297	422.893	520.530	585.179	631.283
Capital Financing Requirement	548.020	610.147	740.891	833.757	901.895
Under / (Over) Borrowed	148.723	187.255	220.362	248.578	270.613
In Year Capital Financing Requirement (£m)					
General Fund	21.958	54.226	114.647	81.297	64.699
HRA	1.103	7.901	16.097	11.569	3.439
Total	23.061	62.127	130.744	92.866	68.138
Capital Financing Requirement as at 31 March 2019 (£m)					
General Fund	361.220	415.446	530.093	611.390	676.089
HRA	186.800	194.701	210.798	222.367	225.806
Total	548.020	610.147	740.891	833.757	901.895
Incremental Impact of Financing Cost (£)					
Increase in Council Tax (Band) per annum	0	1.00	5.13	4.82	3.10
Increase in average housing rent per week	0	0.05	0.39	0.57	1.02

Annexe 1 – Treasury Management and Prudential Indicators

3. The Council is asked to approve the following treasury management indicators.

Treasury Indicators	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate
Authorised Limit for External Debt (£m)					
Borrowing and Other Long Term Liabilities	568.020	630.147	760.891	853.757	921.895
Headroom	40.000	40.000	40.000	40.000	40.000
Total	608.020	670.147	800.891	893.757	961.895
Operational Boundary for External Debt (£m)					
Borrowing	548.020	610.147	740.891	833.757	901.895
Other Long Term Liabilities	20.000	20.000	20.000	20.000	20.000
Total	568.020	630.147	760.891	853.757	921.895
Upper Limit for Fixed Interest Rate Exposure (%)					
Net Principal for Fixed Interest Rate Borrowing/Investment	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure (%)					
Net Principal for Variable Interest Rate Borrowing/Investment	100%	100%	100%	100%	100%
Upper Limit for Total Principal Sum Invested over 364 Days	£20m	£20m	£20m	£20m	£20m

Maturity structure of borrowing

4. Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	30%
10 years to 20 years	0%	40%
20 years to 30 years	0%	50%
30 years to 40 years	0%	60%
40 years to 50 years	0%	60%
Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

TREASURY MANAGEMENT SCHEME OF DELEGATION

i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of/amendments to the council's adopted clauses, treasury management policy statement and treasury management practices;
- approval of annual Strategy.

ii) Audit & Governance Committee

- Receive and recommend to Full Council amendments to the council's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

iii) Section 151 Officer

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The below list of approved countries for investment is based on lowest available rating from all ratings agencies.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

This page is intentionally left blank

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 JANUARY 2020		
TITLE:	CLOSURE OF ACCOUNTS UPDATE		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	MATTHEW DAVIS	TEL:	0118 937 2954
JOB TITLE:	ASSISTANT DIRECTOR OF FINANCE	E-MAIL:	Matthew.Davis@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report updates the Committee on progress with the completion of the Council's Accounts for 2017/18 and 2018/19.
- 1.2 The 2017/18 draft accounts have been completed and handed to the Council's external auditors; Ernst & Young (EY), with the formal period of public inspection having reached conclusion on 20th September 2019 with no objections received.
- 1.3 The 2017/18 Audit process has initially proceeded well, with officers having provided responses to 1,304 out of the 1,638 queries generated by EY to date.
- 1.4 EY have, however, temporarily paused their Audit of the 2017/18 Accounts due to a need to respond to key priorities elsewhere, and are due back on site on February 17th.
- 1.5 Although officers are engaged in preparing responses to the remaining outstanding queries in the meantime, the above audit delay may potentially impact the timing of sign-off of the accounts, which had been anticipated to take place before the end of the Financial Year.
- 1.6 The 2018/19 Accounts are now almost complete, having been delayed due to capacity issues and the need to manage competing priorities (in particular resolving 2017/18 Audit issues, completing the 2018/19 accounts, agreeing the 2021/22+ Medium Term Financial Plan as well as resolving a number of systems issues).

- 1.7 It is anticipated that the 2018/19 Accounts will be completed and handed over to the External Auditors prior to the sign-off of the 17/18 Accounts, with Audit and sign-off of the same being scheduled to take place once the Auditors have signed off the 2017/18 Accounts
- 1.8 A closing plan for 2019/20 will be drafted and circulated prior to the end of the 2019/20 Financial Year.

2. RECOMMENDED ACTION

- 2.1 To note that the statutory 30 day public inspection period for the 2017/18 accounts has concluded with no objections received;
- 2.2 To note the delay relating to Audit of the 2017/18 Accounts; and
- 2.3 To note the progress made in closing the 2018/19 Accounts

3. BACKGROUND AND PROCESS

2017/18 Accounts

- 3.1 Work on closing the 2017/18 accounts began in the spring of 2018, with the closure of the management accounts and a draft outturn position being reported to this Committee in August 2018.
- 3.2 As previously reported, it was necessary to commission fresh property valuations for the 2017/18 accounts, the majority of which were received at the end of January 2019. However, it was only possible to process the valuations once EY had confirmed they had completed the audit of the 2016/17 Asset Register and brought forward balances were agreed.
- 3.3 In addition, as a result of issues that have arisen nationally during the audits of both 2017/18 and 2018/19 accounts officers have had to obtain further information and enhance the working papers. In particular, revised reports have been obtained from the Actuary to reflect the actual outturn of the Pension Fund and the potential impact of the recent Court of Appeal judgment regarding age discrimination (Lord Chancellor v McCloud & Others, December 2018).
- 3.5 The draft 2017/18 accounts are with the council's external auditors and were made available for the public inspection period which ended on the 20th September 2019.
- 3.6 The external auditors are engaged in the formal audit of the 2017/18 accounts, with officers having provided responses to 1,304 out of the 1,638 queries generated to date and being actively engaged in compiling responses to the remainder.

- 3.7 The External Auditors have, however, temporarily paused their Audit of the 2017/18 Accounts due to a need to respond to key priorities elsewhere and are due back on site on February 17th.
- 3.8 This may impact upon the sign-off date of the 2017/18 Accounts, which was anticipated to take place before the end of the Financial Year.

2018/19 Accounts

- 3.9 The 2018/19 management accounts have been closed and an outturn position reported to the July 2019 Policy Committee. Officers were able to turn their attention to compiling the 2018/19 draft accounts once the draft 2017/18 accounts had been completed.
 - 3.9.1 The 2018/19 accounts are almost complete, having been delayed due to capacity issues (relating to staff being required to manage competing pressures).
 - 3.9.2 Audit of the same is scheduled to take place once the auditors have signed off the 2017/18 Accounts.

4. EQUALITY IMPACT ASSESSMENT

- 4.1 Not applicable.

5. ENVIRONMENTAL IMPLICATIONS

- 5.1 Not applicable.

6. LEGAL IMPLICATIONS

- 6.1 Part Five of the Accounts and Audit Regulations 2015 requires authorities to allow the public to inspect the accounts for a single period of 30 working days and stipulates that must include the first 10 working days of June of the financial year immediately following financial year. The Council were unable to comply with this requirement in respect of both the 2017/18 and the 2018/19 Accounts as they were not ready for inspection.
- 6.2 The formal notice to open the 2017/18 draft Accounts for the 30 working day inspection period was published on the website, with the inspection period concluding on 20th September 2019. The inspection period for the 2018/19 Accounts is expected to commence before the end of the Financial Year.

7. FINANCIAL IMPLICATIONS

7.1 As contained in the body of the report.



**Reading Borough
Council**
**Draft Audit planning
report**

Year ended 31 March 2018

27 January 2020

27 January 2020



Dear Audit & Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 30 January 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

01 Overview of our 2017/18 audit strategy	02 Audit risks	03 Value for Money Risks	04 Audit materiality	05 Scope of our audit
				
				
06 Audit team	07 Audit timeline	08 Independence	09 Appendices	

Page 153

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Reading Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Reading Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Reading Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



page 9/54

01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Qualified Accounts 2016/17 - Income and Expenditure; Debtors and Creditors	Significant risk	Change in risk or focus	The 2016/17 audit resulted in a qualified audit opinion on a number of different significant accounts: Income and Expenditure, Debtors and Creditors and also Pensions (IAS 19) Scheme Assets. The qualification arose, in the main, as a result of material errors and uncertainties arising from the audit in 2016/17. A number of these arose from historical system issues. We will need to revisit these areas as part of the 2017/18 and to understand these accounts. We also need to consider the opening balances on these accounts, where applicable, as the inability to gain assurance over the closing balances in 2016/17 will also have implications for the opening balances in 2017/18. We deal with the Pensions issue separately below as a separate Significant Risk.
Completion of the cash and bank and control account reconciliations	Significant risk	No change in risk or focus	In the prior year audit we noted that the completion of the cash and bank and control account reconciliations was not done properly or timely. We consider the timely completion of the cash and bank and control account reconciliations as important controls that help to ensure sound financial control.
IAS 19 Assurance Process, Pension liabilities and the IAS 19 valuations	Significant risk	Change in risk or focus	As part of the assurance process in place between auditors there is an agreed process for the provision of information between of the auditors of the Pension Fund administrator and the auditors of admitted bodies of the Pension Fund. Reading Borough Council is an admitted body of the Royal Berkshire Pension Fund which in 2017/18 was audited by KPMG. KPMG are no longer the auditor of the Royal Berkshire Pension Fund and therefore there may be issues in receiving the required assurances. The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme with administration provided by Royal Borough of Windsor and Maidenhead on behalf of the Royal Berkshire Pension Fund. The Council uses the services of Barnett Waddingham, an actuarial expert, to support them with the actuarial assumptions and disclosures supporting the IAS 19 figures.

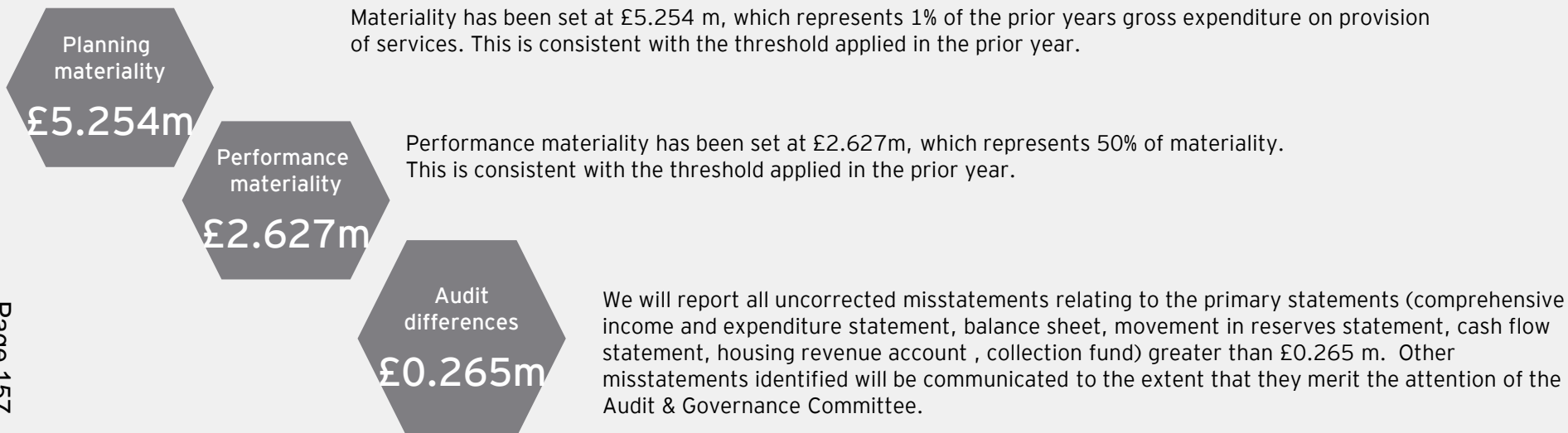
Overview of our 2017/18 audit strategy

Audit risks and areas of focus (continued)

Risks	Risk identified	Change from PY	Details
Valuations of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	No change in risk or focus	The carrying amount of PPE and the fair value of IP represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is an inherent risk of material misstatement.
All accounts	Inherent risk	No change in risk or focus	Given the significant issues identified during the 2016/17 audit and the resultant qualified opinion we have attached an inherent risk across all accounts to ensure that we attach the correct risk profile to the 2017/18 accounts.

Overview of our 2017/18 audit strategy

Materiality



Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Reading Borough Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



Page 159

02 Audit risks



Our response to significant risks

Risk of fraud in revenue and expenditure recognition - Inappropriate capitalisation of revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

Achievement of budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme there is a risk of inappropriate capitalisation of revenue expenditure.

What will we do?

- ▶ Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- ▶ Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- ▶ We will specifically test PPE additions with a specific focus on incorrect capitalisation of revenue expenditure.

In addition to the above, our audit procedures in relation to fraud and error also include review of:

- Journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council; and
- Management bias in key accounting estimates and judgements.

Our response to significant risks (continued)

Impact of Qualified Accounts from 2016/17 - Income and Expenditure, Debtors and Creditors

What is the risk?

The 2016/17 audit was significantly delayed due to significant internal control issues identified as part of the audit. As a result the certification date of 30th September 2017 was missed with final certification on the audit taking place in July 2019.

The audit opinion was also qualified across the key significant accounts: Income and Expenditure; Debtors; Creditors; and Pensions (IAS 19) Scheme Assets.

These specific accounts were qualified in 2016/17 as we were unable to obtain sufficient appropriate audit evidence to confirm that these accounts were materially correct.

We will need to consider these accounts again as part of the 2017/18 audit. We would also note that where any of these accounts have a Balance Sheet impact then we would also need to qualify the opening balances as part of the 2017/18 audit given the fact that we were unable to satisfy ourselves on the material nature of the closing 2016/17 balances.

What will we do?

Our approach will focus on:

- ▶ Considering any brought forward closing balances from 2016/17 and the impact on qualification of opening balances for 2017/18 where appropriate;
- ▶ Designing our substantive testing procedures to understand how we can test these balances and obtain the appropriate audit evidence required. This will involve testing at appropriate thresholds which reflect the increased risk profile of these accounts and the associated significant risk.
- ▶ We will isolate areas of Income and Expenditure, such as grants and payroll, where we were able to obtain appropriate assurance in 2016/17 and focus our testing on areas where we had particular issues in 2016/17. This will include for example a focus on recharges and also on other service income and expenditure; and
- ▶ Seeking assurances from management as to what they have done since the 2016/17 audit to address the deficiencies highlighted in our prior year audit results report and following up on the status of any recommendations made as part of the prior year audit.

Page 161

Financial statement impact

Income: £450 m
 Expenditure: £493 m
 Short term Debtors: £23 m
 Short term Creditors: £67 m

Our response to significant risks (continued)

IAS 19 Assurance Process,
Pension liabilities and the IAS
19 valuations

Page
162

Financial statement impact

IAS 19 Liability: £451 m

What is the risk?

As part of the formal protocol between the auditors of local government Pension Funds and the auditors of local government admitted member bodies to the Pension Fund a formal letter is issued to the auditor of the Pension Fund by the auditor of the admitted body requesting a programme of work and testing to be undertaken and formally reported back.

For the period in question (i.e. 1 April 2017 to 31 March 2018) the auditor of the Berkshire Pension Fund was KPMG LLP. KPMG LLP are no longer the auditor of the Royal Berkshire Pension Fund.

Initial correspondence with KPMG has indicated that as they are no longer the Pension Fund auditor then they are not in a position to provide EY, as external auditor to Reading Borough Council, with the relevant IAS 19 Assurance Letter for 2017-18. This is due to the fact that they no longer have access to the data.

This leaves EY unable to take the significant assurance which the IAS 19 Assurance Letter offers. This includes for example information in respect of the :

- The control environment at the Pension Fund;
- Testing completed at the Royal Berkshire Pension Fund specifically at the request of EY on their testing of investment assets including harder to value Level 3 assets; and
- Consideration of any deficiencies noted.

In the prior year we also qualified this account specifically on the IAS 19 (Pensions) Scheme Assets.

What will we do?

Our approach will focus on:

- Liaising with KPMG as the previous auditor and also Deloitte as the new auditor of the Pension Fund to understand what assurance can be obtained and to obtain assurances over the information supplied to the actuary in relation to Reading Borough Council
- Liaising with senior officers to understand what evidence they may be able to obtain in respect of the testing undertaken at the Royal Berkshire Pension Fund in 2017/18;
- Understanding the nature of any possible alternative procedures that could be applied. This would also consider the extent of the testing required to obtain the requisite assurance and also the cost and time implications of any such procedures;
- Assessing the work of the Pension Fund actuary (Barnett Waddingham Actuary) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- Assessing the possible impact of the McCloud judgement on the 2017/18 accounts and consideration of any possible adjustment through an adjusting Post-Balance Sheet event.

Our response to significant risks (continued)

IAS 19 Assurance Process,
Pension liabilities and the IAS
19 valuations (cont'd)

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Royal Berkshire Pension Fund.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this net liability totalled £447 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Berkshire Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We are also aware of an issue which emerged in 2018/19 which could have been applicable to the closure of the 2017/18 accounts given the delay in closing the 2016/17 accounts and the subsequent impact on the 2017/18 accounts preparation. This is commonly referred to as the McCloud judgement and has impacted significantly across local government.

Page 163 **Financial statement impact**

IAS 19 Liability: £451 m

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Completion of Cash & Bank and Control Account Reconciliations</p> <p>Financial statement impact</p> <p>Cash: £22 m</p> <p>Short Term Debtors: £23 m</p> <p>Short Term Creditors: £67 m</p>	<p>We are aware from our work completed in 2015/16 and 2016/17 that the completion of the bank account reconciliations was not done properly or timely during 2016/17 and for the majority of 2017/18. We highlighted this as a Significant Risk in previous years. We spent a lot of time reviewing the cash balances in the Statement of Accounts changed significantly before we were satisfied with it.</p> <p>We also found that completion and review of control accounts was not timely during 2016/17 and for the majority of 2017/18.</p> <p>We consider the timely completion and review of the bank and control account reconciliations as important controls that help to ensure financial control.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> - Reviewing reconciliations to ensure that they are being completed and reviewed in a timely manner; - Ensuring that balancing items are cleared on a regular basis and are not carried from one reconciliation to another without good cause; - Confirming that reviews are carried out on a timely basis and are evidenced on completion; - Seeking assurances from management as to what they have done since the 2016/17 audit to address the deficiencies highlighted in our audit results report and following up on the status of any recommendations we made as part of the prior year audit; - Informing management of any concerns when they arise; and - Following up on the statutory recommendations we raised in this area in 2016/17.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

All Accounts

We experienced significant delays in completing our audit of the Statement of Accounts in 2015/16 and 2016/17. Both audits missed the certification date with the 2016/17 audit significantly delayed and finally certified with a qualified opinion in July 2019.

We experienced delays in receiving the working papers we needed and the required supporting information. We raised a number of recommendations in our Audit Results Report and management have committed to improve performance this year.

We updated our 2016/17 audit strategy in January 2018 to reflect the increased risk profile of the audit arising from the significant issues and errors we were experiencing during the audit. This was a new Other Area of Audit Focus with a specific consideration of All Accounts (excluding any specific accounts where we had already attached a Significant Risk).

We believe that given the systemic and inherent nature of these issues it is valid to continue this risk assessment into the 2017/18 audit.

What will we do?

We will:

- ▶ Review all accounts (excluding those previously detailed as Significant Risk) as having an Inherent Risk. This will enable our teams to assess each significant account with the appropriate level of professional scepticism. It will also ensure that our testing is focused at the correct risk level to reflect our wider assessment of the control environment;
- ▶ Involve a technical reviewer from our Financial Reporting Group to complete a review of the draft 2017/18 accounts. This will provide the on site audit team with further support and also ensure that the draft accounts are materially compliant with all relevant standards and the CIPFA Code. The findings from this review will be shared with the Council and we will need supporting responses which are suitably detailed to address these findings. This approach is consistent with the prior year.; and
- ▶ We will also involve a peer review Partner on the engagement to support the audit team in addressing any issues identified during the engagement. This approach is consistent with the prior year.



03

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

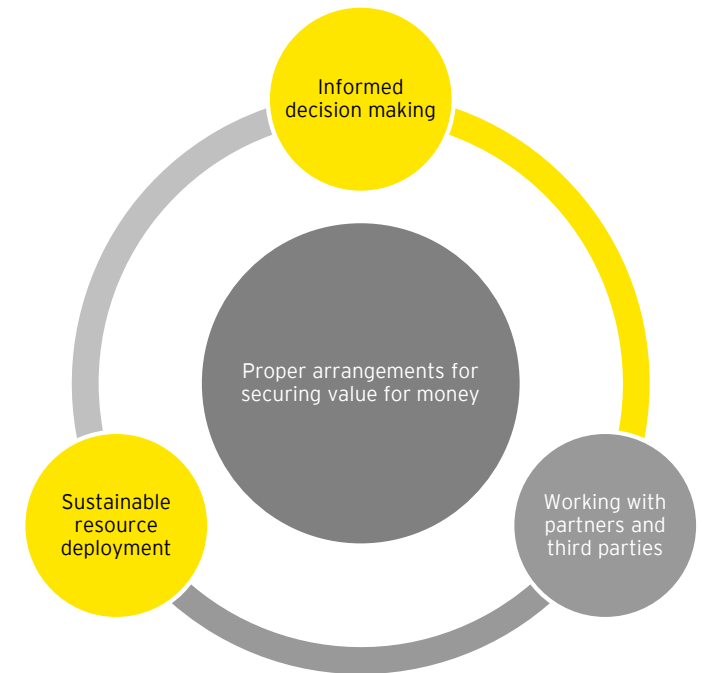
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.





Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>In February 2017 we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas. In 2016/17 the value for money conclusion was qualified due to the issues arising and identified in our report.</p> <p>Whilst we can see progress being made and changes coming through at the Council, a number of the issues in our report and covered by the recommendations still existed during the 2017/18 financial year. We therefore need to consider what progress was made during the year and the impact on our report.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Revisiting the recommendations made as part of the 2016/17 audit to understand the Council's progress against these; • Reviewing the financial resilience of the Council with reference to the Medium Term Financial Plan, considering any budget gaps in that period and considering the Council's position in respect of Usable Reserves. • Considering the Council's outturn position in 2017/18 and considering the impact of the financial outturn on the Reserves balances. • Considering any regulatory findings from key inspectorates, such as Ofsted, with a view to understanding other non-financial performance.

Page 69



04

Audit materiality

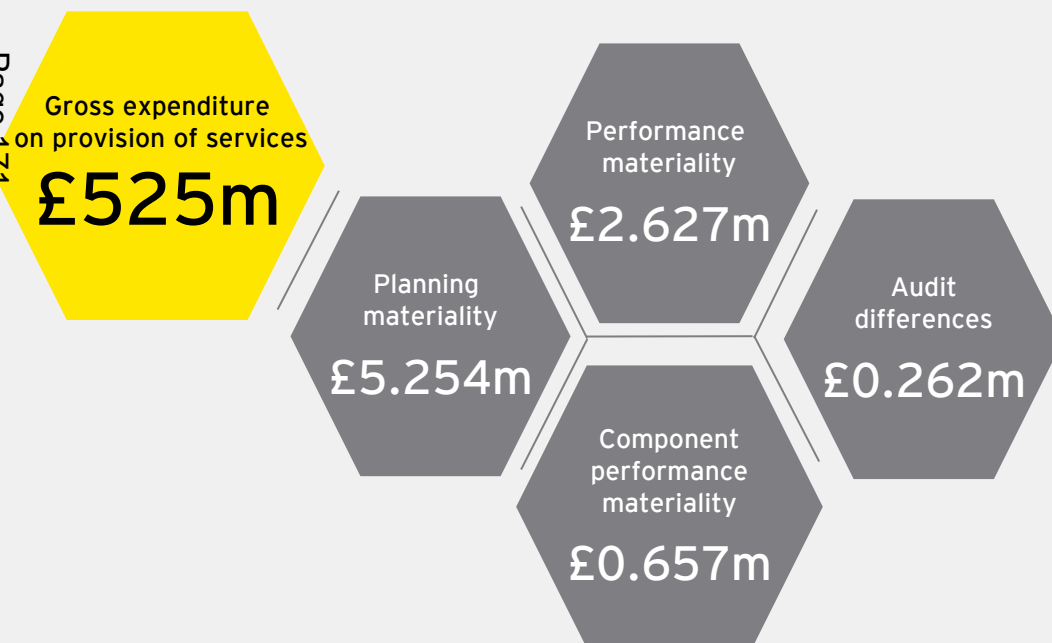


Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £5.254 m. This represents 1% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.

Page 171



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.627m which represents 50% of planning materiality. We have set the 50% threshold based on the issues noted in 2016/17 and also to reflect the anticipated errors in 2017/18.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit & governance committee, or are important from a qualitative perspective.

Specific materiality - We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit & Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an group with subsidiaries is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Scoping by Entity

Our preliminary audit scopes by number of entities we have adopted are set out below.

Page 175

1	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
4	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- During the audit period of the 2017/18 accounts, we will visit the entity subject to a full scope audit and incorporate a combination of review of the component team's audit work and meeting with business unit management. For the purposes of our Group scoping Reading Transport Limited (RTL) is deemed to be a significant component and subject to full scope procedures.
- For all other components we perform other procedures to confirm that there is no risk of material misstatement within those entities. The not significant components are: Reading Economic Development Company (REDCO) Limited; ACRE Road Industrial Estate Limited (ARIEL); Queen's Road Car Park Limited (QRCPL); Reading Hampshire Property Partnership.

The procedures we will perform on these entities are detailed below.

- Review of group wide entity level controls over these components, including the level management oversight and results of Internal Audit visits, if any.
- Perform analytical review procedures on the components' yearend accounts.
- Test consolidation journals and intercompany eliminations.
- Enquiry of management about unusual transactions in these components.
- Review of management's reconciliation of local statutory accounts to prior year group accounts

Page 176

Audit Scope	Planned involvement by the Group team
Entity under full scope	Full scope entity will participate in the review of the component's audit work by Group audit team during the visit and discussion of significant findings noted by the component team.
Entities subject to other procedures	Performance of the procedures discussed above for entities subject to other procedures



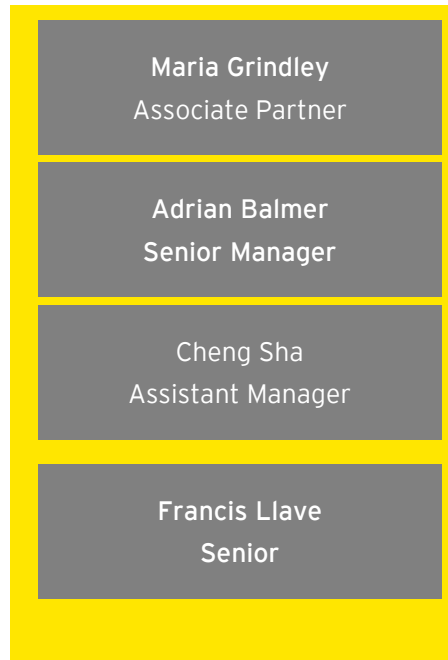
06

Audit team



Audit team

Audit team structure:



Internal Specialist
EY Pensions

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Sanderson Wetherall (external valuers)
Pensions disclosure	EY Actuaries, KPMG, Deloitte, Barnett Waddingham
PFI	Arlingclose

Page 129

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and



07 Audit timeline





Audit timeline

Indicative timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Audit & Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	September - October		
Walkthrough of key systems and processes	November-December		
Interim audit testing	January	Audit & Governance Committee	Audit Planning Report
Year end audit	January - March		
Audit Completion procedures	April	Audit & Governance Committee	Audit Results Report Audit opinions and completion certificates
	May		
	June	Audit & Governance Committee	Annual Audit Letter
	July		
	August - October		



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, we are in the process of agreeing the final 2016/17 audit and have provided detail submissions to the Public Sector Audit Appointments Ltd as part of an agreed process for discussing Scale Fee Variations. We have also supplied further information to management as part of the agreement of the audit fee for 2016/17.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 12%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2017/18 accounts.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	108,938**	108,938	*
Other - Housing Benefits	34,591	34,591	17,470
Total audit	143,529	143,529	
Other non-audit services: Housing Capital Receipts	6,500***	6,500	6,000
Other non-audit services: Teacher's Pensions	10,000	10,000	10,000
Total other non-audit services	16,500	16,500	16,000
Total fees	0	160,029	

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

- *Extensive significant delays in completion of the 2016/17 accounts. Fee agreed with PSAA and submissions made to senior officers*
- *** Given the significant issues identified in 2016/17 and the nature of the qualifications we anticipate that there will be additional fee in 2017/18. We will continue to update Audit & Governance and senior officers as the audit progresses*
- **** Housing Capital Receipts for 2017/18 is still subject to completion. All other claims and returns have been completed and certified*



Appendix B

Required communications with the Audit & Governance Committee

We have detailed the communications that we must provide to the Audit & Governance Committee.







Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the January 2020 Audit & Governance Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process. 	Audit results report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee




Appendix B

Required communications with the Audit & Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Page 190 Misstatements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 		Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee
	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 		Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit & Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 		Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 		Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee




Appendix B

Required communications with the Audit & Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguard. ▶ Information about the general policies and process within the firm to maintain objectivity and independence. 	<p>Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee</p>




Appendix B

Required communications with the Audit & Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Draft audit results report to be presented to the April 2020 Audit & Governance Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit & Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Governance Committee may be aware of. 	Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Draft audit Results Report to be presented at the April 2020 Audit & Governance Committee
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee

Appendix B

Required communications with the Audit & Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Draft audit results report presented to the April 2020 Audit & Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft audit results report presented to the April 2020 Audit & Governance Committee
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Draft audit results report presented to the April 2020 Audit & Governance Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report presented to the January 2020 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2020 Audit & Governance Committee
Certification work	Summary of certification work undertaken	Certification report to be presented to the April 2020 Audit & Governance Committee

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group & Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit & Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

This page is intentionally left blank

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank