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To: Councillor Stevens (Chairman)
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6 July 2020

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NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE 14 JULY 2020

A meeting of the Audit and Governance Committee will be held on Tuesday, 14 July 2020 at 6.30 pm as an Online Meeting via Microsoft Teams. The Agenda for the meeting is set out below.

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.

	This report provides an update on progress by the Finance division to Internal Audit's findings and recommendations in their Annual Assurance Report.		
7.	**FINAL ACCOUNTS UPDATE** This report updates the Committee on progress with the completion of the Council's Final Accounts for 2017/18 and 2018/19.	**BOROUGH WIDE**	**55 - 58**
8.	**CIPFA FINANCIAL MANAGEMENT CODE** To receive a report on the requirement to implement the CIPFA Financial Management Code from 1st April 2021 and note the results of the initial self-assessment of the Council's current standing against each of the Financial Management Standards, which had been carried out in March 2020.	**BOROUGH WIDE**	**59 - 236**
9.	**IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER** This report sets out a summary of those high and medium risk Internal Audit recommendations which remain outstanding together with an updated management response.		**237 - 264**
10.	**EXTERNAL AUDITOR UPDATE** This report summarises the external auditor's preliminary audit conclusion in relation to the audit of Reading Borough Council for 2017/18.		**265 - 328**

AUDIT AND GOVERNANCE COMMITTEE MINUTES - 30 JANUARY 2020

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

Apologies: Councillor Gittings;

In attendance: Councillor Brock (Leader of the Council).

18. MINUTES

The Minutes of the meeting of 19 September 2019 were confirmed as a correct record and signed by the Chairman.

19. 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 September 2019.

The report set out a summary of the audit reports in respect of VAT Controls; Oracle Fusion – RBC/ BFfC Segregation and Access Arrangements; Parks Investigation; Secure Communications; Food Hygiene Inspections; and Adult Care Contributions. As the Chief Auditor had given 'limited assurance' to the way the Council dealt with 'VAT Controls' and 'Adult Care Contributions', the full internal audit reports for those audits were appended to the report.

In relation to VAT Controls, the report stated that it was evident that there had been an inconsistent application of controls with respect to the monthly VAT returns and that the composition, structure and controls within the monthly VAT return was not clearly understood by staff. This created a significant risk especially in the absence of any documented procedure, setting out processes to be followed. A revised draft of the procedure manual had been prepared and 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. As well as the manual the general day-to-day processes had not been documented and therefore knowledge was being lost when officers left the role. In the absence of documented procedures, internal audit had been unable to provide assurance that the composition, structure and controls were understood or applied consistently.

In relation to Adult Care Contributions, the audit found that the financial resources of all service users should be assessed annually. However, as at July 2019, records showed that 45% the financial assessments had been outstanding for more than a year. In addition, total debt for Adult Social Care as at May 2019 as £5.9m, £2m of which was arrears relating to unpaid care home charges. Internal audit's analysis showed that although 15% of charges were paid within 30 days, 77% of the total care home charge debt was more than 150 days old. The highest priority risk identified related to the lack of supporting financial information and the need to improve audit trails to confirm financial records had been checked.

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 VAT Control audit findings, the recommendations set out in the full audit report be endorsed;

(2) That, in respect of Adult Care Contributions, the recommendations set out in the full audit report be endorsed.

20. DRAFT INDICATIVE INTERNAL AUDIT PLAN 2020 – 2021

Paul Harrington, Chief Auditor, submitted a report setting out the work that Internal Audit planned to undertake during the financial year 2020/21. The draft Internal Audit Plan was attached as Appendix 1 to the report along with the Internal Audit Charter at Appendix 2. The report explained that the Chief Auditor had the responsibility to produce an audit strategy of how the internal audit service would be delivered and how it linked to the organisational objectives of the Council.

The report explained that Internal Audit was responsible for forming opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. It stated that in the context of the Public Sector Internal Audit Standards, 'opinion' did not mean simply a view, comment, or observation; it meant that Internal Audit would have done sufficient, evidenced work to form a supportable conclusion about the Council's activities they had examined.

In accordance with The Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards, the Council had to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes, with reference to public sector internal auditing standards and guidance. The Public Sector Internal Audit Standards required an Internal Audit Charter to be in place which would be reviewed periodically and presented annually to the Committee.

Resolved:

(1) That the Internal Audit Plan for the period April 2020 to March 2021, which was attached to the report at Appendix 1, be approved;

(2) That the Internal Audit Charter 2020/21, which was attached to the report at Appendix 2, be noted.

21 STRATEGIC RISK REGISTER Q3

Paul Harrington, Chief Auditor, submitted a schedule updating the Committee on the Q3 status of the Council's 2019/20 Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. The SRR was attached to the report at Appendix 1.

The report explained that the SRR had been developed to provide a focused and high level overview of strategic risks for staff, councillors and other stakeholders, and was supplemented by more detailed directorate, service and project risk registers. The primary aim of the Strategic Risk Register was to identify those key vulnerabilities that needed to be closely monitored. Risk appetite had been introduced to the SRR in 2018, which established the level of risk that an organisation was willing to seek or accept in order to meet its long term objectives. This approach was consistent with the Institute of Risk Management which advised that risk appetite should be identified for each risk. In order to focus attention on areas of greatest risk, the SRR should only include the key current risks that did not exceed the risk appetite level. As a result, it was recommended that where risks had been rated as 'green' for two or more consecutive quarters they should be removed from the Register and would only be re-instated should the risk level rise again.

The SRR highlighted ten risks, two of which were rated as 'red' as follows: failure of the new Children's Company to improve service levels and financial overspend, resulting in poor performance and accelerated adverse financial impacts; and risk of death, harm or injury to vulnerable people for whom the Council had a responsibility.

Resolved: That the Council's Strategic Risk Register, as at December 2019, be noted.

22. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 14 of the meeting held on 19 September 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 98 high and medium risk recommendations from Internal Audit, of which 40 (41%) were currently green, 35 (36%) were amber and 23 (23%) were red. Twelve recommendations had now been completed and would be removed from the next report.

Further to Minute 13(2), Zelda Wolfle, Assistant Director of Housing & Communities, attended the meeting and explained the action that had been taken to address the audit recommendations in relation to operations controls for regulating and administering bookings and admissions; and income accounting.

Resolved:

(1) 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;

(2) That in respect of Internal Audit Recommendations 97 and 98, Adult Residential and Nursing Care Contributions, a report be submitted to a future meeting on the timeliness of financial assessments.

23. TREASURY MANAGEMENT STRATEGY STATEMENT (2020/21); MINIMUM REVENUE PROVISION POLICY (2020/21); ANNUAL INVESTMENT STRATEGY (2020/21)

Matt Davis, Assistant Director of Finance, submitted a report providing an update on the Treasury Management Statement (2020/21); Minimum Revenue Provision Policy (2020/21); and Annual Investment Strategy (2020/21). The report stated that 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 was required to approve a Treasury Management Strategy before the start of each financial year. The Council's Treasury Management Strategy Statement (TMSS) was attached to the report at Appendix A and included 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), set out the parameters for the Council's planned treasury activity during 2020/21 under which the Council's treasury team would manage day to day activity. The TMSS reflected the Council's Draft Capital Programme 2020/21 – 2022/23. The successful identification, monitoring and control of financial risk were central to the Strategy. The CIPFA 2017 Prudential and Treasury Management Code also required the Council to prepare a Capital Strategy report which set out the Council's capital requirements arising from policy objectives, as well as the associated governance procedures and risk appetite. The Capital Strategy would be reported separately from the Treasury Management Strategy Statement and included non-treasury investments.

Resolved:

That Council be recommended to approve the following as set out in Appendix A to the report:

- **Treasury Management Strategy Statement for 2020/21;**
- **Treasury Management Policy for 2020/21;**
- **Minimum Revenue Provision (MRP) Policy for 2020/21; and**
- **The Prudential and Treasury Management indicators.**

24. 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 the 2017/18 draft accounts had been completed and handed to the Council's external auditors; EY. The formal period of public inspection had concluded on 20 September 2019 and no objections had been received. EY had temporarily paused their Audit of the 2017/18 Accounts due to a need to respond to key priorities elsewhere and were due back on site on 17 February 2020. Ongoing work to prepare responses to EY's outstanding queries was continuing, but the 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.

The report stated that the 2018/19 Accounts were now almost complete, having been delayed due to capacity issues and the need to manage competing priorities, which included 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. It was anticipated that the 2018/19 Accounts would be completed and handed over to the External Auditors prior to the sign-off of the 2017/18 Accounts, with Audit and sign-off of the same being scheduled to take place once the Auditors had signed off the 2017/18 Accounts. A closing plan for 2019/20 would be drafted and circulated prior to the end of the 2019/20 Financial Year.

Resolved:

(1) that the statutory 30 day public inspection period for the 2017/18 accounts had concluded with no objections received; be noted;

(2) That the delay relating to Audit of the 2017/18 Accounts be noted;

(3) That the progress made in closing the 2018/19 Accounts be noted.

25. EXTERNAL AUDITOR UPDATE

Maria Grindley and Adrian Balmer, EY, presented an Audit Update report, which included the key extracts from EY's Audit Results report. The report provided a basis to review EY's 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 the Public Sector Audit Appointments Limited, audit standards and other professional requirements. The report also provided an opportunity to ensure that the audit would be aligned with the Audit & Governance Committee's service expectation. The plan summarised EY's initial assessment of the key risks driving the development of an effective audit for the Council and outlined the planned audit strategy in response to those risks.

The overview of EY's 2017/18 audit strategy identified the following risks/ areas of focus:

- Risk of fraud in revenue and expenditure – incorrect capitalisation of revenue;
- Qualified Accounts 2016/17 – Income and Expenditure; Debtors and Creditors;
- Completion of the cash and bank control account reconciliations;
- IAS 19 Assurance Process, Pension liabilities and the IAS 19 valuations;
- Valuations of Property, Plant and Equipment and Investment Property;
- All accounts.

Resolved:

(1) That the Audit Update report be noted;

(2) That the Executive Director of Resources in consultation with the Chair of the Committee be delegated authority to pass on any comments on the Draft Audit Planning Report to Ernst and Young LLP.

26. EXCLUSION OF THE PRESS AND PUBLIC

Resolved –

> **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 below as it was likely that there would be a disclosure of exempt information as defined in the relevant paragraphs specified in Part 1 of Schedule 12A to that Act.**

27. HOUSING BENEFITS AND COUNCIL TAX SUPPORT SCHEME - RISK-BASED VERIFICATION POLICY 2019/20

Jackie Yates, Director of Resources, submitted a report recommending that the Council continued to use its Risk Based Verification (RBV) process in 2020/21. The process had been introduced by the Council in June 2010 following a recommendation by the Department of Works and Pension. The process enabled processing of claims for Housing Benefit payments and Council Tax Support awards to be streamlined, thereby enabling customers to receive payments sooner. The approach also helped to mitigate risk and fraud entering the system. The Council's risk based verification policy principles had remained unchanged. Guidance to staff had been updated to reflect changes to the Council Tax Support Scheme agreed in 2019/20 with the scheme remaining unchanged for 2020/21. The Risk-Based Verification Policy 2020/21 was appended to the report for endorsement.

Resolved:

> **(1) That the Risk-Based Verification Scheme, as appended to the report, be approved;**
>
> **(2) That the continued use of a Risk Based Verification approach to evidence supporting claims for Housing Benefit and Council Tax support in 2020/21 be approved.**

(Exempt information as specified in paragraph 7)

(The meeting commenced at 6.30pm and closed at 8.20pm).

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**14 July 2020**		
TITLE:	**INTERNAL AUDIT PROGRESS REPORT (Jan 2020-June 2020)**		
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 details of audits finalised, the assurance opinions given, and the number and type of recommendations made. Due to the COVID-19 pandemic and the subsequent cancellation of the Audit & Governance Meeting in April 2020, this report provides the committee with an update on those audits completed and finalised in quarter 4 of the 2019/2020 financial year in addition to those completed in quarter 1 of 2020/2021.

1.2 A review of what needs to be achieved in 2020/2021 with regards to Internal Audit work during these unprecedented times, will take place in the summer months and any amendments to the plan will be reported back to the Audit & Governance Committee at its next meeting. We are mindful that a proportionate approach to Internal Audit must be taken to allow Reading Borough Council staff and members to focus on the priorities. Our aim, however will be to achieve the following:

- Opinions on all Assurance Frameworks
- Explore the need (risk) for individual conclusions on the following key controls: Democratic Decisions; statutory responsibilities; making payments; key financial systems; COVID-19 Expenditure; Budgetary Control; year-end procedures; data security & sharing; contract management; commissioning & procurement; schemes of delegation; cyber-security; IT access controls; health & wellbeing / sickness; staff health & safety; building security; insurance; business continuity; safeguarding
- Grants
- Reactive & Proactive Fraud
- Follow-up work, as appropriate
- Other risk-based audits / oversight, as resources allow.

1.3 Regarding the key controls listed above, some will be higher risk than others and some were already included as part of the original audit plan. These were identified as part of an early exercise carried out when the Authority went into 'lock-down'. Although some will link in with the assurance frameworks, they're (some) more likely to require an element of detailed testing. We will need to ascertain when best to look at these. We will also seek to take more assurance from the work of others in some areas.

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	"Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited."
Limited	"Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited."
Reasonable	"There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited."
Substantial	"A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited."

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	Sundry Debtors	3	0	0		No assurance

4.1.1 The debtor's team within Finance is responsible for the higher-level management and control of the Accounts Receivable system[1], with service areas being responsible themselves for identifying and raising debtor accounts and then monitoring and wherever necessary following up unpaid invoices.

4.1.2 Staff in the team are working diligently to follow up unpaid invoices and recover payment from debtors, however as with previous years, there is no apparent consistency, priority or direction as to their work, and in particular the order that accounts are worked on.

4.1.3 To address audit concerns a project was established two years ago to centralise the raising of invoices, however this had not progressed substantially, and therefore transactions tested during the 2019/20 audit were subject to the same shortcomings identified in previous audits. Although there has been a lack of progress in addressing historic audit concerns, the centralisation of invoices, should offer several potential advantages for the Council, which could improve the efficiency and effectiveness of income collection and recovery.

4.1.4 The total outstanding sundry debt, excluding social care for year ending the 31 March 2020 was £8.55m, with 35.23% being over 151 days old. This represents a significant increase on previous years. The total Social Care (Adults & Children) debt as at the 31 March 2020 was £6.4m.

4.1.5 There are still failings in the debt collection process, with no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days). Given that there is now a greater focus on commercial trading and income generation, there needs to be better central overview of the chasing and monitoring of debt. In addition, the aged debtors report needs to be more targeted/service relevant and low value invoices should not be being raised by services, rather the focus should be to ensure or require immediate payment for smaller value items.

4.1.6 We strongly recommend that the corporate debt policy, recovery strategy and control framework for managing and monitoring debt is fully reviewed alongside the project for changing the debt management system as performance and collection levels and control have deteriorated.

[1] This audit focused on the debtor's function within Academy system and did not review other income collection systems in operation across the Council.

4.1.7 We are satisfied from our tests that the sales invoice totals are being correctly recorded on the control account for each debtor on Academy and that an electronic copy of the invoice is held on the system. However, a copy of the actual invoice is not held unless requested by the service. Systems for the matching and clearing of receipts held in the suspense action are manual and require action so that this can be automated as planned.

4.1.8 We can confirm the daily reconciliations and monthly reconciliations between Fusion, Civica and Academy were up to date, however although we are satisfied the balances on the reconciliation are correct, the audit trails and supporting documentation remain poor. Although Finance have confirmed they receive a copy of the monthly reconciliation for information, the Chief Accountant has reaffirmed the need to improve both accountability and oversight of this issue.

		Recs				Assurance
4.2	Bank and Control Account Reconciliations	3	3	1		Limited

4.2.1 Recommendations have been made in the past by both Internal and External Audit to ensure the bank account reconciliation is brought up to date and completed on a monthly basis and that the corporate finance team monitor the completion of individual control account[2] reconciliations to ensure they are timely, completed satisfactorily and reviewed.

4.2.2 Previous Internal Audit reviews highlighted the need to establish a format for reconciliation templates that record key information on the position of individual control account reconciliations, as well as a framework for monitoring their status, any technical issues and their resolution. However, we found no uniform approach in the production of reconciliations, where consistent standards for the recording of information and the retention of audit trails can then be evidenced. There was also an absence of a process to establish the segregation of duties involved in the preparation, review and approval of reconciliations, except for the Council’s main bank account reconciliation.

4.2.3 Whilst we were advised that a process had been set up to centrally monitor the completion of reconciliations, this had not been applied during the financial year ending the 31 March 2020. The expectation is that individual services will complete their own regular reconciliations, and these will then be collated annually. This approach does not conform to recommendations made by both internal and external audit to ensure that there is regular corporate oversight of control account reconciliations.

4.2.4 It has been established that not all key systems reconciliations have been completed on a monthly basis, although where requested Officers were able to

[2] A control account used to record the balances on a number of subsidiary accounts and to provide a cross-check on them

demonstrate when asked, that reconciliation totals are supported by evidence. In particular it was noted that:

- there was an issue with the timely completion and review / approval of the Full Bank - Main Account reconciliation.
- the monthly Council Tax to General Ledger reconciliation was found to have last been completed in June 2019; and
- the Housing Benefit cheque payment to General Ledger reconciliation was found to have been last completed in October 2019.

4.2.5 The bank reconciliation was being kept up to date for the first six months of the financial year, but there were delays to the monthly reconciliation in the second half of the financial year. For example, the October 2019 bank reconciliation was prepared in Dec 2019 and signed off in February, whilst the November and December reconciliations were each prepared in January and signed off in Feb 2020.

		Recs			Assurance
4.3	Accounts Payable	5	11	2	Limited

4.3.1 RBC has a centralised Accounts Payable (AP) function as part of the Oracle Fusion financial system. The AP function is classified as a 'key' financial system and therefore is subject to an annual internal audit review.

4.3.2 A lot of hard work has gone into the cleaning up the number of suppliers on the AP system, as well as coping with the introduction of Brighter Futures for Children (BFfC) as a separate entity with its own AP system. In addition, the number of open purchase orders was dramatically reduced to prepare for the supplier portal. However, the audit identified considerable control deficiencies, which are highlighted below and a failure to implement many of the recommendations made in the previous 2018-19 AP audit report.

4.3.3 The failure of business process has been realised with the creation of a duplicate BACS run of £5.6m that was not detected by any RBC controls and resulted in a resource intensive effort to recover duplicate payments that had been sent to suppliers.

4.3.4 The use of the supplier portal has not been a success with low take up and issues with scanning negating any expected productivity gains and in turn has subsequently put more pressure on existing staff to process invoices. There are issues with the current use of the supplier portal that are hampering productivity by creating unnecessary delays. In particular:

- Email of invoices to an RBC central mailbox to check and then send to Oracle for input. Staff then send these emails on to Oracle for scanning. This is a time-consuming process that takes around one day a week for each member of staff. Every three months or so the RBC mailbox is cleared down so there is no record of the original submission of the invoice to RBC retained. This raises the question as to whether it would be more efficient to send the invoices directly to Oracle for processing.

- Scanning input issues which result in significant numbers of invoices requiring further validation in part due to Oracle not always recognising invoice information in the matching process. The holds themselves cause delay because resubmission is required after they have been checked. This validation process was being ignored, resulting in an unknown number of invoices going on to the Oracle database with the wrong invoice date. Furthermore invoices being placed on hold waiting further validation were not being dealt with promptly, thus suppliers were not being paid on time, and in addition the initiating service were not being informed of the delay.

- The existence of invoices with the wrong invoice date on the Fusion system may impair management information and cause invoices to be archived before their actual due date. Whilst there is no problem with the amounts recorded for VAT (as the invoices are correct) there is an impairment to the audit trail that may concern HMRC were they to test sample invoice data.

- Lack of supplier engagement, and RBC confidence, with the Oracle portal has meant that most suppliers are still set up manually and suppliers are not managing their own invoices as was originally envisaged, resulting in a reduced productivity gain from this process.

4.3.5 Although we note that a project has commenced to map business processes and provide documented business practices with measurable performance indicators, this is the fourth year in a row that limited assurance has been provided over the Council's Accounts Payable system.

4.4		Recs			Assurance
	Journal Testing	0	1	3	Reasonable

4.4.1 As part of our ongoing review of Journals, we've undertaken some sample testing of both manual and spreadsheet journals processed in Q3 of the 2019/2020 financial year. Manual journals should occur once or infrequently, such as journals to correct errors, to reclassify account balances and/or to accrue balances for unusual transactions. This method requires the most time and is open to errors from human intervention. Spreadsheets are used for entering batch and/or multiple journals. The sample sizes of both manual and spreadsheet journals are shown in the following tables, but it should be noted that journals can consist of a considerable number of lines.

Manual Journals in Q3	Total No.	No tested	% Tested
No. Journals	13	5	38.5%
Journal Lines	128	33	25.8%
Sum of Journals	£777,714.35	£523,728.50	67.3%

Spreadsheet Journals in Q3	Total No.	No tested	% Tested
No. Journals	233	10	4.3%
Journal Lines	18,748	1,051	5.6%
Sum of Journals	£61,714,127.26	£31,649,970.48	51.3%

4.4.2 All journals examined were appropriately authorised, with an appropriate separation of duties between creation and authorisation. There were a few instances where documentation to support a manual journal could not be found easily and where a journal involves multiple lines, we recommended that cross-referencing should be standardised.

4.5		Recs			Assurance
	NNDR	0	1	2	Substantial

4.5.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and is reconciled weekly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with system parameters updated and checked to ensure the billing arrangements are in accordance with government notifications.

4.5.2 System reports are currently insecurely held, so need to be stored in a secured format and hyperlinks and/or cross references should be used to provide clear audit trails between the system reports and reconciliation balances.

		Recs				Assurance
4.6	DBS Checks	0	3	3		Reasonable

4.6.1 The Disclosure and Barring Service (DBS) was formed in 2012 by merging the functions of the Criminal Records Bureau (CRB) and the Independent Safeguarding Authority (ISA) under the Protection of Freedom Act 2012. It is a non-departmental public body of the Home Office. The DBS enables organisations in the public, private and voluntary sectors to make safer appointment decisions by identifying candidates who may be unsuitable for certain work, especially those involving children or vulnerable adults. There are 3 levels of DBS checks including: Basic, Standard, Enhanced and Enhanced with barred list checks.

4.6.2 The Council has policies and procedures that are generally up to date and address the key requirements, although in cases these could benefit from more frequent review. In addition, we advised that HR liaises with other services who carry out DBS checks, namely Regulatory Services and the Personal Budget Support Team, to ensure these services also adhere to policies and procedures.

4.6.3 HR facilitates DBS checks for most Council service areas and for schools via a third-party provider, however it is unclear whether there is an agreement, such as an SLA (between RBC and schools) that specifies the respective responsibilities of each party.

4.6.4 DBS records show that at the time of testing, most staff were recorded as either having a current and valid DBS clearance or having been assessed as not requiring one. In the case of the remaining cases, these appeared as being processed or outstanding. A number of different category descriptions are currently used to summarise these cases and could benefit from review and tighter definition(s).

4.6.5 From a sample of DBS application checks tested some were found to have been completed after the employment had started. There were multiple reasons for these (and in cases, risks assessments had been undertaken to mitigate risks) but further effort needs to be made to ensure performance around this improves and prior checks are undertaken before employment starts.

4.6.6 In the event of a positive disclosure being highlighted following a DBS check, a risk assessment process is undertaken to evaluate the risk(s). This process is documented but the form currently used to do this could also benefit from review.

4.6.7 Importantly HR do not keep copies of DBS certificates, in line with data protection requirements.

		Recs				Assurance
4.7	Web Payments	0	4	0		Reasonable

4.7.1 Reading Borough Council takes a large number of payments for services over the web via a number of portals. The increasing growth of electronic transactions means that it is crucial to the council that the people making those transactions feel that they are secure and easy to facilitate. In the main the Council uses Civica to process web payments, but also uses Ledger and Spectrix[3] for leisure payments and Secure Park for parking fines.

4.7.2 Our audit found that currently there had been no reconciliation and clearing down of the Civica suspense account. Therefore, there is a residual risk that fraud or abuse may take place and not be detected. The risk is mediated by the fact that there is a general reconciliation between what is in the bank account and what monies are in Civica.

4.7.3 Local feeder systems are being reconciled either at a base level (rents) or in detail (parking services). There are concerns as to whether there is a full audit trail for some transactions as there may not be formal procedures in place that record suspense items being deleted or adjusted reconciliation taking place and remedial action for issues where required.

4.7.4 There is a specific issue with parking and bus lane fine interface where reconciliation reports are run at different times on both systems leading to resourcing issues and reconciliation only happening weekly rather than daily There are two areas of risk with regards to Payment Card Industry Data Security Standard (PCIDSS) compliance. There is a need to be on Windows 10 operating system and have secured network to meet the new PCIDSS requirements and some adjustments to telephony for receiving payment calls. Failure to get the first area secure could lead to loss of accreditation for credit card use although at the time of audit the project was ongoing, and the risks were known.

4.7.5 There is also a concern that corporate governance in respect of monitoring and compliance with the requirements of PCIDSS is lacking with no engagement with these issues by the person nominated by RBC to supervise this area. This has left compliance in the hands of Civica to ensure that as far as the main means of taking web payments are concerned compliance is achieved but across the authority there is no coordinated effort.

[3] Leisure booking software program

		Recs				Assurance
4.8	Housing Rent Accounting	0	2	1		Reasonable

4.8.1 All properties are identified and accurately recorded in the rent accounting system and there are effective processes in place to ensure that the gross rent and other charges have been correctly calculated in respect of each dwelling and correctly credited to tenants rent accounts

4.8.2 Refunds and write offs are appropriately managed and there are effective procedures in place to pursue and recover current and former tenant arrears. However, the “Former Tenant Arrears and Former Recharges Recovery Procedure" is more than 6 years old and although it was advised that it remains current, we recommended that it should be formally reviewed and approved.

4.8.3 It was not possible to evidence the most recent reconciliation between OHMS[4] and the Accountancy Stock database to ensure that all properties are identified and accurately recorded in the rent accounting system. This regular control discipline had apparently lapsed since 2016 when the then responsible officer left the council. It was recommended that the necessity for this control is reviewed, responsibility for it agreed and then monitored in the future.

4.8.4 The last completed reconciliation between OHMS and Oracle Fusion occurred for the financial year 2017/18. However, it is positive to note that the 2019-20 reconciliation was being prepared at the time of our audit and that the 2018-19 reconciliation had been completed, but there remain outstanding issues/discrepancies with this that required further investigation.

4.8.5 It is also important that in future supporting documentation for the reconciliation is retained on file and that these reconciliations can demonstrate the segregation of tasks between the officer that has prepared the reconciliation and the approver. The evidencing of these important controls has not been adhered to in the past.

[4] Housing rents management system

	Recs				Assurance
4.9 Freedom of Information - Follow up	0	0	0		Limited

4.9.1 There has been some good progress in implementing the audit recommendations and indeed, the quick wins, those not requiring significant investment and resource input, have been implemented and are working well.

4.9.2 Regular monitoring of FoI requests is occurring, and guidance has been revised, although there continues to be no requirement of new starters to undergo awareness training, as part of their induction process, or for existing staff to have refresher training.

4.9.3 There has however been limited progress where there is a requirement for financial and/or resource investment, namely with procuring a case management system to manage and monitor the requests more securely and to be able to use as a reporting function. We have been advised there is agreement that a module within Firmstep[5] will be purchased to do this and that the purchase order for this has recently been raised. Other resources such as project management and web support have also been agreed. A revised target date for implementation has now been set, but once complete it will address most of the outstanding audit recommendations.

4.9.4 There has been no change in the findings regarding the Council's Publications Scheme, in that it remains difficult to negotiate through the website to find what is available, although we are told that this is related to the implementation of the Firmstep module and associated project. Performance with respect to turnaround time has shown an improvement throughout the year, as follows:

	Q1	Q2	Q3	Q4	Total
number of FOI	324	365	319	323	1331
Met	224	299	269	199	991
Not Met	100	66	50	124	340
% met	69.1%	81.9%	84.3%	61.6%	74.46%
% not met	30.9%	18.1%	15.7%	38.4%	25.54%

4.9.5 The follow up audit opinion remains 'Limited'. This is due to less than half of priority 1 and 2 recommendations having been fully implemented. In addition, whilst required resources have been agreed for the implementation of the management system, this is still yet to be received, installed, tested and implemented. This is not to say that there have not been areas of progress, but it is Audit's opinion that assurance has not yet reached 'Reasonable'.

[5] Online, automatic software solution

		Recs				Assurance
4.10	Blue Badge Scheme (Grant Certification)	0	0	0		Substantial

4.10.1 Having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation) Specific Grant Determination 2019/20 No 31/3936 have been complied with.

		Recs				Assurance
4.11	Residents Parking - Follow up	0	0	0		Substantial

4.11.1 This time last year we undertook a review of residents parking and assigned a limited assurance opinion as it was not possible to establish any overarching governance documents, setting out the management and administrative arrangements for maintaining the applications. Neither could we identify that any consistent or formal process was applied to the monitoring of user activity on IT applications reviewed. Subsequently, we made nine recommendations (three of which were rated as Priority 1).

4.11.2 On following up progress we can report that all recommendations have been implemented, summarised as follows:

- The service has developed a formal policy setting out governance, management and administrative arrangements with respect to PermitSmarti and 3Sixty applications.
- The creation and maintenance of training logs to evidence that applications users have been informed as to the use of systems and their responsibilities with respect to access.
- Bi-annual identity management reviews of PermitSmarti and 3Sixty applications.
- A review of the separation of duties within the applications and a record will be maintained to demonstrate user access levels.
- Parking Services have established that training has been undertaken by non-RBC staff and that this meets the requirements of the RBC "ICT Standards Expected of Third Parties Policy."
- There are documented processes to for supervisors to review user activity.
- PermitSmarti and 3Sixty applications meet the RBC password requirements.
- Periodic review of permit inventory has been performed and documented.

5.0 AUDIT REVIEWS 2020/2021

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 2019/2020

	Timing							Res			
Audit Title	**Q1**	**Q2**	**Q3**	**Q4**	**Start Date**	**Draft Report**	**Final Report**	**P1**	**P2**	**P3**	**Assurance**
Car Parks (off street)	X				May-20						
Contract Management	X				Jan-20	Feb-20		0	4	0	**Limited**
Deferred Income			X								
Additional Payments (Follow up)	X				Jun-20						
Commercialisation				X							
Investment Properties	X				Jul-20						
Continuing Health Care – Follow up	X				May-20						

Audit reviews scheduled for 2020/2021

	Timing							Res			
Audit Title	**Q1**	**Q2**	**Q3**	**Q4**	**Start Date**	**Draft Report**	**Final Report**	**P1**	**P2**	**P3**	**Assurance**
Intercompany accounting	X				Mar-20	Jun-20					Limited
LTF - Blue Badge Scheme - (Grant Certification)	X				Mar-20	May-20	May-20	0	0	0	Substantial
Rent Guarantee Scheme	X				May-20	Jun-20					
Staff Vehicle Documentation (Grey Fleet)	X				May-20	Jul-20					
New Directions (ESFA funded adult education budget)	X				May-20						
Records Management & Document Retention Policy	X										
Transparency Code Compliance	X				Jun-20						
ADEPT's Live Lab trials Capital Funding		X									
Local Transport Plan Capital Settlement (Grant Certification)		X									
Bus Subsidy Grant		X									
Licensing		X			May-20						
Stores Contract		X			May-20						
Feeder system interface and reconciliation		X									
Budgetary Control		X									
MOSAIC payment controls (Finance Module)		X									
Housing Revenue Account			X								
Accounts Payable			X								
Purchasing cards			X								
Collection Fund			X								
Payroll (inc HR/Itrent processes)			X								
Adults Short Stay Placements & Respite Care			X								
Out of area contracts (placements)			X								
Contract Management (Adults)				X							
Sundry Debtors				X							
General Ledger				X							

6.0 202INVESTIGATIONS (APRIL - JUNE 2020)

6.1 Small Business Grant Fund - Spotlight Checks

6.1.1 In a response to the COVID-19 pandemic, under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system were eligible for a payment of £10,000 in line with the eligibility criteria. Where the Council has reason to believe that the information that they hold about the ratepayer is inaccurate they may withhold or recover the grant and take reasonable steps to identify the correct ratepayer.

6.1.2 The investigations team are using government fraud prevention tools, which interface with other departments and agencies so that data can be validated to substantiate claims or facts.

6.1.3 One case is currently being investigated as a potential fraud and will be scheduled for a PACE[6] interview, once social distancing can be accommodated.

6.2 Grant Funding Schemes Fraud Risk Assessment

6.2.1 The Department for Business, Energy and Industrial Strategy has produced a fraud risk assessment, setting out the inherent risks for each of the business grants currently being delivered, the Small Business Grant Fund (SBGF), the Retail, Hospitality and Leisure Grant Fund (RHLGF) and the Local Authority Discretionary Grants Fund (LADGF).

6.2.2 The Audit & Investigations team will be conducting sample checks to provide post-payment assurance on risk of error and/or fraud and over payment.

6.3 Council Tax Support Investigations

6.3.1 The investigations team have a record total of £3,846.00 from Council tax investigations completed where a discount was removed from the current account.

[6] The Police and Criminal Evidence Act 1984 referred to as PACE is the legislation which governs the way investigations and questioning of suspects must adhere to. The legislation covers the aspects of investigations relating to criminal offences only, and outlines the standard requirements we, as an investigative and prosecution body, must follow.

6.4 Single Person Discount

6.4.1 Work on SPD data matching has been delayed until the autumn.

6.5 Housing Tenancy Investigations

6.5.1 Since 1st April 2020 officers have commenced investigation into eight referrals of tenancy fraud. There are ten cases are still ongoing. Four properties have been returned to stock to date. Three of these cases were tenancy investigations and one was under the Right to Buy (RTB) scheme. In addition to the notional savings the RTB case secured a 12-month rental income = to £6,103.00 plus a RTB discount of £ 84,200.

6.5.2 The notional saving is £372,000.00, adopting the notional savings multiplier used by the Cabinet Office in their National Fraud Initiative report.

6.6 Social Care Fraud & Investigations

4.5.1 The team have been working with Brighter Future for Children on two complex investigations. Both are now with BFfC and await legal updates.

6.7 Disabled Persons Parking Badges (Blue Badges)

6.7.1 Since April 2020 work on civil enforcement was suspended. We currently have a total of 14 cases with legal awaiting charging decisions, and a further 4 cases waiting formal PACE interviews

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

READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	14 July 2020		
TITLE:	INTERNAL AUDIT ANNUAL ASSURANCE REPORT		
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 The attached annual assurance report of the Chief Auditor (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), sets out:

- the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- the key themes arising from the work of the Audit Team during the 2019/2020 financial year; and
- the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

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

1.3 The following document is appended:

Appendix 1 – Internal Audit Annual Assurance Report

2. RECOMMENDATIONS

2.1 The Audit & Governance Committee are requested to note the assurance opinion given by the Chief Auditor and consider the issues raised in the annual report.

3. SUMMARY

3.1 The Chief Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, internal control and governance processes. The opinion is designed to assist the Council to meet its obligations, under regulation 4 of the Accounts and Audit Regulations.

3.2 Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, which is set out in more detail in the attached report, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2019/20, are suitably designed and applied effectively.

3.3 The basis for the assurance opinion is set out in section 2 of the attached report and the key areas for improvement identified during our audit work are set out in section 4. These are reviews were limited assurance has been given and improvements are needed.

3.4 Of particular importance in determining the limited opinion were the key weaknesses identified within some of the Council's financial systems, which have remained unresolved and, in some instances, have deteriorated.

3.5 Basic financial controls have not worked as expected, for example bank reconciliations have not been keep up-to-date and historic audit recommendations relating to both accounts payable and accounts receivable have not been implemented.

3.6 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight had not being performed at the time of our audit in February 2020, since September 2019. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis. This has been a recurring theme for many years now.

3.7 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. This was specifically raised by EY in their section 14 letter of February 2017 where they recommended '*the Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed*'.

3.8 Although a process was designed and instructions were provided to relevant staff in February 2019 to ensure control account reconciliations are submitted centrally to Finance, this was never followed through in 2019/2020. Individual services are expected to complete their own reconciliations and report back annually, hence there is still no regular corporate oversight. In addition, it was evidenced from our work that not all control account reconciliations were being kept up to date.

3.9 The overriding factors informing the limited assurance opinion for 2019/2020 relate to the Accounts Payable (AP) and Accounts Receivable (AR) systems, both of which were assigned limited assurance opinions. There are still considerable control deficiencies within the AP system, which are highlighted further in the attached report and there has been a failure to implement many of the recommendations made in the previous audit reports. The failure of business process has been realised with the creation of a duplicate BACS run of £5.6m that was not detected by any RBC controls and resulted in a resource intensive effort to recover duplicate payments that had been sent to suppliers.

3.10 There are still failings in the debt collection process, with no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days) and subsequent sundry debt increasing year on year. The total outstanding sundry debt, excluding social care for year ending the 31 March 2020 was £8.55m, with 35.23% being over 151 days old. The total Social Care (Adults & Children) debt as at the 31 March 2020 was £6.4m.

3.11 Testing of a sample of journals throughout the financial year revealed that sufficient control has been maintained, with audit trails to support creation and separation of duties in the authorisation process for journals processed. Although a recent audit of intercompany charging between RBC and Brighter Futures for Children (BFfC), has identified areas of poor documentary evidence being maintained to support intercompany journals.

3.12 To conclude, whilst we provided a reasonable assurance opinion in 2018/2019, we have not seen enough improvement in the control environment within some of the Council's key financial systems during 2019/2020 and some of the actions previously agreed have not been implemented.

4. CONTRIBUTION TO STRATEGIC AIMS

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

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 *N/A*

6. LEGAL IMPLICATIONS

6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

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

7. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

8.1 N/A

Internal Audit & Investigations Annual Assurance report

For the year ended 31 March 2020

1.0 OVERVIEW

1.1 Introduction

1.1.1 The Accounts and Audit (England) Regulations require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards[1] and corresponding Local Government Application Note[2].

1.1.2 The Public Sector Internal Audit Standards requires the Head of Internal Audit (Chief Auditor) to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment. **The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.**

1.1.3 Reporting the work of internal audit to the Audit and Governance Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit and Governance Committee receives quarterly reports during the year regarding internal audit and investigations activities, which provide a detailed overview of the work undertaken.

1.2 Purpose & Scope of Report

1.2.1 The report:

a) includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management and internal control environment

b) discloses any qualifications to that opinion, together with the reasons for the qualification

c) presents a summary of the audit and anti-fraud work from which the opinion is derived, including reliance placed on work by other assurance bodies

d) draws attention to any issues the Chief Auditor judges particularly relevant to the preparation of the Annual Governance Statement.

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

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

1.3 Control Environment

1.3.1 The Management of the Council are responsible for ensuring that the organisation operates in accordance with the law and proper standards, that public funds are safeguarded, properly accounted for and used economically, efficiently and effectively.

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

Internal Audit Effectiveness

1.3.3 As a prerequisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Chief Auditor is required to confirm the effectiveness of the Internal Audit Service and its resultant fitness for purpose to carry out work that informs the annual assurance opinion.

1.3.4 An external assessment of the internal audit service conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the summer of 2017 concluded that the Council's Internal Audit function 'generally conforms' to the requirements of the Public Sector Internal Audit Standards. The Assessor concluded that, *"Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit"*. The next independent external review is currently programmed for the 2021/2022 financial year.

1.3.5 The Chief Auditor undertakes periodic reviews of the quality of internal audit work completed and also reviews all draft and final reports issued. In delivering the Internal Audit Service, the planning, conducting and reporting on reviews have been completed in conformance with the requirements of the PSIAS, published by the Chartered Institute of Internal Auditors and the subsequent Local Government Application Note in respect of PSIAS published by CIPFA.

1.3.6 The Chief Auditor is therefore able to report for 2019/2020 compliance with the Public Sector Internal Audit Standards and considers the Internal Audit Service to still be effective. However, there has been a high turnover of staff (20%) over the past 12 months, which has impacted on the delivery of the audit plan.

2.0 ANNUAL ASSURANCE STATEMENT

2.1 Basis of Assurance Opinion

2.1.1 This opinion is based on an assessment of:

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

2.1.2 The internal audit plan for 2019/20 was developed to provide independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk. The Plan was approved by the Audit and Governance Committee in January 2019. This Plan did not include resources deployed on reactive and proactive fraud which is referred to in section 9. Progress reports from the Chief Auditor were presented to the Committee at quarterly meetings throughout the financial year.

2.1.3 **We can confirm that the internal audit activity is organisationally independent and that there has been no impairment to independence or objectivity.**

2.2 Annual Assurance Opinion for 2019/20

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

Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, which is set out in more detail below, the Chief Auditor has concluded that only **limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas audited in 2019/20, are suitably designed and applied effectively.

2.2.2 The audit opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Reasonable, through to Limited and No Assurance. This opinion is reflective of the number and level of assurance opinions provided throughout the year and the improvements required to the control framework in some of those areas where weaknesses were identified in the past. An explanation of the assurance opinion levels can be found in annex 1.

2.2.3 37% of audits received limited or no assurance in 2019-20, compared to 27% in 2018-19, thus the operational effectiveness of the controls in place need to be addressed, to ensure that the controls are consistently and routinely applied across the Council. We acknowledge the level of organisational change over the last two years and in a climate of continued spending pressures, strong financial planning and budget management during the year has enabled the Council to deliver a projected underspend in 2019-2020[3].

2.2.4 Of particular importance in determining the limited opinion were key weaknesses identified within some of the Council's financial systems, which have remained unresolved and, in some instances, have deteriorated.

2.2.5 Basic financial controls have not worked as expected, for example bank reconciliations have not been keep up-to-date and historic audit recommendations relating to both accounts payable and accounts receivable have not been implemented.

2.2.6 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight were not being performed between September 2019 and January 2020. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis. This has been a recurring theme for many years now.

2.2.7 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. This was specifically raised by EY in their section 14 letter of February 2017 where they recommended '*the Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed*'.

[3] This is a provisional estimate as the accounts had yet to be drafted

2.2.8 Although a process was designed and instructions were provided to relevant staff in February 2019 to ensure control account reconciliations are submitted centrally to Finance, this was never followed through in 2019/2020. Individual services are expected to complete their own reconciliations and report back annually, hence there is still no regular corporate oversight. In addition, it was evidenced from our work that not all control account reconciliations were being kept up to date.

2.2.9 The overriding factors informing the limited assurance opinion for 2019/2020 relate to the Accounts Payable (AP) and Accounts Receivable (AR) systems, both of which were assigned limited assurance opinions. There are still considerable control deficiencies within the AP system, which are highlighted further on in this report and there has been a failure to implement many of the recommendations made in the previous audit reports. The failure of business process has been realised with the creation of a duplicate BACS run of £5.6m that was not detected by any RBC controls and resulted in a resource intensive effort to recover duplicate payments that had been sent to suppliers.

2.2.10 There are still failings in the debt collection process, with no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days) and subsequent sundry debt increasing year on year. The total outstanding sundry debt, excluding social care for year ending the 31 March 2020 was £8.55m, with 35.23% being over 151 days old. The total Social Care (Adults & Children) debt as at the 31 March 2020 was £6.4m.

2.2.11 Testing of a sample of journals throughout the financial year revealed that sufficient control has been maintained, with audit trails to support creation and separation of duties in the authorisation process for journals processed. Although a recent audit of intercompany charging between RBC and Brighter Futures for Children (BFfC), has identified areas of poor documentary evidence being maintained to support intercompany journals.

2.2.12 To conclude, whilst we provided a reasonable assurance opinion in 2018/2019, we have not seen enough improvement in the control environment within some of the Council's key financial systems during 2019/2020 and some of the actions previously agreed have not been implemented.

2.2.13 Some of the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.

2.3 Inherent qualifications to the opinion

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

2.3.2 The assurance opinion provided by the Chief Auditor should be considered in parallel with other sources of assurance, such as External Audit reports, to ensure that the Audit & Governance Committee has an informed decision on the Council's control environment.

2.3.3 As in previous years it has been difficult to get timely replies and engagement with some of our audits.

2.3.4 In continuing to provide ongoing robust assurance on the control environment, Internal Audit will need management's support to ensure that reviews are undertaken as planned and management responses are prompt and appropriate.

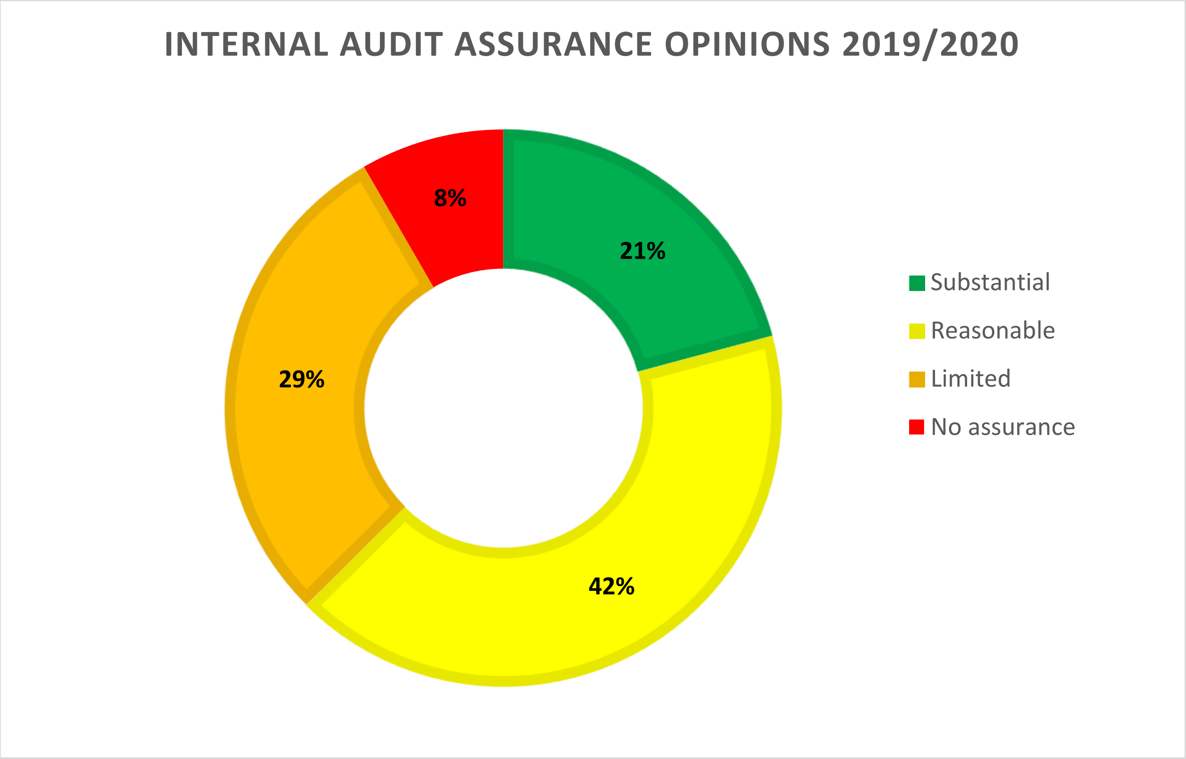
3 SUMMARY OF THE AUDIT WORK

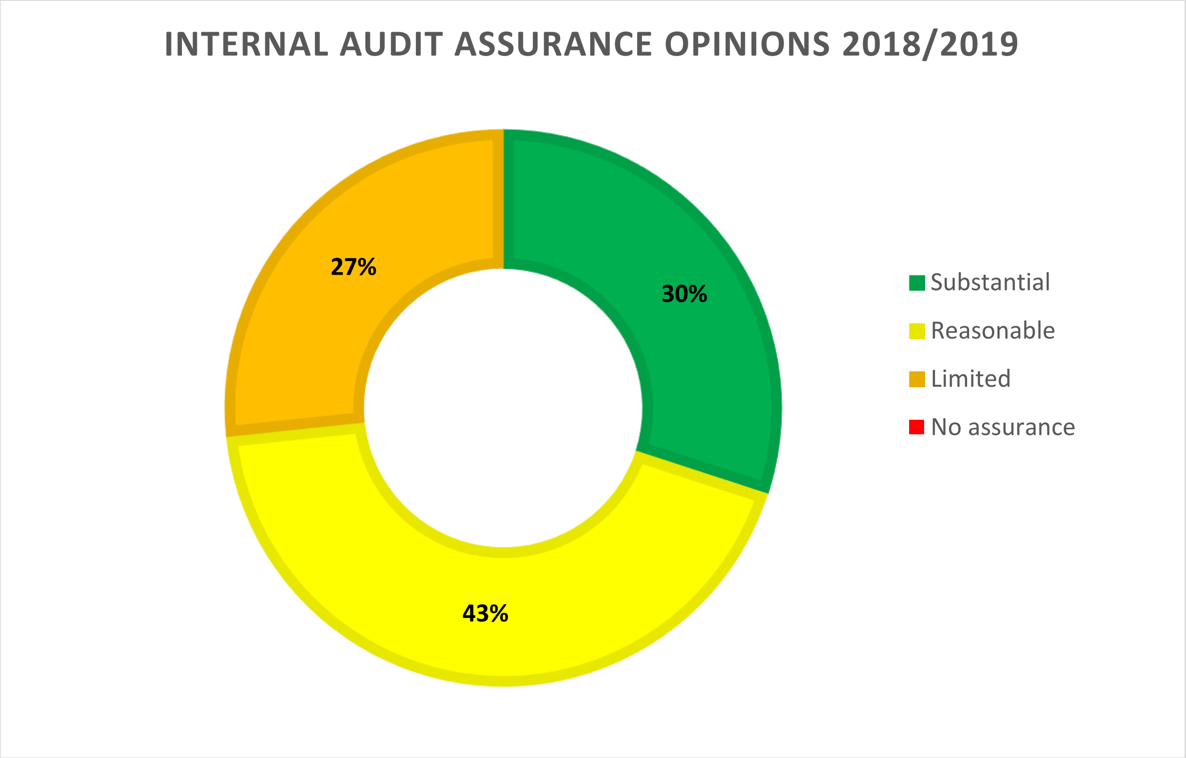
3.1 The annual 2019/20 Annual Audit Plan was developed in line with the Public Sector Internal Audit Standards for Internal Audit. Although satisfactory progress has been made against the plan during the period, a number of audits had to be deferred, due to both resource issues and unplanned work.

3.2 We completed 24 audits (including follow ups), during the year. The table below summarises the report classifications.

Report Classification (2017/18)	No. of Audits
Substantial Assurance	5
Reasonable Assurance	10
Limited Assurance	7
No Assurance	2
Assurance N/A	0
Total	**24**
Grant Claims certified	2
Total	**26**
No of projects deferred (6) and cancelled (4)	**10**

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





3.4 Priority of Recommendations

3.4.1 At the time of writing we have made a total of 101 audit recommendations in our reports (both draft and finalised), of which 17 (17%) were classified as a high priority.

3.4.2 In the following section we have set out the high-level key findings identified during our audit work for 2019/2020.

3.4.3 Details of each individual reports ratings and the priority of recommendations arising from each audit can be found at Annex 2.

4 NEGATIVE ASSURANCE REVIEWS

4.1 Some of the key areas for improvement identified during our audit work throughout the year are set out below:

i. *Accounts receivable: no progress has been made in centralising the accounts receivable function, and the same control deficiencies reported in 2018/2019 apply for 2019/2020. Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance. There are no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days) and subsequent sundry debt increasing year on year.*

ii. *Accounts Payable: Although some actions have taken place to address concerns raised in previous audit reports, such as the cleansing of open purchase orders and suppliers, many actions are still work in progress. These include but are not limited to: lack of documented business practices with measurable performance indicators and office procedures; no central control over suppliers and no disaggregation of current AP responsibilities to Procurement in respect of supplier accreditation. The use of the supplier portal has not been a success with low take up and issues with scanning negating any expected productivity gains and that has subsequently put more pressure on existing staff to process invoices.*

iii. *VAT: At the time of our review, we found an inconsistent application of controls with respect to the monthly VAT returns, with the composition, structure and controls within the monthly VAT return not clearly being understood. This poses a significant risk especially in the absence of any documented procedure, setting out how processes should be followed.*

iv. *Freedom of Information:* there is a need for better tracking and reminders to staff of approaching deadlines, closer monitoring of performance and proactive publication of information known to attract frequent requests.

v. *Bank and Control account reconciliations: we found no uniform approach in the production of reconciliations, where consistent standards for the recording of information and the retention of audit trails can then be evidenced. There was also an absence of a process to establish the segregation of duties involved in the preparation, review and approval of reconciliations, except for the Council's main bank account reconciliation. Whilst we were advised that a process had been set up to centrally monitor the completion of reconciliations, this had not been applied during the financial year ending the 31 March 2020. This approach does not conform to recommendations made by both internal and external audit to ensure that there is regular corporate oversight of control account reconciliations.*

vi. *Adult Care Client Contributions:* 45% of financial assessments were outstanding for more than a year and we found there to be a lack of supporting financial information and audit trails to confirm financial records have been checked.

vii. *Contract Management:* there is a need to strengthen the procedures to ensure there is proper oversight of contract management risk.

viii. *Cash Payment Processes Cedar Court:* Administrative and monitoring controls for operating and accounting for the guest room, petty cash and shop activities at Cedar Court were non-existent. We found no controls in place to securely account and confirm guest room occupancies to ensure lettings are fully identified and paid for. VAT was also found not to have been treated correctly.

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

5.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

5.1 Corporate Governance

5.1.1 The Council has continued to take steps to improve governance, such as more robust budget monitoring, greater scrutiny of the financial viability of savings and improved performance management.

5.1.2 The performance framework is, in effect, a summary of the key internal processes and components through which the Council sets, delivers, monitors and reports on its priorities; as such it encompasses elements of strategy, finance, performance, people and risk management, and reporting and accountability. Performance is reported quarterly to the Policy Committee summarising performance, against the success measures published in the Corporate Plan to monitor progress against the Council's priorities.

5.1.3 The Team Reading programme which was introduced by the Chief Executive in 2017 to promote the Council's vision and its values, will be supported by a Leadership and Development Programme (LDP)[4] for all Council managers. These are intuitive programmes which will help improve the governance arrangements of the Council.

5.1.4 There remain key pieces of work to be put in place to improve governance over information security, such as strengthening corporate oversight over information governance and how the Council stores data and adheres to retention policies. Good practice is currently taking place within individual pockets throughout the Council, however culturally, work needs to be done and the governance framework needs to be made simpler and clearer.

5.1.5 The Council is compiling a data strategy, to recognise the importance of data and the role trusted information and insight can play in supporting effective, informed decision making. This piece of work is to be led by the Information Governance Board and separate work streams flow from this board to improve governance.

5.1.6 A review of Freedom of Information (FoI) requests found significant gaps in the governance arrangements, with a lack of monitoring and reporting, out of date procedures and weaknesses in the Council's Publications Scheme. A subsequent follow up review has acknowledged progress had been made, with regular monitoring of FoI requests now occurring and revised guidance being in place, although it remains difficult to negotiate through the Council's website to find what information is available.

[4] The Council's Leadership and Development programme was due to commence in April 2020 but has been delayed due to the COVID-19 pandemic.

5.1 Risk Management

5.1.1 The Corporate Management Team (CMT) manages and reviews the Council's strategic risks and reports were provided throughout the year providing status updates on corporate risks to the Audit & Governance Committee.

5.1.2 The risk registers help maintain transparency, in line with the principles of corporate governance, which in turn helps demonstrate that risk management is an integral and explicit part of the Council's overall management arrangements.

5.1.3 Risk management is being used as a tool and this was evident during the response to the COVID-19 pandemic, where new risks were being identified promptly and mitigated.

5.1.4 Internal Audit have used the Council's Corporate Risk Register to inform the audit planning process and at the same time can provide assurance that appropriate measures are being taken to manage the Council's key business risks.

6.0 ASSURANCES FROM OTHER SERVICES

6.2 External Auditor

6.2.1 EY have completed their audit of the 2016/17 accounts and at the time of writing work to sign off the 17/18 Accounts was progressing, and they are anticipated to be signed off in June 2020. The audit of the 2018/19 Accounts, which are complete, is scheduled to commence in August 2020 with sign-off anticipated to occur before the end of the calendar year. We were therefore unable to take any assurances from their work but have been aware for some while of the historic control deficiencies relating to the 2016/17 and 2017/18 accounts.

6.3 ICT Assurance

6.3.1 A short LGA-funded strategic review of RBC's cyber security arrangements was commissioned prior to the COVID-19 pandemic. The review identified concerns relating to cyber security strategy and governance (which it described as "weak"), security education and technical security. While some recommendations can be straightforwardly implemented, those relating to strategy and governance are being actioned by the reconstituted Information Governance Board (IGB), chaired by the Senior Information Risk Officer (SIRO) and which had its inaugural meeting in April 2020. It was evident from that meeting that the conclusions of the cyber security review have significant parallels in the wider information governance context. CMT members are to actively champion the cyber security training that will shortly be rolled out. While there is a longer term need to review the security education/training approach, the current lack of training is a serious gap and senior leadership endorsement will be a significant factor in take up and effectiveness of any training.

7.0 Resource availability, allocation & jobs completed

7.1 For 2019/2020, the planned and actual resource availability is summarised in table A below. This sets out the resource of 1524 days, of which 1010 was for planned audit time. The actual resource availability for the year was 1,396 days of which 894 days was for planned reviews, with the difference due to vacancies.

Table A Resource (Planned v Actual)	Planned Totals	Actual Totals	+ / -	Planned Totals	Actual Totals
Total Resource Available	**1524**	**1396**	**-128**		**91.6%**
Audit Work - rechargeable	**Planned Days**	**Actual Days**	**Variance Days**	**%**	**%**
RBC Audit Projects & Planning	877	784	-92	57.5%	56.2%
BFfC Audit Projects & Planning	133	110	-23	8.7%	7.9%
Audit time	**1010**	**894**	**-116**	**66.3%**	**64.0%**
Other:					
Chief Auditor Only Time ↓					
Risk Management (1)	4	3	-1	0.3%	0.2%
Emergency Planning (2)	0	9	9	0.0%	0.6%
Corporate Investigations (3)	39	25	-14	2.6%	1.8%
Insurance (4)	12	13	1	0.8%	0.9%
Annual & other leave	188	189	1	12.3%	13.5%
Sickness	24	14	-11	1.6%	1.0%
Training (5)	32	3	-29	2.1%	0.2%
Internal Seminars/Courses	26	11	-15	1.7%	0.8%
Supervision & appraisal (6)	92	84	-8	6.0%	6.0%
Administration (7)	44	92	48	2.9%	6.6%
Other (8)	48	40	-9	3.1%	2.8%
Elections (9)	5	21	16	0.3%	1.5%
Non-Audit Work	**514**	**502**	**-12**	**33.7%**	**36.0%**

1. Facilitation of risk registers, training etc.
2. Assisting emergency planning during COVID-19 response.
3. Management of the Corporate Investigations Team
4. Management of Insurance Team
5. Professional training support, external courses & seminars, internal courses/training.
6. One to ones, appraisals, staff supervision & audit sign off etc. (time taken performing and receiving)
7. Updating office procedures, research, preparation etc. (equates to 1.4 days per person per month, which is half an hour a day)
8. Budgetary control, plan reconciliation, health & safety, quality control etc. team meetings
9. Participation in election work (Local, European and general election x 4-5 staff, plus assistance in pre-election preparation and training).

7.2 Performance of the Internal audit Service

7.2.1 The Public Sector Internal Audit Standards document the expected professional standards for internal audit in Local Government and are the applicable standards against which the quality of internal audit in local government is assessed. The Chief Auditor monitors compliance against the code, by self-assessment and/or external review.

7.2.2 Our performance during the year in relation to the performance indicators agreed for the internal audit service is shown in table B below: -

Table B: Key performance Indicators for internal audit

	Key Performance Indicators	Target	Actual		
			2017/18	2018/19	2019/20
i.	Client Satisfaction	90% or above	89%	85%	-
ii.	Production of final report within 2 weeks of receipt of management responses	90%	86%	86%	87%
iii.	Management responses received within 3 weeks of issue of draft report	90%	29%	30%	61%
iv.	Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	54%	49%	56%
v.	Number of audit projects completed relative to those in the (revised) plan	75%	71%	80%	62%
vi.	Actual spending of controllable budget	100% or less	99.5%	99%	90%
vii.	% Of working days lost to sickness	2.0%	0.78%	1.83%	1.01%

7.2.3 Although there has been a significant improvement with the timeliness of management responses, in some areas of the Council it has still been hard to get audits started and difficulty in getting prompt replies to draft reports. Line '*v*' indicates that we have struggled to complete this year's audit plan to a satisfactory level, which in part was down to a vacancy, additional audits requested and audits overrunning. In addition, it should be noted that the team provide a separate plan of work for Brighter Futures for Children[5] (BfFC). We did however achieve completion of those audits categorised as a high priority, such the key financial systems.

[5] Performance is reported directly to the BFfC Audit & Risk Committee.

8.0 Counter Fraud Activity

8.1 Best practice advises that the results of corporate investigations, including the number and types of investigations undertaken should be reported annually. Progress on investigations is reported every quarter to the Audit & Governance Committee with a summary on the types of investigations in progress. Table C provides a high-level overview of investigations undertaken compared to previous financial years. The counter fraud resource consists of four experienced investigators, however there were vacancies during the 2019/20 financial year.

8.2 The Investigations Team deals with benefit, housing tenancy, blue badge and internal fraud etc. and has had a successful year, demonstrating the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified approximately £1.5m in notional and cashable savings (see table C below for more detail). The deterrent effect of this activity should not be underestimated.

8.3 The team have also undertaken some investigations on behalf of Bracknell Forest Council during 2019/2020 and provided some fraud awareness training.

Table C Annual Summary of Investigations	**2017/18**	**2018/19**	**2019/2020**
Housing tenancy Fraud			
No. Housing Tenancy Referrals investigated	46	57	49
Properties Recovered	18	21	7
Estimated saving from Recoveries [1]	£270,000	£1,953,000	£651,000
Prosecutions Secured	3	3	0
Application under the Proceeds of Crime Act	0	0	0
Value of POCA/Compensation award	£46,817	0	0
Right to Buy Fraud			
No. RTB applications investigated	11	35	34
No RTB applications refused as a result of investigation [2]	3	1	9
Estimated savings from preventing sale of property [3]	£195,000	£65,000	£585,000
Parking Fraud			
Blue badge referrals	13	27	52
Blue Badges recovered	3	10	6
prosecutions secured	1	3	8
PCN's issued	3	6	8
estimated annual savings [5]	£1,725	£5,750	£3,450
Residual Housing Benefit			
Prosecutions	1	1	0
value of fraudulent overpayments identified	£12,169	£34,360	0

	2017/18	2018/19	2019/2020
Council Tax Support			
No. CTAX Referrals investigated	90	296	73
Prosecutions	1	0	0
add pens	2	2	2
value of fraudulent overpayments identified	£4,772	26,943	£9,732.64
Value of add pens	£2,386	£1,091	£1,386.98
Single Person Discount			
value of fraudulent overpayments identified [4]		£195,247	£208,632
New Homes Bonus			
Reduction in no. of long-term empty properties		115	0
NHB reward [6]		£106,467	0
Social Care			
No. Social Care Referrals investigated	1	1	3
Financial value of cases	£6,000	£62,000	£62,000
Internal Investigations			
No. Internal Referrals	3	2	0
Number of cases investigated	3	2	0
Cases prosecuted	2	2	0
Financial value of cases	£12,000	£14,598	0

Notes:

[1] Notional £93,000 (previously £18,000) per property recovered based on average four-year fraudulent tenancy - this includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies. The notional savings multiplier is used by the Cabinet Office in its National Fraud Initiative report.

[2] Social housing tenants who were not entitled to right to buy because of their status in the UK, or who had secured multiple tenancies unlawfully.

[3] Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RTB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RTB cap and the changes in average house prices. This method allows for benchmarking to be carried out.

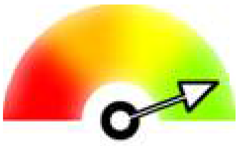
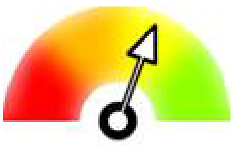
[4] Following a data matching exercise, matching address records against tracing and occupier lookup databases to determine the strength of residency for all individuals in a household within the borough, investigations officers worked with Council Tax reviewing the very-high and high-risk matches.

[5] £575 is the notional value applied by the Cabinet Office per blue badge cancelled to reflect lost parking and congestion charge revenue.

[6] The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. The ‘net reduction’ of 115 long term empty properties identified in 2018/2019 earnt the Council an NHB payment of £106,467 for 2020/21, part of the 4-year NHB reward of £425,870.

ANNEX 1: Assurance Framework

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

OPINION		EXPLANATION
Substantial	 GREEN	"A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited."
Reasonable	 YELLOW	"There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited."
Limited	 AMBER	"Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited."
No assurance	 RED	"Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited."

Grading of recommendations

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

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

3.1.1 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.

3.1.2 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

ANNEX 2: Detailed analysis of internal audit reviews 2019/20

SUBSTANTIAL ASSURANCE REVIEWS

Title	Start	Draft	Final	Recs H	Recs M	Recs L
Residents Parking Follow up	Feb-20	Apr-20	Apr-20	0	0	0
General Ledger year end Journals (Debtors/Creditors)	Apr-19	Apr-19	Jun-19	0	0	0
Secure Communications	Sep-19	Oc-19	Oct-19	0	2	1
Cemeteries & Crematorium	May-19	Sep-19	Sep-19	0	1	3
General Ledger Testing Q1 & Q2	Aug-19	Sep-19	Sep-19	0	0	0

REASONABLE ASSURANCE REVIEWS

Title	Start	Draft	Final	Recs H	Recs M	Recs L
Eligibility, Risk and Review Group	May-19	Jul-19	Aug-19	0	2	2
Rent Accounting	Oct-19	Feb-20	Apr-20	0	2	2
Oracle Fusion Cost Centre Manager Data Analysis	Sep-19	Dec-19	Dec-19	0	2	1
Delayed Transfer of care - follow up	Feb-19	May-19	May-19	0	1	0
Parks	Jun-19	Aug-19	Sep-19	0	2	2
Cash Collection - web payments	Oct-19	Mar-20		0	3	1
Food Hygiene Inspections	May-19	Sep-19	Sep-19	0	2	3
Pre-employment checks (DBS)	Aug-19	Feb-20	Mar-20	0	3	3
Business Rates	Oct-19	Jan-20	Feb-20	0	1	2
General Ledger (Journal Testing)	Feb-20	Mar-20	Mar-20	0	1	3

LIMITED ASSURANCE REVIEWS

Title	Start	Draft	Final	Recs H	Recs M	Recs L
VAT	Jul-19	Aug-19	Sep-19	0	6	0
Bank & Control account rec	Dec-19	Apr-19	June-20	3	3	1
Accounts Payable	Jan-20	Mar-20	Apr-20	5	11	12
Freedom of Information	Jun-20	Aug-20	Aug-20	2	3	4
Freedom of Information (follow up)	Mar-20	Apr-20	Apr-20	-	-	-
Client Contributions	May-20	Aug-20	Sep-20	1	1	4
Contract Management	Jan-20	Feb-20		0	4	0

NO ASSURANCE REVIEWS

Title	Start	Draft	Final	Recs H	Recs M	Recs L
Accounts Receivable	Oct-19	Feb-20	Mar-20	3	0	0
Cedar Court	Jul-19	Aug-19	Aug-19	2	0	1

GRANTS

Title	Start	Draft	Final	Recs H	Recs M	Recs L
Local Transport Plan Grant Settlement	Aug-19	Aug-19	Sep-19	0	0	0
Bus Subsidy Grant	Aug-19	Aug-19	Sep-19	0	0	0

PLANNED AUDITS CARRIED OVER TO 2020/2021

Title	Start	Draft	Final	Recs H	Recs M	Recs L
Car Parks (off street)	May-20					
Deferred Income						
Additional Payments (Follow up)	Jun-20					
Commercialisation						
Investment Properties	Jun-20					
Continuing Health Care - Follow up	May-20					

DRAFT

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	14th JULY 2020		
TITLE:	Response to the Internal Audit & Investigations Annual Assurance Report reviews relating to services delivered by the Finance department		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	PETER ROBINSON	TEL:	07977 041 645
JOB TITLE:	ASSISTANT DIRECTOR OF FINANCE	E-MAIL:	Peter.Robinson@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

This report provides an update on progress by the Finance division to Internal Audit's findings and recommendations in their Annual Assurance Report.

1.1. The Internal Audit and Investigations Annual Assurance Report delivered Limited Assurance Reviews in relation to four areas; Accounts Receivable, Accounts Payable, VAT and Bank & Control Account Reconciliations.

1.2. The findings of the Annual Assurance Report have been thoroughly reviewed, and actions to expedite resolutions of the same have been put in motion. This report seeks to appraise members of the activity in progress to address all findings and recommendations.

Actions to address all audit findings and areas for improvement identified have been included in Finance Improvement Programme, with the scheduled conclusion by 30th September.

2. RECOMMENDED ACTION

2.1 To note the Importance placed by the Finance department upon the findings of the Internal Audit and Investigations Annual Assurance Report.

2.2 To note the actions the Finance department have put in motion to address the findings of the Internal Audit and Investigations Annual Assurance Report.

3. BACKGROUND AND PROCESS

Accounts receivable

3.1. Internal Audit found that:

"no progress has been made in centralising the accounts receivable function, and the same control deficiencies reported in 2018/2019 apply for 2019/2020. Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance. There are no standard procedures for the monitoring, reporting and chasing of debt, with a lack of consistent arrangements for tackling long term debt (60+ days) and subsequent sundry debt increasing year on year."

The Finance Improvement Programme will review, develop and implement actions to ensure an efficient and effective debt management service that ensures compliance and is delivered using the most appropriate technology.

3.2. The programme will refresh end-to-end processes across the organisation and consequentially some of the objectives will address failures in the initial procedures for raising invoices, as well as subsequent procedures for chasing debt, therefore addressing key concerns raised by Internal Audit.

3.3. The programme will embed strong governance to ensure the implemented processes are adhered to and ensure permanence of improvement.

Accounts payable

3.4. Internal Audit found that:

"Although some actions have taken place to address concerns raised in previous audit reports, such as the cleansing of open purchase orders and suppliers, many actions are still work in progress. These include but are not limited to: lack of documented business practices with measurable performance indicators and office procedures; no central control over suppliers and no disaggregation of current AP responsibilities to Procurement in respect of supplier accreditation. The use of the supplier portal has not been a success with low take up and issues with scanning negating any expected productivity gains and that has subsequently put more pressure on existing staff to process invoices."

3.5. Some actions have already been undertaken. Recruitment to a position within procurement which has been created to accredit all new suppliers and maintain the supplier database has already taken place, providing a response to the finding regarding disaggregation of supplier accreditation from AP.

3.6. The Finance Improvement Programme will review and modernise the Accounts Payable process from start to finish using the technology available to the full ensuring it is fit for purpose and addresses historic issues. To improve the Supplier Database and increase efficiency within AP with the increased use of the Supplier Portal and access to the web centre.

3.7. The programme will embed strong governance to ensure the implemented processes are adhered to and ensure permanence of improvement.

Bank and Control Account reconciliations

3.8. Internal Audit found that:

"we found no uniform approach in the production of reconciliations, where consistent standards for the recording of information and the retention of audit trails can then be evidenced. There was also an absence of a process to establish the segregation of duties involved in the preparation, review and approval of reconciliations, except for the Council's main bank account reconciliation. Whilst we were advised that a process had been set up to centrally monitor the completion of reconciliations, this had not been applied during the financial year ending the 31 March 2020. This approach does not conform to recommendations made by both internal and external audit to ensure that there is regular corporate oversight of control account reconciliations."

3.9. Actions to address the findings relating to Bank Account reconciliations have been prioritised and accelerated. A uniform process to the reconciliations has been embedded, with a sign-off process created to assure verifiable segregation of duties regarding preparation, review and approval of reconciliations.

3.10 The Technical Accounting team had introduced new procedures which ensured that appropriate bank reconciliations were in place – however recent reconciliations have been delayed by issues caused by a systems upgrade, which are currently being addressed. It is anticipated that all reconciliations will be up to date by the time of the scheduled sign-off of the June reconciliation on July 21st.

3.11 The Finance Improvement Programme will review and rationalise all Control, Holding and Suspense codes to ensure that they facilitate efficient and effective working practice, and to develop a scheduled review process to ensure that they are reconciled at appropriate intervals. The scheduled conclusion for this aspect of the programme being 14th September.

VAT

3.12 Internal Audit found that:

"At the time of our review, we found an inconsistent application of controls with respect to the monthly VAT returns, with the composition, structure and controls within the monthly VAT return not clearly being understood. This poses a significant risk especially in the absence of any documented procedure, setting out how processes should be followed."

3.13 All findings and suggested improvements were addressed in September 2019, following the publication of the Internal Audit review, with the response being subsequently shared with Internal Audit.

3.14 Procedures covering every element of production of VAT returns have been written, peer-reviewed, and saved in a visible location, along with an updated VAT manual which has been shared with all stakeholders.

3.15 Control processes have been put in place to ensure segregation of duties between the preparer, and the two-tier authorisers.

3.16 The composition, structure and controls within the VAT return are now clear, documented and followed with appropriate governance in place to ensure that this does not lapse

4. CONTRIBUTION TO STRATEGIC AIMS

4.1. Heeding, and responding to, the findings of Internal Audit is essential if officers are to achieve the delivery of efficient, effective use of resources.

5. 5. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

5.1. None arising from this report.

6. 6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1. Not relevant to this report.

7. EQUALITY IMPACT ASSESSMENT

7.1. Not applicable

8. LEGAL IMPLICATIONS

8.1. Compliance with Internal Audit Findings and Recommendations in turn assures compliance with Legal and Statutory requirements.

9. FINANCIAL IMPLICATIONS

9.1. Compliance with Internal Audit Findings and Recommendations in turn assures vigilant, efficient and effective use of resources, and ensures that robust anti-Fraud safeguards are place.

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**14th JULY 2020**		
TITLE:	**FINAL ACCOUNTS UPDATE**		
LEAD COUNCILLOR:	**COUNCILLOR EMBERSON**	**PORTFOLIO:**	**CORPORATE AND CONSUMER SERVICES**
SERVICE:	**FINANCE**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**PETER ROBINSON**	**TEL:**	**07977 041 645**
JOB TITLE:	**ASSISTANT DIRECTOR OF FINANCE**	**E-MAIL:**	**Peter.Robinson@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report updates the Committee on progress with the completion of the Council's Final Accounts for 2017/18, 2018/19 and 2019/20

1.2 The Audit of the 2017/18 Accounts is nearing completion, with RBC Officers now having responded to all aside from a handful of the current Ernst and Young (EY) queries. EY are currently reviewing RBC responses and some follow-on queries may subsequently arise given the volume of work undertaken

1.3 An update by EY elsewhere on the agenda will provide further information to the Committee on progress, outstanding tasks and the next steps required in order to sign off the 2017/18 Audit.

1.4 The draft 2018/19 Accounts are complete and were handed over to the Auditors in mid February 2020. Audit of this set of Accounts is anticipated to begin in August 2020.

1.5 Officers are also fully engaged in completing the 2019/20 accounts. At this stage it is anticipated that the draft 2019/20 accounts will be completed and handed over to EY in August 2020 and available for public inspection shortly thereafter.

2. RECOMMENDED ACTION

2.1 To note the progress made in relation to the Audit of the 2017/18 Accounts

2.2 To note the progress being made in closing the 2019/20 Accounts

2.2 To note the indicative commencement date of the Audits of both the 2018/19 and 2019/20 Accounts will be August 2020.

3. BACKGROUND AND PROCESS

2017/18 Accounts

3.1 The Audit of the 2017/18 Accounts is nearing completion, with RBC Officers now having responded to all current Ernst and Young (EY) queries. EY are currently reviewing RBC responses and, although some follow-up queries are possible, the volume will be significantly reduced.

3.2 Officers have responded to over 2,000 queries during the course of the 2017/18 Audit. The quantum of queries was significantly higher than one would receive during the course of a routine Audit, a result of the qualification of the 16/17 accounts and the ensuing reduction in the Council's materiality level. As may be imagined this has put considerable pressure on the Finance Team, particularly latterly with the added pressures of the Covid Pandemic. However relationships have remained effective and professional.

3.3 The majority of the remaining tasks which need to be undertaken before sign-off is achieved now lie with EY. It is anticipated that sign-off will take place in the coming weeks, with more precise timescales being provided within the update from EY to this Committee.

3.4 A log of agreed changes to the accounts has been maintained throughout the audit process and we have agreed with EY that the changes will be made in one batch, which will result in the production of a version 2 of the 17/18 Accounts. None of the agreed changes have thus far been deemed to be material.

3.5 There are two matters relating to pensions which are the subject of active discussions with EY, and which may be deemed to be material if not resolved. Both relate to the unavailability of some historic information in relation to pension fund accounts.

2018/19 Accounts

3.6 The 2018/19 Accounts are complete and were handed over to the Auditors in mid February. It is anticipated that a second version of the 18/19 Accounts will be prepared to incorporate any changes recommended during the Audit of the 17/18 accounts – as closing balances from 17/18 will become the opening balances for 18/19. These changes will be made once version 2 of the 17/18 Accounts has been signed off.

3.7 The public period of inspection opened on 27th February, elapsing on the 9th April. One member of the public contacted us in mid-March to indicate that they wish to exercise their right to inspect the accounts, shortly before the Covid-19 situation escalated. They have now been contacted and informed that they may do so when convenient to themselves.

3.8 Audit of the 2018/19 Accounts is scheduled to begin in early August

2019/20 Accounts

3.9 The 2019/20 management accounts have been closed and officers are now engaged on compiling the 2019/20 draft accounts.

3.10 In recognition of the challenges faced by closure teams across the country as a result of Covid 19, the overall deadline for publication of Audited Accounts has, however, been pushed back to 30th September.

3.11 At present, the key issue affecting the Council's timeline relates to the HRA beacon valuations. Beacon properties are properties which are exemplars of a particular type of establishment – assessment of one property enables valuers to revalue other properties of the same nature. The council currently has 260 beacon properties, with at least 25% requiring external inspection. Unfortunately the valuers have capacity issues, as many of their staff are furloughed, and are therefore forecasting that they will have completed this exercise by the end of July.

3.12 To ensure that completion timescales remain on target, we have deployed a range of measures, including bringing in additional resource, moving tasks around in line with staff capacity and placing restrictions on annual leave. We are currently on target to complete by early August, putting us in line with the majority of councils.

3.13 The work being undertaken on accounts closure is not detracting from the emphasis we are continuing to place on the Finance Improvement Programme. The Programme is the catalyst for wider-ranging improvements, which will ensure that Readings Finance Department embodies best practice before we produce the 2020/21 accounts and that we will be in line with – or ahead of – our peers.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 The production of annual accounts results in the publication of accurate, transparent financial information which gives a true and fair view of reading Borough Council's economic performance and financial stability.

5. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

5.1 None arising from this report.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 Both the 2017/18 and 2018/19 Accounts have been made available for public inspection as required under Part Five of the Accounts and Audit Regulations 2015

6.2 The inspection period for the 2019/20 Accounts is expected to commence in August 2020, shortly after the draft accounts are finalised.

7. EQUALITY IMPACT ASSESSMENT

7.1 Not applicable

8. LEGAL IMPLICATIONS

8.1 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.

8.2 Both sets of draft Accounts have subsequently been published on the Council's website, with the notices for the 30 day public inspection periods for each having been published and the accounts having been made available for the required timespan.

8.3 The inspection period for the 2019/20 Accounts is expected to commence in August 2020, shortly after the draft accounts are finalised.

9. FINANCIAL IMPLICATIONS

9.1 The Council has not yet received EY's final audit fee for the audit of the Council's 2017/18 accounts; EY indicated in May 2020 that their fee was likely to be at least £400,000 above the scale fee due to the additional work involved.

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO: AUDIT & GOVERNANCE COMMITTEE	
DATE: 14th JULY 2020	
TITLE: CIPFA FINANCIAL MANAGEMENT CODE	
SERVICE: ALL	**WARDS: BOROUGHWIDE**
LEAD OFFICER: STUART DONNELLY	**TEL: 0118 937 3468**
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, The Financial Management Code 2019 (FM Code), which sets out for the first time, the standards of financial management for local authorities.

1.2. Full compliance with the FM Code will commence from 1 April 2021, with 2020/21 effectively being a shadow year.

1.3. An initial self-assessment of the Council's current standing against each of the Financial Management Standards was carried out in March 2020 by the Financial Planning & Strategy Manager in conjunction with the Council's Section 151 Officer using a RAG Rating approach (please refer to section 9 within the main body of this report for full details). In summary, the findings of the initial self-assessment against the 17 Financial Management Standards is as follows:

RAG Rating	Progress Report	Number of Financial Management Standards
GREEN	Compliance is being demonstrated	8
AMBER	Minor to Moderate improvements are required to demonstrate compliance	9
RED	Moderate to Significant improvements are required to demonstrate compliance	0
TOTAL		**17**

1.4. The results of the self-assessment indicate an overall rating of Amber. This correlates with the results of the CIPFA Financial Management Model Staff Survey which was issued to all staff within the Finance Team (58.7% completion rate) and indicated an overall score of 2.16 (Amber) out of 4.00.

1.5. CIPFA published an accompanying set of guidance notes to the FM Code in May 2020 which are attached as Appendix 2. These are intended to provide practical guidance to practitioners regarding the implementation of the Code. The guidance notes state that, "it is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them". Therefore, regular self-assessment exercises will be required in order to demonstrate compliance going forward.

1.6. CIPFA are running training events in September 2020 to introduce the Code and provide practical implementation tips. Consequently, a follow-up self-assessment exercise will be undertaken in January 2021 once the guidance notes have been fully considered, officers have been able attend one of the CIPFA training events and further work has been completed.

2. RECOMMENDED ACTION

That Audit & Governance Committee note:

2.1. The requirement to implement the Financial Management Code from 1st April 2021;

2.2. The findings of the initial FM Code Self-Assessment, and;

2.3. That a further self-assessment exercise will be undertaken in January 2021 and reported back to the Audit & Governance Committee in advance of full implementation of the FM Code from 2021/22.

APPENDICIES

Appendix 1 - CIPFA Financial Management Code 2019
Appendix 2 – CIPFA Financial Management Code Guidance Notes 2020

3. BACKGROUND

3.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code) which is attached as Appendix 1. This sets out for the first time, the standards of financial management for local authorities.

3.2. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.

3.3. Local government finance in the UK is governed by legislation, regulation and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial pressures faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future.

Whilst there is much good practice across the sector, any failures threaten stakeholders' confidence in local government as a whole and more importantly, risk the services on which local people rely.

3.4. CIPFA's intention is that the Financial Management Code (FM Code) will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.

3.5. While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.

4. RESPONSIBILITY

4.1. CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how the Chief Financial Officer (CFO) should satisfy their statutory responsibility for good financial administration. The primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member, should demonstrate that they are meeting their statutory responsibility for sound financial administration.

4.2. CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected members and senior officers. Therefore, depending on the model in place, it will include executive committees, elected mayors, portfolio holders with delegated powers and key committees of the authority as well as senior officers.

5. APPLICATION

5.1. CIPFA has recognised the ambition within the Code, as well as the timescale and wider resource challenges facing local authorities. As a result, CIPFA considers 2020/2021 to be the commencement of a shadow year, and that by 31 March 2021 local authorities should be able to demonstrate that they are working towards full implementation of the Code.

5.2. The first full year of compliance with the FM Code will therefore be 2021/22, though earlier adoption is encouraged.

6. COMPLIANCE

6.1. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

6.2. It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel, that their own financial management arrangements exceed the standards set out in the FM Code.

7. CIPFA PRINCIPLES OF GOOD FINANCIAL MANAGEMENT

7.1. The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

7.2. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

7.3. The 6 Principles of Good Financial Management set out in the FM Code are:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.

- Adherence to professional **standards** is promoted by the leadership team and is evidenced.

- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

8. CIPFA FINANCIAL MANAGEMENT STANDARDS

8.1. The FM Code (pages 15-16 of Appendix 1) sets out the 17 CIPFA Financial Management Standards with detailed explanatory notes (pages 17-36 of Appendix 1).

9. FM CODE SELF-ASSESSMENT

9.1. An initial self-assessment exercise to benchmark Reading Borough Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below:

RAG Rating	Progress Report
GREEN	Compliance is being demonstrated
AMBER	Minor to Moderate improvements are required to demonstrate full compliance
RED	Moderate to Significant improvements are required to demonstrate full compliance

9.2. The following table summarises the self-assessment RAG Rating for each standard. A more detailed analysis per standard is provided in sections 9.4 to 9.49.

Standard Reference	Financial Management Standard	RAG Rating
Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team		
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	AMBER
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	GREEN
Section 2: Governance and Financial Management Style		
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	AMBER
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	AMBER
E	The financial management style of the authority supports financial sustainability.	GREEN

Section 3: Long to Medium-Term Financial Management		
F	The authority has carried out a credible and transparent financial resilience assessment.	GREEN
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	AMBER
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	GREEN
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	AMBER
Section 4: The Annual Budget		
J	The authority complies with its statutory obligations in respect of the budget setting process.	GREEN
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	GREEN
Section 5: Stakeholder Engagement and Business Plans		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	AMBER
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER
Section 6: Monitoring Financial Performance		
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	GREEN
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	AMBER
Section 7: External Financial Reporting		
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	GREEN
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	AMBER

Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team

9.3. As set out above, the FM Code follows the practice of the CIPFA Statement of the Role of the Chief Financial Officer in Local Government in referring to the collective group of elected members and officers as the leadership team. In local authorities, therefore, the concept of the ‘leadership team’ includes executive committees, elected mayors, portfolio holders with delegated powers, key committees of the authority and senior officers.

Standard A. Self-Assessment RAG Rating: AMBER.

9.4. As the 2017/18 and 2018/19 audit and value for money opinions are currently outstanding, external assurance on improvements since 2016/17 cannot yet be provided. However, it is anticipated that in light of the significant improvements made to the robustness of the 2017/18 budget, the 2018/19 Medium Term Financial Planning process, budget monitoring arrangements and the delivery of significant savings, this assessment will move to Green.

9.5. Examples of improvements made since 2016/17 include:

- £33m of savings delivered 2017/18-2019/20
- No services have had to be cut in setting balanced & robust annual budgets
- The current Medium-Term Financial Strategy invests in Highways and Leisure through the Capital Programme
- No Housing Benefit Subsidy clawback from DWP as part of the Housing Benefit Subsidy audit process
- The Council's reserves have returned to sustainable levels and are now around the average level when compared to all unitary authorities
- Adult Social Care & Health Services have been delivered within budget for the last 2 years which is against the national trend
- Significant reduction in the overspend on Children's Services
- An improved OFSTED rating in respect of Children's Services from "inadequate" in 2016 to "requires improvement to be good" in 2019

Standard B. Self-Assessment RAG Rating: GREEN.

9.6. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy
- must lead the promotion and delivery by the whole authority of good financial management so that public money is always safeguarded and used appropriately, economically, efficiently and effectively
- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced

9.7. The Council complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government in respect of all of the above criteria and therefore a Green RAG Rating has been determined.

Section 2: Governance and Financial Management Style

Standard C. Self-Assessment RAG Rating: AMBER.

9.8. The Internal Audit Annual Assurance Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, gives the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement. It also sets out key themes arising from the work of the Audit Team during the financial year, and compared the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

9.9. The 2019/20 report, which is a separate item on the agenda of this Audit & Governance Committee meeting, reports a limited assurance level.

9.10. In response to longstanding process and procedural issues raised by both internal and external audit, the Executive Director for Resources has launched and implemented a new Finance Improvement Programme. This is overseen by the Finance Improvement Board, which is chaired by the Executive Director and meets fortnightly to ensure momentum. The Programme includes a number of workstreams that focus on improving specific areas including Accounts Payable, Accounts Receivable, Chart of Accounts, Final Accounts and Reconciliations. Operationally the Programme is being coordinated and managed on an interim basis by Chris Tidswell from CIPFA. Individual projects are being led from within the Team. The initial phase of the Finance Improvement Programme aims to address some of the fundamental improvements required during 2020. The second phase of the programme, beginning later in 2020, will focus on organisational wide financial management, training and governance arrangements.

9.11. This Improvement Programme aims to deliver the improvements needed to improve this rating to Green.

Standard D. Self-Assessment RAG Rating: AMBER.

9.12. The Council's published draft Statement of Accounts for 2017/18 and 2018/19 contain Annual Governance Statements that set out the Council's governance arrangements in conjunction with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. However, as these sets of accounts have not yet had their external audit opinions given, external assurance that the framework has been complied with is currently outstanding. The audit of the 2017/18 accounts is currently being finalised and 2018/19 will commence in August 2020 alongside the 2019/20 accounts.

9.13. Currently an Amber RAG Rating is appropriate but with the caveat that external assurance is outstanding.

Standard E. Self-Assessment RAG Rating: GREEN.

9.14. CIPFA have recently published a Financial Resilience Index which uses a basket of indicators to measure each individual authority's financial resilience in comparison with local authority comparator groups.

9.15. Based on the latest data available, in terms of the indices relating to levels of financial reserves, the Council's position in now around the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position.

9.16. Considering the above, a Green RAG Rating has been determined.

Section 3: Long to Medium-Term Financial Management

Standard F. Self-Assessment RAG Rating: GREEN.

9.17. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2019/20 Budget" was presented to Council on 25 February 2020, alongside the "2020/21 Budget and Medium Term Financial Strategy to 2023" report, which contains statements on:

- The robustness of the estimates made for the purposes of the calculations of the budget; and
- The adequacy of the proposed level of financial reserves.

9.18. The report also took into consideration the published CIPFA Financial Resilience Indicators and scrutiny of those indicators which highlighted areas where the Council is potentially exposed to increased risk.

9.19. The Council has carried out a credible and transparent financial resilience assessment therefore a Green RAG Rating has been determined.

Standard G. Self-Assessment RAG Rating: AMBER.

9.20. The Council has prepared and consulted on a subsequently approved 3-year Medium Term Financial Strategy. CIPFA advocate a minimum coverage of 3 years for the Medium-Term Financial Strategy and therefore, the Council's Strategy is compliant.

9.21. This standard has been assessed alongside Standards I and L and therefore it is the longer-term element of the standard in particular, relating to the Capital Strategy, that is not being demonstrated. The published Capital Strategy currently only covers a 3 year period which cannot be considered to be long term. The Capital Strategy for 2021/22 will be reviewed with a view to expanding into the longer term. Therefore, currently an Amber RAG Rating has been determined.

Standard H. Self-Assessment RAG Rating: GREEN.

9.22. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out a framework for self-regulation for local authorities. The Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning.

9.23. The 2017 version of the code introduced the requirement for local authorities to produce a capital strategy. The purpose of the capital strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets.

9.24. The legislative requirements of the code require that the Council set an annual Minimum Revenue Provision (MRP) Policy to ensure prudent provision in relation to the repayment of debt.

9.25. The Council is also required to set annual Prudential Indicators to ensure that external debt is kept within sustainable prudent limits.

9.26. The Council has produced a Capital Strategy and sets an annual MRP Policy and a set of annual Prudential Indicators as part of the Treasury Management Strategy. Therefore, a Green RAG Rating is appropriate.

Standard I. Self-Assessment RAG Rating: AMBER.

9.27. The Council's 3-year Medium Term Financial Strategy is at the minimum 3-year level advocated by CIPFA. Whilst it is demonstrable that the Medium-Term Financial Strategy has been developed in line with the Council's Corporate Plan priorities, it is not clearly evidenced that it is linked to the more detailed service plan level in all cases. An Amber RAG Rating is therefore currently assigned.

Section 4: The Annual Budget

Standard J. Self-Assessment RAG Rating: GREEN.

9.28. The Council complies with its statutory obligations in respect of the budget setting process as set out in the Local Government Finance Act (1992). A legal and balanced budget and corresponding Council Tax levels have been set by Council by the statutory deadline of 11 March and assurance has been provided by the Chief Finance Officer regarding the robustness of estimates and adequacy of reserve levels. A Green RAG Rating is therefore appropriate.

Standard K. Self-Assessment RAG Rating: GREEN.

9.29. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2019/20 Budget" was presented to Council on 25 February 2020, alongside the "2020/21

Budget and Medium Term Financial Strategy to 2023" report, which contains statements on:

a. The robustness of the estimates made for the purposes of the calculations of the budget; and
b. The adequacy of the proposed level of financial reserves.

9.30. A Green RAG Rating is therefore appropriate.

Section 5: Stakeholder Engagement and Business Plans

Standard L. Self-Assessment RAG Rating: AMBER.

9.31. A public consultation on the 2020/21 budget ran from 19 December 2019 to 19 January 2019 and was promoted through the Council's main communication channels (website, email, social media, local press and partner organisations) as well as sent to the full Council Tax email database of circa 40,000 contacts. A summary of the consultation was included in section 3 of the "2020/21 Budget and Medium-Term Financial Strategy to 2023" report to Council on 25 February 2019.

9.32. Additionally, the budget was informed by a resident's survey which identified highways as a key priority and a £9m investment into this area was built into the Capital Programme as a result.

9.33. The Reading Transport Strategy 2036 is currently open for consultation until 30 August 2020 to ensure that residents have their say to ensure that the Council delivers the transport infrastructure and investment that Reading needs going forward.

9.34. Whilst consultation with stakeholders is clearly demonstrated, some councils utilise more interactive consultation tools that encourage a higher level of engagement.

9.35. Additionally, the standard refers specifically to medium and longer-term financial planning. The budget consultation, as well as the Council's approved Medium Term Financial Strategy and Capital Strategy all cover a period of 3 years. CIPFA advocate a minimum coverage of 3 years for the Medium-Term Financial Strategy and whilst a minimum duration in respect of the Capital Strategy is not proposed, it is expected to be of a long-term nature.

9.36. The Council's published 3-year Capital Strategy is not considered to be long term and it is therefore proposed that consideration of the duration of the Capital Strategy is built into the annual MTFP refresh process for 2020/21 to facilitate compliance with this standard going forward. An Amber RAG Rating is therefore currently applied.

Standard M. Self-Assessment RAG Rating: AMBER.

9.37. The Council utilises a variety of models in respect of capital investment appraisals but there does not have a defined or documented standard approach.

9.38. A review of all existing models will be carried out and a preferred methodology agreed, documented and communicated to all relevant stakeholders to ensure a consistent and common approach.

9.39. It is therefore considered that an Amber RAG Rating is currently appropriate.

Section 6: Monitoring Financial Performance

Standard N. Self-Assessment RAG Rating: GREEN.

9.40. The Council's Corporate Management Team receives monthly financial reports that provide appropriate information regarding projected outturn positions in respect of approved budgets for both revenue and capital. In addition, quarterly performance reports are received by Members at Policy Committee and Lead Members are briefed on a monthly basis. These reports also contain progress reports in relation to the delivery of savings targets.

9.41. Additionally, all reports to the leadership team contain a section that sets out the associated financial implications appropriate to the content and proposals of the report. A Green RAG Rating has therefore been applied.

Standard O. Self-Assessment RAG Rating: AMBER.

9.42. Financial reports, which include a section on debt performance, are reported to the Corporate Management Team and Lead Members monthly and quarterly to Policy Committee. However, it is considered that this reporting could be improved by providing further analysis of aged debt by analysing over additional periods and by providing a list of the largest outstanding debts.

9.43. Bi-annual reports on the Council's borrowing and investment positions are produced for the leadership team. Treasury management training is provided on a periodic basis to ensure that those responsible for decision making within the Council to facilitate understanding and scrutiny of the contents of these, often very technical, reports.

9.44. It is therefore considered that an Amber RAG Rating is appropriate at this stage.

9.45. Improvements to the reporting on outstanding debt are currently being made and will be included as part of the monthly financial performance reporting for 2020/21.

Section 7: External Financial Reporting

Standard P. Self-Assessment RAG Rating: GREEN.

9.46. The Chief Financial Officer's responsibilities are set out in the "Statement of Responsibilities" within the annual Statement of Accounts. This statement clearly sets out that the Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

9.47. "The Independent Auditor's Report to the Members of Reading Borough Council for the year ended 31 March 2017" (included within the Statement of Accounts 2016/17) gave the external audit opinion that the financial statements "have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17".

9.48. It should be noted that the 2017/18 and 2018/19 audit opinions on the respective Statement of Accounts are currently outstanding. Therefore, whilst it is not anticipated nor suggested that the Council's compliance with this standard will have changed, current external audit opinion confirming compliance is outstanding at this point in time. However, a Green RAG Rating is considered appropriate.

Standard Q. Self-Assessment RAG Rating: AMBER.

9.49. The presentation of the final outturn figures and variations from budget are clear and transparent. However, whilst the 2017/18 and 2018/19 Statement of Accounts audit processes are still to be finalised, there is a risk that reserve balances may be subject to change. It is therefore considered that an Amber RAG Rating is appropriate.

10. CIPFA FINANCIAL MANAGEMENT (FM) MODEL STAFF SURVEY

10.1. The CIPFA FM Model Staff Survey was issued to all members of the finance team on the 15th of April with a final completion date of 13th of May.

10.2. The Survey was undertaken to gauge the Teams own views on financial management within the Council compared to the best practice statements contained within the model.

10.3. The survey was issued to a total of 46 staff and completed by 27 (58.7%).

10.4. The overall score for was 2.16 out of a maximum of 4.00. On the standard scoring methodology this indicates competent and would be a 2** star rating and amber. The threshold for a 3*** would be a score of 2.50.

10.5. Moving forward a review of all budget managers will be undertaken to gauge satisfaction with the service and to inform compliance with the Code.

10.6. The scoring matrix is as follows:

Initial Scoring	Management Dimensions			
Financial Management Style	Leadership	People	Processes	Stakeholders
Delivering Accountability	****	**	***	***
Supporting Performance	***	*	**	*
Enabling Transformation	*	*	*	*

Overall Star Rating	**

Analysis of Scoring Dimensions

10.7. Leadership

- The Council scored well indicating that the organisation has an effective framework of financial accountability that is clearly understood and applied. Further development work was identified re ownership and accountability at budget holder level.
- Scoring was also good for supporting performance showing that the organisation has a developed financial strategy to underpin medium and longer-term financial health. Also, that the organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.
- The weakest area was under enabling transformation which assesses how well the organisation's leadership integrates financial management into its strategies to meet future business needs.

10.8. People

- Areas for improvement are around ensuring the organisation identifies its financial competency needs and puts arrangements in place to meet them, has access to sufficient financial skills to meet its business needs and that managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. This encompasses financial literacy being diffused throughout the organisation so that the financial implications of decisions are clearly understood.
- The two weaker areas were how the organisation manages its finance function to ensure efficiency and effectiveness and also how the organisation develops and sustains its financial management capacity.

10.9. Processes

- From a perspective of delivering accountability the score overall was positive at 2.71 and 3***. The highlights were around budgets being accrual-based and robustly calculated, that treasury management is risk based. Also, that RBC manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.
- The main area of weakness was maintaining processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.
- Under supporting performance, the score was overall at 2** with a good score as a consequence of the medium-term financial planning process underpinning fiscal discipline, the focus on achieving strategic priorities and the delivery of a dynamic and effective business plan.

  The weaker area was under transformation and how or if the organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes.

10.10. Stakeholders

- Delivering accountability scored well with 3*** highlighting that the organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations. Though the latter element of the statement will have reduced the score due to current issues with final accounts.
- Supporting performance and enabling transformation both indicate some room for improvement. This score may well be higher if the survey audience had included stakeholders and their perspective.

11. NEXT STEPS

11.1. Both the March 2020 FM Code Self-Assessment exercise and the May 2020 Survey by the Finance Team indicate an Amber rating with regards to FM Code compliance, identifying either areas that need further improvement or the absence of external confirmation of compliance. A number of these areas (Standards A, C, D & Q) are in part dependent on the audit of previous years' Statement of Accounts, the process for which is in hand and progress is reported elsewhere on the agenda.

11.2. The majority of the residual areas, e.g. financial processes, training and financial reporting will be addressed through the Finance Improvement Programme which is being led by the Executive Director of Resources as described above. The initial phase of the Programme which is already underway aims to address the required process improvements during 2020. The second phase, beginning later in 2020, will focus on organisational wide financial management and governance improvements.

11.3. The Council's planning horizon for its Capital Strategy and ensuring stronger linkage between service plans and the MTFS will be addressed as part of the Council's annual MTFS refresh and Corporate Planning processes. [Standards G, I, L].

11.4. Standardising the Council's business planning and options appraisal methodologies will be addressed by the Corporate Improvement Team. [Standard M]

12. FINANCIAL IMPLICATIONS

12.1. There are no direct financial implications arising from this report.

13. LEGAL IMPLICATIONS

13.1. The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.

13.2. There are no legal implications arising directly from this report.

14. RISK

14.1. There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery as well as to the Council's reputation.

14.2. This self-assessment was conducted in advance of the publication of the FM Code's guidance notes and in advance of the training CIPFA are providing in September. A further self-assessment will therefore be undertaken in Q4 prior to the new financial year.

15. EQUALITIES IMPACT ASSESSMENT

15.1. No equalities impact implications have been identified as arising from this report.

16. ENVIRONMENTAL IMPLICATIONS

16.1. No environmental implications have been identified as arising directly from this report.

The Chartered Institute of Public Finance & Accountancy

financial management code

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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CIPFA The Chartered Institute of Public Finance & Accountancy

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "… make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer."

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIFFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*.

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

FM Code

Leadership

A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.

B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.

O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Accountability

D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.

Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Transparency

L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Standards

H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

J. The authority complies with its statutory obligations in respect of the budget setting process.

K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

Assurance

C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

F. The authority has carried out a credible and transparent financial resilience assessment.

N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Sustainability

E. The financial management style of the authority supports financial sustainability.

G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the Financial Resilience Index that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

SECTION 7

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from IFAC website.

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.

B. The time value of money should be represented by the opportunity cost of capital.

C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.

D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.

E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.

F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.

G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.

H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as "the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals".
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation's systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE's purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ■ the management of the organisation's borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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Introduction

With local authorities across the UK facing the challenges of reduced funding and increased demand for services, the need for robust financial management has never been more important.

But the high-profile issues faced by a number of authorities in recent times indicate that the principles of good financial management have not been embedded universally into the ways in which authorities operate.

Consequently, CIPFA has developed the Financial Management Code (FM Code), which sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

USING THESE GUIDANCE NOTES

These guidance notes seek to assist authorities in their efforts to comply with the FM Code, by exploring in more detail the themes addressed in the FM Code and by providing suggestions and ideas as to how it can be implemented in practice.

CIPFA recognises, however, that different authorities operate in different ways, face different challenges and have different levels of resources at their disposal. And so what may work well within one authority may not be relevant, practical or affordable for another.

These guidance notes are not intended to be prescriptive in any way and all authorities are encouraged to use the notes in a way that best reflects their structure, type, function and size.

Consequently, these guidance notes do not purport to set out the only way to comply with the requirements of the FM Code. They seek simply to provide ideas and suggestions as to how authorities might comply with the FM Code and how they might demonstrate that compliance has been achieved.

Ultimately, though, it is for each authority to ensure that it complies with the FM Code in a way that is appropriate – and proportional – to its own circumstances.

These guidance notes apply to all those to whom the Code applies including all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003

- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

WHO MIGHT USE THESE GUIDANCE NOTES

The guidance notes aim to be a resource for those who are supporting their organisations with the implementation of the FM Code and may be particularly helpful to officers in those organisations including chief finance officers and senior finance professionals, so are written primarily from a financial – rather than a service – perspective.

However, each section also contains a summary overview, which may be useful for chief executives and other senior managers, as well as for members or other stakeholders.

Police bodies in England and Wales do not have elected members, but have a directly elected police and crime commissioner (PCC), and a chief constable. Both are separate legal entities and local authorities for the purposes of this document, with the PCC holding the chief constable to account for the delivery of policing in their area. The exceptions are in London and Greater Manchester where the mayor undertakes the role of PCC.

THE PURPOSE OF THE SECTION SUMMARY

Each section within the guidance notes starts with a summary of the topics addressed in that section, to allow readers to focus their attention on the topics that are of most relevance to them. As the guidance notes draw on a number of familiar publications it will be for the authority to decide on the level of detail they need from these notes. For some users the summary may meet all their requirements. Consideration of each topic concludes with a summary of key questions that authorities may wish to ask themselves in ensuring their compliance with the FM Code.

LINKS TO OTHER STANDARDS

Where the FM Code requires authorities to comply with other CIPFA standards, the guidance notes summarise the requirements associated with these standards, so as to ensure that comprehensive guidance is given. Authorities already familiar with the requirements of these other standards may wish to skip these sections of the guidance notes, which are identified clearly.

These guidance notes should be read in conjunction with the FM Code itself.

SUMMARY OF THE FM CODE

While authorities have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

The FM Code has several components, including the CIPFA *Statement of Principles of Good Financial Management*. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the six principles, the FM Code translates these principles into financial management standards. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards to be met if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

The principles of good financial management

The CIPFA Financial Management Code applies a principles-based approach. It does not prescribe the financial management arrangements that local authorities should adopt. Instead, the FM Code requires that a local authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The six underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities, local policing bodies and associated stakeholders. The principles have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

The principles are as follows:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

It is not possible – or, indeed, desirable – for the FM Code to anticipate all eventualities. Consequently, if any doubt arises as to whether or how the FM Code should be applied, reference should be made to these principles of good financial management, to establish whether any proposed financial management practice is within the spirit of the FM Code.

A financial management practice that conflicts with one or more of these principles will not be acceptable practice even if it is not ruled out explicitly by the FM Code itself.

The CIPFA financial management code

The CIPFA Financial Management Code translates the principles of good financial management into a series of standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

THE SCOPE OF THE FM CODE

The areas covered by the standards are:

- the responsibilities of the chief financial officer and leadership team
- governance and financial management style
- long to medium-term financial management
- the annual budget
- stakeholder engagement and business plans
- monitoring financial performance
- external financial reporting.

The financial management standards are designed to be sufficiently flexible so that they are relevant to the needs of the diverse range of authorities across the local government sector and to the varying circumstances in which these authorities operate and challenges that they face.

THE FINANCIAL MANAGEMENT STANDARDS

The detailed financial management standards set out in the FM Code are as follows:

Chapter 1	**The responsibilities of the chief finance officer and leadership team**
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government (2016)*
Chapter 2	**Governance and financial management style**
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
E	The financial management style of the authority supports financial sustainability

Chapter 3	**Medium to long-term financial management**
F	The authority has carried out a credible and transparent financial resilience assessment
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
Chapter 4	**The annual budget**
J	The authority complies with its statutory obligations in respect of the budget setting process
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves
Chapter 5	**Stakeholder engagement and business cases**
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
Chapter 6	**Monitoring financial performance**
N	The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
Chapter 7	**External financial reporting**
P	The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

THE AUTHORITY'S RESPONSIBILITIES IN DETERMINING COMPLIANCE WITH THE FM CODE

It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel, with justification, that their own financial management arrangements exceed by far the standards set out in the FM Code. Recent experience suggests, however, that the standards set out in the FM Code have been by no means universally achieved.

CHAPTER 1

The responsibilities of the chief finance officer and leadership team

Robust financial management is at the heart of the authority's ability to achieve its objectives and to deliver high quality services to its local community.

Indeed, after over a decade of reductions in funding and a consequent need to achieve significant cost and efficiency savings, it is no doubt at the top of the agenda for most, if not all, authorities.

Responsibility for managing the authority's financial resources and for ensuring its long-term financial sustainability lies with those responsible for making executive decisions and their advisors.

This chapter of the guidance notes considers:

- the way in which the authority's leadership team is able to demonstrate that its services provide value for money
- the extent to which the authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*

It starts by exploring the key elements of value for money – economy, efficiency, effectiveness and equity – as well as the importance of striking a balance between them.

It looks at how the authority can promote value for money, though strong governance, robust management of finances and risk, the review of service delivery arrangements, monitoring of service performance, and ensuring that services are accessible to all who can benefit from them.

It also considers how the authority can demonstrate that its services – including those delivered through outsourced or other mechanisms – represent value for money, such as through internal oversight and scrutiny, external assessment of performance and proactive communication with local stakeholders.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out a series of principles that govern the activities and behaviours of an effective CFO. This chapter of the guidance notes explores these principles and explains what they mean in practice. For PCCs and chief constables, please refer to the equivalent CIPFA *Statement for Police.*

Financial Management Standard A:

The leadership team is able to demonstrate that the services provided by the authority provide value for money

The achievement of value for money is the collective responsibility of elected members and senior officers, who together make up an authority's leadership team. In policing, the chief constable has a legal duty to secure value for money and the PCC, who holds the chief constable to account, has a legal duty to ensure value for money.

While the nature of the governance and management arrangements across local authorities – and other bodies to which the FM Code applies – may vary, the responsibilities of the leadership team in respect of achieving value for money from the authority's resources do not.

This means that, in order to achieve compliance with the FM Code, consideration of value for money should be an integral feature to the decisions made by the leadership team, especially those relating to the allocation of resources or to the delivery of services.

EXPLORING VALUE FOR MONEY

Value for money is a subjective concept. It depends not only on what one values, but also on what one considers an acceptable price to pay. So the perception of what does and what does not constitute good value for money will vary from one individual to another.

To facilitate the assessment of value for money, the concept is commonly broken down into four 'pillars', which are more readily measurable.

These pillars are as follows:

Economy 'Spending less'	Economy is a measure of the resources that the authority puts into the delivery of a given activity or service. To be economical, the authority should procure these inputs at the lowest possible cost, subject to maintaining appropriate standards of quality. *For example, an economical highways development scheme will procure the necessary resources (labour, materials, plant hire, etc) at the lowest possible unit cost.*
Efficiency 'Spending well'	Efficiency is about how well the authority translates these inputs into the outputs of an activity or a service. To be efficient, the authority should use the minimum possible level of inputs to produce each output, again subject to maintaining appropriate standards of quality. *For example, an efficient highways development scheme will minimise the volume of resources required to construct each mile of road, eg through proactive scheduling and minimisation of waste.*
Effectiveness 'Spending wisely'	Effectiveness considers the extent to which the outputs that the authority has generated lead to the outcomes that it wants to achieve. To be effective, the authority's actions should have the desired positive impact on people's lives, such as greater opportunity, improved skills or changed behaviours. *For example, an effective highways development scheme will have a clear rationale for the road under construction and will construct the right road, in the right place and at the right time.*

Equity 'Spending fairly'	Equity is about the extent to which the outcomes generated by the authority have been made accessible to all those who could benefit from them. To be equitable, the authority should ensure that it takes account of the ability of different individuals and groups to access its services and that it makes arrangements to ensure that these services are accessible to all who could benefit from them. *For example, an equitable highways development scheme would be accessible to all forms of traffic – including pedestrians and cyclists – and might also feature suitable pedestrian crossing points (with facilities for visually-impaired pedestrians and wheelchair users) and appropriate street furniture.*

In making decisions, allocating resources and planning the delivery of services, the authority should seek to ensure that its services are economical, efficient, effective and equitable. The authority should also be able to demonstrate that it has taken these factors into account when making decisions, allocating resources and planning the delivery of services.

There is, however, a delicate balance to be achieved across these four pillars of value for money. For example, using cheaper materials can improve the economy of an activity, but will have a negative impact on efficiency if sub-standard materials generate higher levels of waste. And it is perfectly possible to undertake an activity that is highly economical and supremely efficient, but ultimately ineffective in that it does not achieve what the authority set out to do.

Consequently, the authority may wish to consider not only how it will achieve economy, efficiency, effectiveness and equity, but also how it will find the right balance between these potentially competing factors.

HOW TO PROMOTE ECONOMY, EFFICIENCY, EFFECTIVENESS AND EQUITY

There are a number of actions that the authority could – and, in fairness, probably already does – take to promote the economy, efficiency, effectiveness and equity of its services and to demonstrate its compliance with the FM Code.

The first of these take the form of high-level governance and management arrangements:

A clear governance structure	The authority has a clear governance structure, with well-defined roles for all members of the leadership team. The collective responsibility of the leadership team for the achievement of value for money is made explicit.
Scrutiny arrangements	The authority's activities – including, but not limited to, decisions made by the leadership team – are subject to appropriate levels of scrutiny, for example by an overview and scrutiny committee or an audit committee.
Audit arrangements	The authority has in place arrangements for external and internal audit. The external auditor confirms, as part of their annual audit opinion, whether the authority has in place suitable arrangements to secure value for money. The remit of the authority's internal auditors includes consideration of value for money.
Clear objectives and strategy based on local need	The delivery of the authority's services is guided by a corporate plan, or a similar document, which sets out the authority's objectives and how it will meet them. This corporate plan is based on an assessment of local need and is approved by the leadership team.

Effective service and financial planning	The authority has in place detailed plans and strategies for the delivery of its principal services, which are consistent with the achievement of the objectives in the corporate plan. The authority also has in place an annual budget, setting out how the delivery of these services will be funded.

The authority can also help to achieve value for money by having in place robust arrangements surrounding the commitment of expenditure, the oversight of contracts with third parties and the management of risk:

Financial regulations	The authority has in place a suite of financial regulations, which set out how the authority manages its finances, and implements suitable mechanisms to ensure compliance with these regulations. The financial regulations may be supplemented by further guidance to members and officers on the implementation of the regulations.
Procurement regulations	The authority has in place, either as part of its financial regulations or as a stand-alone document, specific regulations regarding the procurement of goods and services. These include arrangements for ensuring that goods and services are procured in an economic manner.
Contract management arrangements	The authority has in place specific arrangements regarding the management of contracts with third-party suppliers, to ensure that the goods or services to which the contract applies are delivered as agreed. Contract management arrangements are proportional to the value and significance of the contract.
Risk management	The authority has in place a systematic approach to identifying, assessing and managing risks to the achievement of its objectives. This approach is applied at a corporate level as well as at the level of the delivery of individual services. Significant risks, and the actions being taken to mitigate them, are reported to the leadership team.

The authority may also wish to assess the extent to which its services represent value for money by reviewing explicitly the ways in which these services are delivered or by comparing the authority's own services and service performance with those of other authorities:

Efficiency reviews	The authority undertakes a programme of efficiency reviews, designed to assess the extent to which its principal services are operating efficiently and to make recommendations for improvement. These reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
Benchmarking	The authority uses benchmarking techniques to assess the economy and efficiency of its services and to identify opportunities for improvement, by comparing key performance measures across services internally or with other authorities. This could take the form of a mutual data-sharing arrangement with other authorities or participation in a formal benchmarking scheme.
Peer review	The authority invites representatives of other authorities to review the delivery of specific services, to use their experience to assess how well these services are performing and to make recommendations for improvement. This could take the form of an informal arrangement with other authorities or participation in a formal peer review scheme.

There are also ways in which the authority could help to ensure that its services are effective, in that they are achieving the authority's objectives and meeting the needs of service users:

Monitoring of performance data	The authority collects and monitors appropriately-defined performance data to assess the extent to which its services are achieving their objectives. High level performance data is reported regularly to the leadership team. Prompt action is taken to address any areas of poor performance.
Service reviews	The authority undertakes a series of service reviews, designed to assess the extent to which services are achieving their objectives and meeting the needs of service users. Like the efficiency reviews discussed above, service reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
User surveys	The authority undertakes a periodic survey of users of particular services, designed to assess the extent to which these services meet users' needs and to identify opportunities for improvement.
External assessments	The authority engages with statutory and non-statutory external reviews of its services, such as Ofsted reviews of children's social care services, and seeks to use the results of these reviews to improve the operation and management of the services under review. It is worth noting, furthermore, that the results of such reviews are used frequently by external auditors when forming their own conclusions about the arrangements in place across the authority to secure value for money.

While equity is a relatively recent addition to the concept of value for money, there are nevertheless things that the authority could do to ensure that its services are accessible to all those who could benefit from them:

Equality impact assessments	The authority undertakes equality impact assessments of policies, activities and services, to ensure that they do not – deliberately or inadvertently – discriminate against certain groups or individuals, especially those that are disadvantaged or vulnerable.
Engagement with service users	The authority engages with survey users from different backgrounds – for example, though a service user panel or similar – to assess the extent to which services are accessible to all users and potential users and to identify opportunities for improvement.
Engagement with the voluntary sector	The authority engages with voluntary organisations working with disadvantaged and vulnerable groups and individuals, to identify barriers to accessibility and to explore how its services could be made more accessible to those who could benefit from them.

DEMONSTRATING VALUE FOR MONEY

It is not sufficient, however, for the authority to simply achieve value for money in the delivery of its services. The authority's leadership team needs also to be able to demonstrate, in line with the requirements of the FM Code, that value for money is being sought and delivered.

Indeed, under proposed changes to the National Audit Office's (NAO) *Code of Audit Practice,* the authority's auditors, in seeking to reach a conclusion on the extent to which the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, will henceforth place greater emphasis than previously on the actions taken by the authority to improve economy, efficiency and effectiveness, including how it has used information about its costs and performance to improve the way it manages and delivers its services. This will apply only to those authorities that fall within the scope of the NAO's *Code of Audit Practice.*

The most straightforward way to demonstrate the authority's commitment to achieving value for money is to undertake a range of activities designed to ensure that the authority's services are economical, efficient, effective and equitable and to retain evidence that these activities have been undertaken and that the authority has used them to identify and to realise opportunities for improvement.

This could include, for example:

- an overview of the authority's governance arrangements and examples of how decisions are scrutinised
- details of efficiency or service reviews undertaken, together with their findings and any subsequent improvement action taken
- details of economy and/or efficiency savings achieved, together with how they have been achieved and the impact on the relevant services
- the results of user surveys and/or engagement with service users or voluntary sector organisations.

The authority could also draw on the judgements of others as to whether its activities represent value for money, such as its internal and external auditors, statutory reviews of individual services and, for police and fire services, inspection reports by Her Majesty's Inspecorate of Constabulary and Fire and Rescue Services.

The authority may also wish to communicate proactively to local stakeholders its approach to value for money and its performance in ensuring that value for money is achieved. This could include, for example:

- addressing value for money explicitly in the narrative report or annual governance statement in the authority's annual financial statements
- preparing an annual value for money report, summarising the action that it has taken to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity
- providing information via its website or other medium explaining how the authority works to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity.

The authority may wish to present its activities in respect of value for money in the context of a broader consideration of how it creates value for its local community. It could do this, for example, by adopting an approach such as integrated reporting, which helps organisations to communicate how their strategy, governance, performance and prospects, in the context of the external environment in which they operate, lead to the creation of value in the short, medium and long term.

VALUE FOR MONEY AND ALTERNATIVE DELIVERY MECHANISMS

As the demands placed on the public sector become ever more challenging and complex, many authorities opt to explore alternative arrangements for the delivery of public services and assets.

However, while the authority can delegate the delivery of such services or assets to its partners, it remains responsible for ensuring that these services and assets are delivered. It also remains accountable for services and assets that are delivered in its name.

Consequently, it is imperative that the authority has in place appropriate arrangements for ensuring effective oversight of and accountability for any alternative delivery mechanisms in which it has engaged.

THE NATURE OF ALTERNATIVE DELIVERY MECHANISMS

Such arrangements can take a number of forms, including:

Outsourcing contracts	The authority contracts with an external partner to deliver a service on its behalf. The partner may be a commercial entity or, increasingly, a voluntary sector organisation. *For example, the outsourcing of the authority's refuse collection contracts to a commercial provider.*
Private finance initiative (PFI) contracts	The authority engages with an external partner – or a consortium of partners – to design, build, finance and operate an infrastructure asset and associated services. *For example, the construction of a new headquarters building and the provision of facilities management services.*
Joint ventures	The authority shares an equitable stake in an enterprise with a public or private sector partner, sharing both the risk and the reward in the delivery of a service or asset. *For example, working with a homelessness charity to set up an advice hub for local people threatened with homelessness.*
Shared services arrangements	The authority pools its resources with those of other public sector partners, to benefit from efficiency savings and to increase service resilience. *For example, sharing a senior post with another authority or sharing 'back office' functions between several organisations.*
Local authority trading companies	The authority establishes an entity that is owned and controlled by it, but that operates in a commercial manner and (potentially) competes with other providers. *For example, setting up a company that provides civil engineering services to the authority and to external customers.*
Public service mutuals	The authority 'spins out' a service delivery entity, which demonstrates a high level of employee control, influence or ownership. *For example, the operation of libraries by teams of employed and volunteer staff outside the direct control of the authority.*

It must be noted that not all of these routes are open to all types of local authority. For example, PCCs and chief constables do not have powers to trade and therefore the route of local authority trading companies is not directly open to them, though they may collaborate with others who hold such powers, such as fire and rescue authorities.

PRINCIPLES FOR OBTAINING VALUE FOR MONEY

In order to ensure that alternative delivery mechanisms represent value for money, it is important that the authority establishes them carefully and oversees them wisely.

This includes:

- focusing on long-term value creation and sustainable service delivery, rather than on the achievement of short-term savings
- understanding and controlling costs within the financial context, safeguarding financial arrangements with a clear line of oversight
- understanding the nature and extent of risk inherent to such arrangements and ensuring that such risk is managed proactively and robustly
- creating a culture of openness and mutual respect, in which the partners can raise issues and concerns without fear of penalty
- promoting a collaborative, problem-solving approach among the partners, rather than a reliance on contractual provisions
- being adaptable to evolving circumstances, adopting a flexible and considered approach and recognising that sometimes things need to change
- embracing creativity, drawing on the combined skills, experience and expertise of the partner organisation(s)
- maintaining transparent and accountable arrangements for effective scrutiny and oversight, which respects the need for commercial confidentiality but is not constrained by it.

MAINTAINING EFFECTIVE 'LINE OF SIGHT' ACCOUNTABILITY ARRANGEMENTS

The authority should have in place appropriate arrangements for the effective oversight of any alternative delivery mechanisms upon which it relies for the delivery of services or assets.

While these arrangements should be tailored to the arrangement in question, some elements that might form part of these arrangements are as follows:

Governance arrangements	The arrangement has some kind of governing body, which brings together all partners to oversee its work. This body meets regularly and has appropriate administrative support. The authority has suitable representation on this governing body and participates actively in its deliberations.
Ways of working	The partners in the arrangement agree and implement appropriate ways of working. These cover things like operational management, financial management and communication. These arrangements may be set out in a contractual arrangement, but they are sufficiently flexible to respond to changing circumstances.
Performance measurement	The authority agrees with its partner(s) in the suitable ways to measure the performance for the arrangement. This might include development milestones, process measures, output targets or quality metrics. The partners also agree how, when and by whom performance will be measured.
Progress monitoring	The authority engages in regular monitoring of progress and performance in delivering the relevant service or asset. This encompasses all aspects of performance, including governance, management, operational, financial, quality and user satisfaction. Any performance deficiencies are addressed promptly, positively and proactively.
Input from service users	The authority – or its partner(s) – seeks regular feedback from service users and potential service users (if relevant) on the delivery of the service or asset, to ensure that it meets their needs and that the partner(s) are not focusing solely on easy-to-reach service users at the expense of those with more complex needs.
Client-side capacity	The authority ensures that it has available sufficient and appropriate internal resources to manage effectively its involvement in the arrangement and to maintain effective oversight of it. This includes securing the engagement of the authority's leadership team.
Financial transparency	The authority maintains oversight of the financial management of the arrangement. This might include regular financial reports and reporting against key financial performance metrics. The authority also seeks, where feasible, to implement open-book accounting arrangements, as they offer a transparent and fair way of procuring and delivering services and assets in the public sector.

Key questions

- Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?
- Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?
- Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?

Financial Management Standard B:

The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*

This element of the guidance notes summarises the requirements set out within the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government* or police equivalent.

The FM Code requires that the authority complies with CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government*. This statement describes the roles and responsibilities of the chief financial officer (CFO). It also sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties.

If the authority adopts different organisational arrangements from those that are set out in the statement, the authority should set out in its annual governance statement why this is the case and how its arrangements deliver the same impact as those set out in the statement.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* in applicable authorities.

This section summarises the requirements of the statement. The statement also sets out further ideas for how these requirements can be implemented, to which authorities may wish to refer when assessing their adherence to the statement and to the FM Code.

THE CHIEF FINANCIAL OFFICER

The CFO is the authority's most senior executive role charged with leading and directing financial strategy and operations.

The statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in local authorities and the organisational arrangements needed to support them.

Compliance with the FM Code requires that each of these principles is demonstrated reliably and consistently across the authority.

- **Principle 1:** The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- **Principle 2:** The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered and aligned with the authority's overall financial strategy.
- **Principle 3:** The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

- **Principle 4:** The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- **Principle 5:** The CFO in a local authority must be professionally qualified and suitably experienced.

KEY MEMBER OF THE LEADERSHIP TEAM

Local authorities are required to have a suitably qualified CFO with defined responsibilities and powers. The governance requirements in the statement – and, therefore, the requirements of the FM Code – are that the CFO:

- should be professionally qualified
- should report directly to the chief executive or equivalent and
- should be a member of the leadership team, with a status at least equivalent to other members.

The leadership team is collectively responsible for setting the strategic direction for the authority, for the management of its finances and for the delivery of public services. While performing a key corporate role within the leadership team, the CFO also has a responsibility to advise those members not in executive or leadership roles.

In policing in England and Wales, the relevant CFO should report directly to the chief constable or the PCC. It is the PCC who sets the strategic direction working with the chief constable, with the support of their leadership teams.

The CFO must participate in the strategy development and implementation responsibilities of the leadership team. The CFO must also ensure that the members of the leadership team have the financial capabilities necessary to perform their own roles effectively.

As well as having a fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focused on outcomes, and help to resource the authority's plans for change and development in the public services it provides.

The CFO must contribute actively to organisational issues and to corporate decision making. They must also exercise a professional responsibility to intervene in spending plans in order to maintain a suitable balance of resources, so that the authority remains in sound financial health.

ACTIVELY INVOLVED IN ALL MATERIAL BUSINESS DECISIONS

The CFO should play a leading role in advising and supporting the leadership team in turning policy aspirations into reality, by aligning financial planning and resources with the authority's vision and strategic objectives.

The CFO has direct responsibility for leading the development and implementation of the financial strategy necessary to deliver the authority's strategic objectives in a sustainable manner. The CFO must therefore work closely with decision makers to establish a medium to long-term strategy that ensures the financial sustainability of the authority.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax-raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and addressed appropriately.

The CFO should be actively involved in, and able to bring influence to bear on, all material business decisions whenever and wherever they are taken. The CFO also has an important role to play in ensuring that necessary financial information and advice is provided to the leadership team and decision makers at all levels across the authority.

LEAD THE PROMOTION AND DELIVERY OF GOOD FINANCIAL MANAGEMENT

The CFO must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The CFO must also promote financial literacy throughout the authority, so that the leadership team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

The CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. Better value for money releases resources that can be recycled into delivering more and better services, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the local authority.

Furthermore, the CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources.

LEADING AND DIRECTING A WELL-RESOURCED FINANCE FUNCTION

The finance function must have a firm grasp of the authority's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and to challenge those responsible for the authority's activities to account for their financial performance.

A strong customer focus both externally and internally must be a key feature of the way the finance function does business. The finance function must support the authority's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The CFO must promote financial literacy throughout the authority, including championing training and the development of relevant skills at all levels. However, the CFO has a particular responsibility for learning and development amongst finance staff, in order to ensure that both current and likely future finance skills needs are addressed.

PROFESSIONALLY QUALIFIED AND SUITABLY EXPERIENCED

The CFO must be able to exercise financial leadership throughout the authority. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and must promote these throughout the finance function.

The CFO must communicate complex financial information in a clear and credible way. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene if financial or ethical principles need to be asserted or defended.

In England and Wales, the officer appointed as the CFO must be a member of a recognised accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although, in both cases, this is widely acknowledged to be good practice.

The CFO must have a good understanding of the principles of financial management and an understanding of, and commitment to, the wider 'business', looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders.

The CFO must also have a good understanding of public sector finance and its regulatory environment and must comply with relevant professional standards. Furthermore, the CFO must personally set the tone throughout the authority that financial management matters and that it is a key part of everyone's job.

Key questions

- Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?
- Does the CFO lead and champion the promotion and delivery of good financial management across the authority?
- Is the CFO suitably qualified and experienced?
- Is the finance team suitably resourced and fit for purpose?

CHAPTER 2

Governance and financial management style

Good governance lies at the heart of the authority's ability to achieve its objectives, to manage its finances and to maintain the trust of those that it serves. It also encourages more robust decision making, greater scrutiny of decisions and better planning for the future.

This chapter of the guidance notes considers:

- how the authority's leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- the degree to which the authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
- the way in which the financial management style of the authority supports financial sustainability.

It starts by considering how the authority can establish a suitable framework for governance and internal control and how it can seek assurance that this framework is working effectively in practice. It also explores how the leadership team can espouse high standards of governance and internal control and how it can create, maintain and nurture a culture of robust governance and internal control throughout the authority.

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. This chapter discusses these principles and sets out how the authority can embed them into its activities and operations. There is a strong link between the principles of the good governance framework and the FM standards and reading both reinforces consistency and coherence.

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an uncertain future. This chapter outlines some of the challenges that the authority may face to its financial sustainability. It also introduces the four dimensions of financial management set out in the CIPFA Financial Management Model and explores how these can be used to develop and embed a financial management style that helps the authority to address these challenges.

Financial Management Standard C:

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

In setting out the requirement for the authority's leadership team to demonstrate in its actions and behaviours responsibility for governance and internal control, the FM Code emphasises the importance of the 'Nolan principles'.

These principles have been set out by the Committee on Standards in Public Life and form the basis of the ethical standards expected of public office holders.

The principles are as follows:

1. Selflessness	Holders of public office should act solely in terms of the public interest.
2. Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
3. Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
4. Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
5. Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
6. Honesty	Holders of public office should be truthful.
7. Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

The last of these principles is especially important for the purposes of the FM Code, as it highlights the need not only to acknowledge these principles, but also to ensure that the authority's leadership team – and, indeed, individuals throughout the authority – demonstrate them in their own actions and behaviours on a daily basis.

In order for the leadership team to demonstrate responsibility for governance and internal control, and therefore to ensure compliance with the FM Code, consideration should be given to the effectiveness of the arrangements in place including:

- establishing a clear framework for governance and internal control across the authority, including for those entities with which the authority works in partnership
- establishing clear arrangements for assurance and accountability
- espousing high standards of governance and internal control in its own activities
- creating, maintaining and nurturing a culture in which governance and internal control are embedded into the way in which the authority works.

As organisational complexity grows it is likely that there will also be an increase in partnership working or the use of other delivery structures. The leadership team must ensure appropriate arrangements are operating effectively. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

Specific actions that the leadership might take in each of these respects, which will help it to comply with the requirements of the FM Code, are explored in more detail below.

ESTABLISHING A CLEAR FRAMEWORK FOR GOVERNANCE AND INTERNAL CONTROL

A clear framework for governance and internal control is a cornerstone of the authority's ability to operate effectively. Some key elements of this framework are as follows:

Constitution	The authority has in place a constitution that sets out how it operates, how decisions are made and how the authority ensures that its activities are appropriate, transparent and accountable to local people. This constitution is readily available to all members of the leadership team, officers and members of the public.
Governance structure	The authority has in place a formal governance structure that is appropriate to the way in which it operates. This includes relevant committees and reporting lines, including in particular the provision for scrutiny of the decisions and actions of the leadership team.
Terms of reference	All committees and other elements of the authority's governance structure have formal, agreed terms of reference, setting out the scope of their responsibilities. They also have a defined membership and a suitable, pre-agreed schedule of meetings and work plan.
Conduct of meetings	Each meeting of the committees forming part of the authority's governance structure is guided by an agenda and has its proceedings and decisions recorded in formal, written minutes. Members of the committee, and others who may reasonably wish to address the committee, are given adequate notice of such meetings.
Scheme of delegation	The authority has in place a formal scheme of delegation, which sets out which individuals or committees are entitled to make which decisions. Specifically, it details which decisions are reserved for the authority acting as a corporate body, which can be taken by its committees, specified individual members of the leadership team, the chief executive (or equivalent) and specific officers. Within their overall scheme of governance, PCCs and chief constables in England and Wales also have a scheme of consent, reflecting their relationship as two separate legal entities.
Robust processes and controls	The authority has developed and implemented formal processes for its key activities, to ensure that they are undertaken robustly, efficiently and effectively. These processes are subject to suitable controls, so that the authority can be sure that the processes are implemented as designed.
Partnership governance	Where the authority works in partnership with other organisations in the delivery of services, it has in place appropriate arrangements to oversee these partnerships, to ensure that they are operating effectively and to monitor the achievement of the partnership's objectives.

ESTABLISHING CLEAR ARRANGEMENTS FOR ASSURANCE AND ACCOUNTABILITY

The authority will wish to seek assurance that its governance and internal control arrangements are operating effectively and that those responsible for the effective operation of these arrangements are held accountable. Some ways to achieve this are as follows:

Internal audit	The authority has in place formal arrangements for the provision of an internal audit function, which conforms to the Public Sector Internal Audit Standards. Conformity with these standards is verified by external assessment at least once every five years.
Head of Internal Audit	The authority ensures that the head of internal audit is able to fulfil their role effectively, in line with the responsibilities set out in the CIPFA *Statement on the Role of the Head of Internal Audit* (2019).
Internal audit planning, reporting and resourcing	Internal audit works to an agreed plan, which is based on a robust analysis of the authority's governance and internal control arrangements, the environment within which the authority operates and the risks and challenges that it faces. Internal audit is resourced adequately and reports to an audit committee.
Risk management	The authority has in place a robust approach to the identification, assessment and management of risks to the achievement of its objectives and to the delivery of services. Responsibility for the management of individual risks is allocated clearly. The status of significant risks and their management is reported regularly to the audit committee and to the leadership team.
Audit committee	The authority maintains an effective audit committee in accordance with the principles in CIPFA's *Position Statement on Audit Committees in Local Authorities and Police* (2018) and the supporting guidance publication. Its responsibilities include receiving reports on and monitoring the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors, the audit committee ensures that the recommendations are communicated to the leadership team and that the committee is informed of the effectiveness of the leadership team's response. Police audit committees are advisory, supporting the PCC and chief constable. See CIPFA's website for details about its support for audit committees.
External audit and inspection	Recommendations for corrective action made by the authority's external auditors are acted upon promptly. Furthermore, the authority welcomes – and, indeed, actively seeks out – peer challenge, reviews and inspections from regulatory bodies and implements any recommendations that result from them.

ESPOUSING HIGH STANDARDS OF GOVERNANCE AND INTERNAL CONTROL

The leadership team also needs to ensure that it maintains high standards of governance and internal control in its own activities. In addition to engaging proactively with the points outlined above, your arrangements are likely to include:

Code of conduct	The authority establishes formal codes of conduct for members of the leadership team, both officers and members. These codes of conduct are consistent with the Nolan principles, with the latest recommendations from the Committee on Standards in Public Life (reported in its 2019 report *Local Government Ethical Standards*) and with any other relevant principles or codes of practice. Members of the leadership team are required to confirm that they agree to comply with the relevant code of conduct. Any potential breaches are investigated promptly and proactively and suitable action is taken where breaches are found to have occurred.
Register of interests	The authority maintains an up-to-date register of interests for all members of the leadership team. This includes all interests that could potentially influence – or be seen to influence – a member of the leadership team's ability to act impartially in their role or when making decisions. Should a conflict of interests, either actual or perceived, arise, the authority takes appropriate steps to resolve it. The authority's approach to addressing conflicts of interests is recorded in a formal policy or document.
Constructive challenge	The leadership team espouses the principle of constructive challenge to all of its decisions and activities. Consequently, it has developed and implemented appropriate mechanisms to enable this challenge, such as: ■ engagement with relevant audit, scrutiny or oversight committees ■ engagement with the authority's internal auditors ■ consultation with relevant stakeholders prior to making decisions ■ consultation on new policies, plans and strategies. Being open to constructive challenge requires a degree of humility on the part of the leadership team. It does, however, result in better decisions for the authority.
Realism bias	The authority bases its decisions on a robust analysis of the current situation, rather than on what it would like the situation to be or what it needs the situation to be in order for a preferred option to work. This is demonstrated through: ■ detailed analysis of the current situation prior to significant decisions being made ■ a clear and robust decision-making procedure ■ engagement with relevant stakeholders ■ the seeking of appropriate professional advice ■ the use of realistic, evidence-based targets (eg for financial savings), rather than overly optimistic ones that may not be achievable in practice.
Balanced decision making	The authority seeks, in its decision making, to achieve a suitable balance between the desired social outcomes on the one hand, and the available financial resources and need for administrative efficiency, on the other. This is demonstrated through the use of, for example, suitable option appraisal techniques when making significant decisions as well as consideration of alternative models of service delivery.

CREATING, MAINTAINING AND NURTURING A CULTURE OF GOVERNANCE AND INTERNAL CONTROL

The 'tone at the top' is one of the main factors that influence the way in which the authority works. Consequently, the leadership team would be well advised to seek to create, maintain and nurture a culture of effective governance and internal control. In addition to the ideas discussed above, ways in which the leadership team can support such a culture include the following:

Walk the talk	The leadership team demonstrates a high standard of governance and internal control at all times and embraces conscientiously the authority's governance and internal control processes. Any suggestion that these standards do not apply to the leadership team is avoided. Indeed if anything, the leadership team holds itself to higher standards than it demands of the rest of the authority.
Strive for continuous improvement	The authority seeks to improve continuously its standards of governance and internal control. This could include, for example: ■ seeking to comply with new codes of practice as they are issued by relevant public or professional bodies ■ participating in quality mark schemes, award schemes and other development opportunities ■ responding appropriately to the findings of internal audit reviews, external audit recommendations and external inspections.
Reward good behaviours	The authority seeks to reward positive behaviours in respect of governance and internal control, for example by including such matters in role descriptions and individuals' performance goals and by assessing them in annual performance appraisals.
Don't tolerate bad governance or poor control	The authority ensures that any behaviour that falls short of the required standards of governance and internal control is identified and dealt with promptly and effectively. If poor governance or internal control is tolerated, it could percolate rapidly across the authority and dilute any messages that the leadership team might promote about the importance of high standards in these respects.

Key questions

- Does the leadership team espouse the Nolan principles?
- Does the authority have in place a clear framework for governance and internal control?
- Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?
- Does the leadership team espouse high standards of governance and internal control?
- Does the leadership team nurture a culture of effective governance and robust internal control across the authority?

Financial Management Standard D:

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)

This element of the guidance notes summarises the requirements set out within the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* and will act as a reminder to those already familiar with these principles.

The framework was introduced in 2016 and from this time all annual governance statements (AGS) will have used the framework in line with requirements from the government's Accounts and Audit Regulations 2015 and the latest version of the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom.*

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. It is based on the CIPFA/IFAC *International Framework on Good Governance in the Public Sector* (2014).

The framework provides a structure to help the authority to ensure that it has in place robust and effective governance arrangements. In order to comply with the FM Code, the authority should ensure that it has implemented the guidance contained in the framework across its activities.

To ensure compliance with the FM Code, whatever form of governance arrangements are in place across the authority, the authority should assess its governance structures against the principles contained in the framework by:

- reviewing its existing governance arrangements
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring the ongoing effectiveness of this local code
- reporting publicly on an annual basis its compliance with the authority's local code of governance and how the authority has monitored the effectiveness of its governance arrangements, together with how it plans to improve these arrangements in the future.

This reporting on compliance, effectiveness and improvement can usually be undertaken within the authority's AGS, which must be published alongside its financial statements.

THE PRINCIPLES OF THE GOOD GOVERNANCE FRAMEWORK

The framework sets out a series of core principles, which underpin the notion of good governance across the authority and its partnerships.

These core principles are as follows:

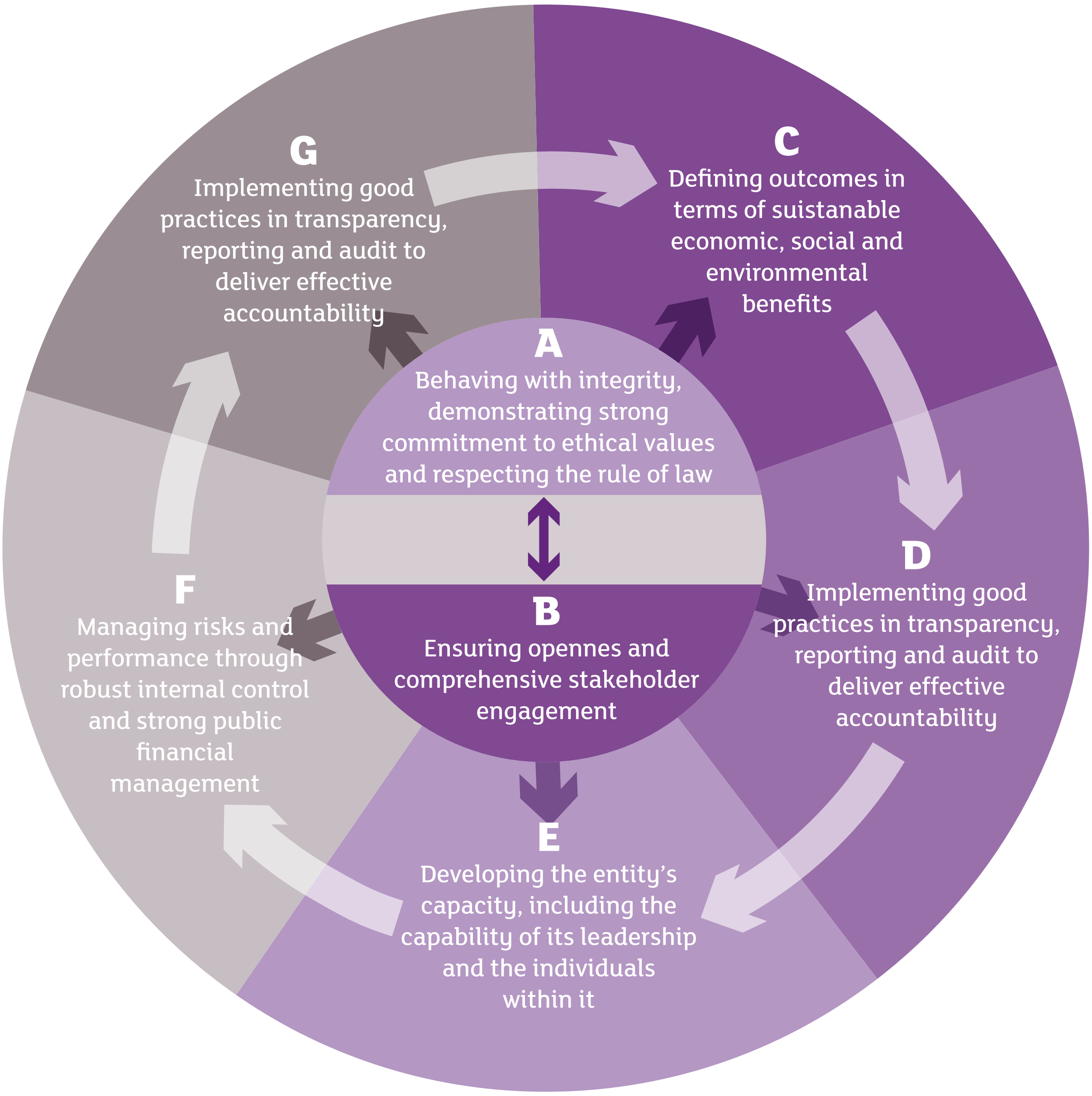
Principle A:	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
Principle B:	Ensuring openness and comprehensive stakeholder engagement.
Principle C:	Defining outcomes in terms of sustainable economic, social, and environmental benefits.
Principle D:	Determining the interventions necessary to optimise the achievement of the intended outcomes.
Principle E:	Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Principle F:	Managing risks and performance through robust internal control and strong public financial management.
Principle G:	Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The intention of the framework is that principles A and B underlie the implementation of principles C to G. The idea is that good governance is dynamic and that the authority as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

These core principles are displayed graphically in Figure 1 below.

Figure 1: The core principles of Delivering Good Governance in Local Government Framework



Source: CIPFA *Delivering Good Governance in Local Government Framework* (2016).

Each of the core principles of the framework encompasses a suite of sub-principles, which are in turn supported by a series of behaviours and actions, which aim to demonstrate good governance in practice.

These principles, sub-principles, behaviours and actions provide useful guidance and ideas as to how the authority can ensure that it complies with both the framework and the FM Code.

Integrity, ethical values and the rule of law

The authority is accountable not only for how much it spends, but also for how it uses the resources under its stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes the authority has achieved.

In addition, the authority has an overarching responsibility to serve the public interest, by adhering to the requirements of legislation and government policies.

It is essential that, as a whole, the authority can demonstrate the appropriateness of its actions across all activities and that it has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Openness and stakeholder engagement

Local government is run for the public good. The authority should, therefore, ensure openness in its activities. It should use clear, trusted channels of communication and consultation to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sustainable economic, social and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable.

Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of its authority and resources.

Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and to balancing competing demands when determining priorities for the finite resources available.

Achievement of intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that the authority has to make to ensure intended outcomes are achieved.

This requires robust decision-making mechanisms to ensure that the desired outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations.

Capacity and capability

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and to achieve intended outcomes within the specified periods.

A local government organisation must ensure that it has the capacity to fulfil its own mandate and the policies in place to guarantee that its management has the operational capacity for the organisation as a whole.

Because both the individuals working within the authority and the environment in which the authority operates will change over time, there will be a continuous need to develop the authority's capacity, as well as the skills and experience of individual staff members.

Managing risks and performance

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision-making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and service delivery.

Transparency, reporting and audit

Accountability is about ensuring that those making decisions and delivering services are answerable for them.

Effective accountability is concerned not only with reporting on actions completed, but also with ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner.

ANNUAL REVIEW AND REPORTING

The authority is required to prepare an annual governance statement, in order to report publicly on the extent to which it complies with its own code of governance, which in turn is consistent with the good governance principles in the framework.

This includes how the authority has monitored and evaluated the effectiveness of its governance arrangements in the year, together with any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit committee and other committees). It should be high level, strategic and written in an open and readable style.

The AGS should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
- reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
- an opinion on the level of assurance that the governance arrangements can provide and confirmation (if possible) that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion on the authority's governance arrangements and a commitment to monitoring implementation as part of the next annual review.

The AGS should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority. The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance). For police bodies in England and Wales, separate annual governance statements should be signed by the PCC and the chief constable as they are separate legal entities. No approval by committee is needed.

The authority is required to include the AGS with its statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published.

The production of a suitable AGS is a key piece of evidence that the authority has sought to comply not just with the framework and its own governance code, but also with the FM Code.

ADDITIONAL GUIDANCE ON THE IMPLEMENTATION OF THE FRAMEWORK

In recognition of the separate legislation applicable to different parts of local government and the impact that this will have on individual authorities' governance arrangements, separate guidance notes to accompany the framework are available for:

- local government in England
- local government in Wales

- PCCs and chief constables in England and Wales
- local government in Scotland.

The guidance notes are intended to assist the authority in reviewing its governance arrangements. They will also help the authority to interpret the overarching principles and terminology contained in the framework in a way that is appropriate to its governance structures, taking account of the legislative and constitutional arrangements that underpin them.

Key questions

- Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?
- Does the authority have in place a suitable local code of governance?
- Does the authority have a robust assurance process to support its AGS?

Financial Management Standard E:

The financial management style of the authority supports financial sustainability

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an increasingly uncertain future. Developing a robust approach to ensuring the financial sustainability of the authority's activities is central to compliance with the FM Code.

Achieving financial sustainability requires the authority to have the capacity, the capability and the confidence to plan for the long term and to focus on the achievement of longer-term objectives, rather than to exist simply from year to year.

Unfortunately, authorities face a range of challenges that can impact on their ability to plan effectively for the future and to develop and maintain a sustainable financial strategy.

These include:

- changes to the nature and level of public funding
- an ageing population
- ongoing pressures on adult and children's social care and other service areas
- a drive for greater efficiency in response to resource constraints
- increased demand for affordable housing
- uncertainty regarding the UK's ongoing relationship with the EU
- new risks associated with commercialisation.

Critical to the authority's ability to address these and other challenges is to have in place a robust approach to financial management, together with the capacity and capability to implement this approach consistently over time.

This includes ensuring that those individuals with specific responsibility for aspects of the authority's governance and financial management arrangements have the delegated powers and the appropriate skills and training to fulfil these responsibilities.

THE HIERARCHY OF FINANCIAL MANAGEMENT STYLES

In its Financial Management Model, which seeks to help authorities to develop an effective financial management style, CIPFA identifies a hierarchy of three financial management styles, namely:

A financial management style that supports performance can only be achieved once the authority has developed and embedded a financial management style that delivers accountability. A style that enables transformation can only be achieved once the other two elements of the hierarchy are in place.

Consequently, this hierarchy represents a sort of maturity model, to facilitate the development of the authority's approach to financial management over time and to help it to enhance its capacity and capability to create a financial management style that supports – and, indeed, promotes – financial sustainability.

DIMENSIONS OF FINANCIAL MANAGEMENT

The Financial Management Model sets out four dimensions of financial management. These cover a blend of 'hard-edged' attributes – things that the authority can cost and measure – as well as softer features like communications, motivation, behaviour and cultural change.

The dimensions are:

- **Leadership**, which focuses on strategic direction and business management, and on the impact on financial management of the vision and involvement of the authority's leadership team. The tone set from the top is critical.
- **People**, which includes both the competencies and the engagement of staff, within and throughout the authority.
- **Processes**, which examines the authority's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders**, which acknowledges the relationships between the authority and those with an interest in its financial health. The authority interacts with a complex web of stakeholders, such as central government, inspectors, taxpayers, partners, suppliers, customers or service users. External stakeholders have legitimate expectations about the finances of the authority. This is enveloped by the public interest.

These dimensions are deliberately related to other well-used quality and performance management tools, such as the balanced scorecard and the European Foundation for Quality Management model.

Within each of these dimensions, the Financial Management Model sets out the attributes that collectively characterise each level of the financial management hierarchy. These attributes would also allow the authority to demonstrate that it has developed and embedded an appropriate financial management style in the way in which it operates.

Leadership

Delivering accountability	■ Financial capability is regarded as integral to supporting the delivery of the authority's objectives. The CFO (or equivalent) is an active member of the leadership team, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team. ■ The authority has an effective framework of financial accountability that is understood clearly and applied throughout the organisation, from the leadership team through to front line service managers. ■ Within an annual budget-setting process the authority's leadership team sets income requirements, including taxation income, and allocates resources to different activities in order to achieve its objectives. The authority monitors its financial and activity performance in delivering planned outcomes.

Supporting performance	■ The authority has a developed financial strategy to underpin medium and longer-term financial health. The authority integrates its business and financial planning so that it aligns resources to meet current and future outcome-focused business objectives and priorities. ■ The authority develops and uses financial/leadership expertise in its strategic decision making and its performance management based on an appraisal of the financial environment and cost drivers.
Enabling transformation	■ The authority's leadership team integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

People

Delivering accountability	■ The authority identifies its financial competency needs and puts arrangements in place to meet them. ■ The authority has access to sufficient financial skills to meet its business needs.
Supporting performance	■ The authority manages its finance function to ensure efficiency and effectiveness. ■ Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions. ■ Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision makers understand and manage the financial implications of their decisions.
Enabling transformation	■ The authority develops and sustains its financial management capacity to help shape and support its transformational programme.

Processes

Delivering accountability	■ Budgets are accrual-based and calculated robustly. ■ The authority operates financial information systems that enable the consistent production of comprehensive, accrual-based, accurate and up-to-date data that fully meets users' needs. ■ The authority operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions administration). ■ The authority's approach to treasury management is risk based. It manages its investments, cash flows, banking, money market and capital market transactions effectively, balancing risk and financial performance. ■ The authority actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action. ■ The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action. ■ Management understands and addresses its risk management and internal control governance responsibilities. ■ Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s). ■ The authority's financial accounting and reporting are accrual-based, comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*, and meet relevant professional and regulatory standards.
Supporting performance	■ The authority's medium-term financial planning process underpins fiscal discipline, is focused upon the achievement of strategic priorities and delivers a dynamic and effective business plan. ■ Forecasting processes and reporting are well-developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making. ■ The authority systematically pursues opportunities to reduce costs and to improve value for money in its operations. ■ The authority systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management processes. ■ The authority continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised. ■ The authority manages its finance function to ensure efficiency and effectiveness.
Enabling transformation	■ The authority's financial management processes support organisational change.

Stakeholders

Delivering accountability	■ The authority provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory, legal and regulatory obligations.
Supporting performance	■ The authority demonstrates that it achieves value for money in the use of its resources.
Enabling transformation	■ The authority is responsive to its operating environment, seeking and responding to customer and stakeholder service and to spending priorities that impact on its financial management.

In seeking to comply with – and to demonstrate compliance with – the FM Code, the authority may wish to have regard to the dimensions of the Financial Management Model and to the attributes inherent to each of these.

These attributes are not, however, mandatory requirements of the FM Code, unless required specifically by other standards within this FM Code. Consequently, the authority is free to determine its own financial style and how this style supports the achievement of financial sustainability.

In CIPFA’s view, an assessment of an authority’s financial management style can best be undertaken by means of peer review. While this is not a mandatory requirement for compliance with the FM Code, it can yield a more objective, more balanced and more insightful view than one resulting from an assessment undertaken by the authority itself.

Key questions

- Does the authority have in place an effective framework of financial accountability?
- Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?
- Does the authority’s finance team have appropriate input into the development of strategic and operational plans?
- Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?
- Has the authority sought an external view on its financial style, for example through a process of peer review?
- Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?

CHAPTER 3

Medium to long-term financial management

Effective governance and financial management is focused on ensuring that the authority is able to operate sustainably in the long term. This means that the authority needs to look beyond the limited time horizons of its funding arrangements and to consider the longer-term financing of its operations and activities.

This section of the guidance notes considers:

- whether the authority has carried out a credible and transparent financial resilience assessment
- the extent to which the authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- whether the authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
- the degree to which the authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

This chapter explores what a financial resilience assessment is and how the authority can undertake one. It also considers symptoms of financial stress and how the authority can manage its finances more effectively. This includes explicit consideration of, among other things, capital resources, reserves, savings plans and the use of performance information.

The FM Code requires that the authority demonstrates how the risks identified through a financial resilience assessment have informed the development of its longer-term financial strategy. This section considers the authority's strategic plan and financial strategy and explores how the technique of scenario planning can be used to inform their development.

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. This section outlines the aims of the Prudential Code. It also considers how the authority can develop a suitable capital strategy and how it can set and review the various indicators required under the Prudential Code.

The medium-term financial plan translates the authority's financial strategy into the near future. This chapter considers how the authority can develop a robust medium-term financial plan that coordinates and integrates financial and service planning, capital financial management, risk management and asset management plans.

Financial Management Standard F:

The authority has carried out a credible and transparent financial resilience assessment

The FM Code sets out that if the authority has not tested and demonstrated its long-term financial resilience, then its financial sustainability remains an open question. The FM Code requires, therefore, that the authority assesses critically its finance resilience. This is undertaken by means of an explicit financial resilience assessment.

In the financial resilience assessment, the authority explores the sensitivity of its financial sustainability to alternative plausible scenarios for the key drivers of costs, service demands and resources. This will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources.

This resilience testing should, the FM Code states, focus on the authority's principal longer-term revenues and expenses and the key risks to which the authority will be exposed. Without such stress testing, the authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Such a financial resilience assessment needs to be credible and transparent. To be credible, the assessment could be undertaken:

- by a suitably-qualified and experienced individual or team of individuals
- in an objective manner, ideally by an individual or team that is independent of the authority in question
- in accordance with an approach that is designed to focus on assessing the authority's financial resilience
- with consideration of an appropriate range of evidence, including interviews with key individuals and a review of relevant documentation.

In order to ensure transparency, the assessment could:

- be overseen by the authority's leadership team or by a suitable committee of the authority
- have clear terms of reference and a suitable methodology
- result in a clear and thorough report, including suitable conclusions and recommendations, that is reported to the authority's leadership team.

It would be beneficial for the leadership team to report to the authority on the action that it is taking in response to the assessment and to provide periodic updates on the extent to which this action has been taken.

In preparing a financial resilience assessment, the authority (for local authorities in England and Wales) may also wish to draw upon the report prepared by its section 151 officer, under Section 25 of the Local Government Act 2003, on the robustness of the estimates and the adequacy of reserves allowed for in the authority's annual budget.

SYMPTOMS OF FINANCIAL STRESS

The authority can exhibit financial stress in a number of ways. Some of the more common symptoms are as follows:

- **Running down reserves** – Using the authority's financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is not sustainable in the long term.
- **Failure to address financial pressures** – Refusing to make difficult decisions about how to reconcile funding and service pressures, or not recognising that such decisions

need to be made, is equally not a solution to challenges but instead simply increases the financial gap and the extent of change that will be required in future years.

- **Shortened planning horizons** – Long-term planning is more difficult in times of uncertainty, but it is still important, perhaps even more so than in more stable circumstances. A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions.
- **Lack of investment in infrastructure resources** – When resources are scarce, it is tempting to defer the maintenance and enhancement of assets (such as buildings) to future periods, which can result in the failure of key physical resources.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. Simply indicating that 'unidentified savings' will be made is not an acceptable strategy for financial resilience.
- **Unplanned overspends** – No budget is going to be absolutely spot-on. However, overspending against the budget is simply rolling over this year's problems into next year. It is a clear sign that the authority is failing to turn its financial policy decisions into action on the ground.

ASSESSING FINANCIAL RESILIENCE

There are a number of factors that drive the ability of the authority to withstand financial pressures. It would be helpful for these to be considered as part of any financial resilience assessment.

These factors include:

- getting routine financial management right
- planning and managing capital resources well
- using performance information effectively
- having clear plans for delivering savings
- managing reserves well.

We discuss each of these, together with how the authority could use them to ensure and to demonstrate its compliance with the FM Code, in more detail below.

GETTING ROUTINE FINANCIAL MANAGEMENT RIGHT

The first step is simply to ensure that the authority's basic financial management systems are working effectively and that the authority's financial performance and position is reported regularly and effectively to the CFO and to the leadership team.

This helps to ensure that the CFO and the leadership team all have a clear understanding of the authority's financial position and of the financial challenges and pressures that the authority faces.

It is important also that the leadership team, senior managers and service managers understand the authority's long-term financial strategy, what needs to be done to deliver it, and what their personal responsibilities are for helping to deliver it.

As a general rule, the authority might seek to:

- have in place robust arrangements for processing and recording income and expenditure in a timely manner
- prepare and agree an annual budget that breaks down income and expenditure targets to the level of individual services and budget holders
- provide budget holders with regular reports on their performance against their budget allocations, identify any significant variations from the agreed budget, and take prompt action to address them
- prepare regular, timely, accurate and comprehensible reports on the authority's financial performance and position for the leadership team.

PLANNING AND MANAGING CAPITAL RESOURCES WELL

The authority will have a range of capital resources at its disposal, which it uses to deliver services and to achieve its strategic objectives. These resources will include land and buildings, such as offices, schools, housing, parks and open spaces, leisure centres, libraries and much more.

The authority's ability to maintain these assets so as to ensure and to enhance their role in the delivery of services is crucial to its financial resilience. If housing, libraries or leisure centres fall into disrepair, for example, such that they are no longer able to fulfil their primary purpose, then the authority's ability to deliver the associated services is impaired and it has resources tied up in assets that it cannot use.

Consequently, planning and managing the use of the authority's capital resources – particularly its infrastructure assets – is vital. This includes understanding the role that these assets play in the delivery of services and ensuring that the authority's asset base remains fit for purpose.

As a general rule, the authority will seek to:

- have in place an agreed capital strategy, which is consistent with the authority's financial strategy and medium-term financial plan
- develop and agree a suitable asset management plan, which sets out how it will ensure that its asset base remains fit for purpose
- provide the leadership team with regular reports on the status of the authority's asset base and of any further action required to maintain and manage it.

In policing in England and Wales, the PCC has responsibility for property. The chief constable can hold assets, but is not permitted to own land or buildings. The PCC is responsible for producing a capital strategy and any borrowing undertaken in compliance with CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

USING PERFORMANCE INFORMATION EFFECTIVELY

In order to assess the authority's ability to withstand financial pressures, it is important to understand how well it is performing currently and how any financial challenges are likely to impact on this performance.

Authorities have a broad range of internal performance information available to them, from income and expenditure data to information on activity levels and service user satisfaction. This information can be collated to understand critical factors such as the unit cost of services, trends in service user satisfaction, and many more.

Another practical way to assess the authority's financial and operational performance is to compare the authority's costs, income, activities and performance with those of similar authorities or organisations. This is especially useful for factors such as the unit costs of services, which are more readily comparable than absolute costs or activity levels.

This 'benchmarking' approach can be undertaken through a mutual arrangement with one or more other authorities, the use of standard sector datasets, participation in a sector-led benchmarking scheme, or subscription to a scheme operated by a commercial provider.

In addition to the use of benchmarking data to understand how the authority's income and expenditure – both overall and at the level of individual services – compares against that of its peers, authorities can seek also to benchmark structures, activity levels and per-unit income and costs against those of suitable comparators.

In addition to benchmarking, the authority can seek to compare itself with similar authorities through processes such as peer review, where one or more representatives of another authority review the authority's structures or processes in the light of their own ways of doing things, challenge existing practices and make suggestions for improvement.

Regardless of the approach that the authority adopts to better understanding its performance, it should seek to learn from this, to identify key risks to its resilience and to identify ways in which it can approach its own activities and operations more economically, efficiently, effectively and equitably.

As a general rule, the authority might seek to:

- make good use of internal performance information to identify risks to its ongoing financial resilience and the impact of financial pressures on service delivery
- identify and use suitable local or national benchmarking data against which to compare its overall financial performance and position
- identify and use suitable local or national benchmarking data against which to compare income, activity and costs for its principal services
- engage with similar authorities to instigate and to implement a process of peer review for key services and activities
- use the insight gained from its benchmarking or other performance-comparison activities to identify (a) where it is performing well and (b) where and how it can improve further the way in which it operates.

HAVING CLEAR PLANS FOR DELIVERING SAVINGS

The authority needs a single, consolidated and regularly-updated mechanism that tracks its savings plans. This should include the savings that have been agreed, how they will be monitored and the extent to which they have been achieved. These savings should also be built into the authority's annual budget and its medium-term financial plan.

In identifying financial savings, the authority needs to distinguish between the different 'stages' of savings in play, namely:

- those which have been agreed and for which there is a clear delivery plan
- those which have been agreed in principle but do not yet have a clear strategy for implementation
- those that have been proposed but not yet agreed, ie are simply ideas at this stage.

It is important not to blur the distinction between these different 'stages' of savings, to avoid giving a false impression of how much progress has been made.

The timescale for the achievement of savings, as well as the level of any investment required to achieve them, needs to be realistic. Restructuring a service to streamline activity or to change the way in which it is delivered can take months, if not years. So any associated savings are unlikely to be achieved for some time.

In this context, the classification of particular service costs as fixed, stepped, variable or mixed for a specified timeframe will be of assistance in identifying the nature, value and timing of savings that can realistically be made.

The authority's finance staff need to exercise suitable challenge to individual managers' and teams' savings plans, to ensure that these plans are achievable. Robust oversight of savings plans will also be required, to ensure that the savings identified are actually achieved in practice.

As a general rule, the authority might seek to:

- have a central record of targeted savings, which is linked clearly to its annual budget and its medium-term financial plan
- categorise savings activities by the extent to which they have been agreed, planned, implemented and achieved
- have in place mechanisms to challenge the viability of savings plans before they are agreed
- have in place suitable mechanisms to oversee the implementation of savings-related activities and the achievement of the savings themselves.

MANAGING RESERVES WELL

The aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. Consequently, limited use of reserves to support the delivery of a clear and transparent savings programme is perfectly acceptable.

Using reserves to fund otherwise-unsustainable services or to defer the need to make difficult decisions about service delivery, on the other hand, is to be avoided. Such an approach does nothing to enhance financial resilience. It also serves to make those difficult decisions even more difficult, when they inevitably have to be made in the future.

The authority should also be extremely wary of any savings plans that target 'easy' savings now, but that include larger, unspecified savings in future years. This may be politically expedient, but does not represent good financial management and is likely to have a negative impact on the authority's reserves when such savings inevitably prove challenging to identify and to realise.

As a general rule, the authority might seek to:

- have a policy as to the level of reserves it wishes to retain and how these reserves may be used
- be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans, rather than to plug funding gaps in the delivery of services.

For policing in England and Wales, it is the PCC who has responsibility for financial reserves and must publish a reserves strategy including details of current and planned reserves. Stand-alone fire and rescue authorities must also publish a financial reserves strategy with details of current and planned reserves.

CARRYING OUT A CREDIBLE AND TRANSPARENT FINANCIAL RESILIENCE ASSESSMENT

A financial resilience assessment can be undertaken by members of the authority's finance and leadership teams, though it may be more objective if it is undertaken by peers from different authorities or by some other external partner.

The assessment should consider principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment might include, for example:

- the authority's current financial position
- the authority's own assessment of its future financial prospects
- the extent to which the authority has embraced the financial resilience factors discussed above
- the key financial risks facing the authority, for example by drawing on potential future scenarios including 'best' and 'worst' case scenarios – for the environment in which the authority operates and for the services that it provides
- the use of independent, objective measures to assess the risks to the authority's financial resilience and sustainability
- the authority's understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including 'group' entities such as leisure trusts), its information technology infrastructure, etc

- the robustness of the plans that the authority has put in place to address these risks
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

Those undertaking the assessment are advised to review, as a minimum, the following documents:

- medium-term financial plan, including capital and revenue elements
- medium-term savings and growth plan
- capital strategy and/or investment strategy
- treasury management strategy
- planned medium-term use of usable reserves, split between earmarked and non-earmarked, and change over the preceding three years
- the most recent budget report and description of the budget process
- recent monitoring reports and recent out-turn reports and accounts
- workforce strategy plans and expected pension commitments
- group entity financial forecasts
- asset management plan
- key governance documents, eg annual governance statement, risk register, etc.

Those undertaking the assessment should also engage with key members of the leadership team and with other relevant individuals, such as:

- the authority's leader and finance portfolio holder
- minority party leaders
- for police in England and Wales, the PCC and chief constable
- chief executive
- monitoring officer
- chief financial officer
- service directors
- external auditor and chair of audit committee
- one or more service accountants.

The scope of the financial resilience assessment is likely to extend also to an understanding of the risks associated with the authority's most significant partners. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

When, as is common, a significant number of authorities are dependent on a single supplier then it may be valuable for those authorities to co-operate in this assessment in order to fully understand the associated risks.

A financial resilience assessment should result in a clear report to the authority's leadership team, setting out an assessment of the authority's financial resilience, together with areas for improvement and how these could be addressed.

Key questions

- Has the authority undertaken a financial resilience assessment?
- Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?
- Has the authority taken appropriate action to address any risks identified as part of the assessment?

Financial Management Standard G:

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

The FM Code sets out that, having carried out a finance resilience assessment, the authority should demonstrate how the risks identified have informed the development of its longer-term financial strategy. The authority should, furthermore, report the implications of these risks on its future financial sustainability to its leadership team, including its elected members.

This requires consideration of how financial resilience is integrated into the authority's strategic plan and into the financial strategy associated with the delivery of this strategic plan.

One way in which this can be achieved in an uncertain and dynamic operating environment is through the use of scenario planning, which is introduced here as a suggestion as to how the authority could seek to meet its requirements under this part of the FM Code.

This is, however, just a suggestion. Other approaches to complying with this financial management standard are available. It is up to the authority to select an approach that is commensurate with its own requirements and with the resources that it has available, while meeting the requirements of the FM Code.

THE STRATEGIC PLAN

In terms of longer-term planning, the authority will have in place an overarching strategic plan, which sets out its vision for the future and how it plans to achieve this vision. Because of electoral cycles and other factors, strategic plans tend to cover a rolling period of five years or so.

The authority will also – in most cases – have in place a financial strategy, setting out how it plans to finance the aims, strategies and activities set out in the strategic plan. This financial strategy may be a part of the strategic plan itself, though it may also be a separate document.

While a five-year planning horizon is acceptable for medium-term planning, long-term planning really needs to look further ahead, albeit at a significantly reduced level of detail. Up to ten years is a reasonable horizon for longer-term financial planning, though up to 20 or 25 years is not unheard of.

CIPFA is not at present prescriptive about the time period for longer-term financial planning. Different authorities will face different levels of political and financial stability, which may have become embedded in different management cultures.

However, CIPFA promotes ambition and stresses the need for a financial strategy that matches the need for a strategic approach to service planning. The underlying drivers of service demand, especially those linked to the age profile of the community, can usually be foreseen at least in broad terms a decade and more ahead. The need to respond to the climate change agenda is also an area where longer-term planning is necessary.

THE FINANCIAL STRATEGY

The primary aim of the authority's financial strategy is to enable the delivery of the authority's overall strategy. More specifically, it seeks to ensure that the authority has the financial capacity and capability to achieve its strategic aims. It is about the long-term financial sustainability of the organisation.

Consequently, the financial strategy might include consideration of a broad range of factors that influence the authority's long-term financial success. These include:

- the nature, level and balance of the authority's sources of income
- the authority's exposure to volatile income streams
- the authority's cost base, especially its overhead costs
- the extent to which costs are fixed, stepped or variable within the timeframe being considered
- the anticipated changes in the assets and liabilities of the authority supporting balance sheet management
- the authority's asset base and its asset management priorities
- the authority's capital programme
- the financial structure and staffing of the authority
- the authority's financial management policies, systems and processes
- the authority's relationships with key financial stakeholders.

An effective financial strategy will include consideration of where the authority is now from a financial perspective, where it would like to be and how it plans to get there:

Where the organisation is now	An analysis of the authority's current financial situation, including its main sources of income, its main financial commitments, its capital asset portfolio and priorities, and the level of reserves that it holds. This analysis also addresses a range of other relevant factors, such as the authority's financial structure and its relationships with key financial stakeholders.

Where it would like to be	An assessment of how the authority envisages its financial capacity and capability to facilitate the achievement of its strategic aims. This provides a longer-term financial 'vision' for the authority, which is consistent with the authority's overall strategic vision. It may include, for example, consideration of changes to the nature, level and balance of income streams, the structure and management of the authority's cost base, changing demand for capital assets (including physical resources) and the skills and expertise of its finance staff.
How it plans to get there	A series of agreed actions designed to take the authority from where it currently stands, from a financial viewpoint, to where it would like to be. These actions are clear, coherent and consistent with the delivery of the authority's overall strategy. They also have clear timescales, so that they can be integrated appropriately into the authority's medium- and short-term financial plans.

However, given the tendency for government funding to be allocated on an annual basis and for the funding regime itself to be subject to regular revisions, financial planning over even a relatively short five-year time horizon can be challenging for the authority.

Other strategic, operational or financial challenges, such as demographic changes or changes to relevant legislation, can also significantly impact on the authority's ability to achieve and to finance its strategic aims.

Consequently, the authority may wish to use scenario planning techniques to consider a number of potential scenarios for (a) the funding regime and (b) other factors influencing the demand for or the delivery of its activities.

THE AIMS OF SCENARIO PLANNING

The development of longer-term financial strategies can be characterised by the use of scenarios, rather than of forecasts based on the continuation of the status quo. In contrast to forecasts, scenarios are not predictions of the future, but distinct and still plausible visions of that future.

Scenario planning moves beyond sensitivity analysis and similar techniques by describing alternative, internally-consistent, possible future economic and political environments, together with the resource and regulatory implications that are likely to flow from them.

For the authority, a shift from forecasting to scenario planning may prove beneficial at a time of continuing economic and political uncertainty. Scenarios are well-suited to highly complex situations with many unquantifiable factors, highly uncertain situations or situations where there is little or no reliable data for quantitative models.

Scenarios allow the authority to test the viability of alternative financial strategies against a representative and realistic set of internally consistent possibilities. They are an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties or imponderables.

Traditional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome. Scenario building, in contrast, does not attempt to use a series of static assumptions to predict the future. Instead, it generates a suite of plausible outcomes that seek to represent the most likely future environments in which the organisation could find itself operating.

Unlike forecasting, which relies on the forward projection of existing trends, scenarios can explicitly recognise the discontinuities and abrupt changes that result from political change. At a local, national and sometimes an international level, significant changes in the balance of political control often represent important points of discontinuity in financial strategies that cannot be incorporated into planning based on conventional forecasts.

Another advantage of the scenario-based approach that makes it particularly relevant to the political environment is that it does not demand consensus. Scenario building can instead recognise different visions of the future and then define them more clearly in a range of internally-consistent but still very different scenarios. Such an approach also allows the authority to consider how it would respond to a wholesale revision of its previous assumptions in favour of a completely fresh set of parameters. Crucially, it can also provide an indication of situations or circumstances which may pose the greatest challenges to the authority's financial resilience.

BUILDING EFFECTIVE SCENARIOS

For scenarios to be effective, they need to be plausible. However they also need to be challenging, in that they force the authority to consider potentially 'uncomfortable' situations. Scenarios invite people to explore what might happen, rather than what they want to happen.

For this reason, it is important to avoid falling into the trap of developing three scenarios that broadly correspond to the status quo, the ideal scenario and the worst case scenario. This taxonomy invites decision makers to reject the extreme scenarios as simply unlikely to occur and so to retreat into considering only the status quo.

The best case/worst case/status quo nomenclature is acceptable in sensitivity analysis, but it should not be imported uncritically into scenario building.

The scenarios used in developing a financial strategy must be based on a rigorous and credible analysis of the wider environment in which the authority operates. Generally, the best approach is to set up at least four scenarios that represent plausible alternative combinations of circumstances.

Ideally, these scenarios should not simply represent the input of extreme parameters into a financial model. Each should, instead, be embedded in a plausible analysis that draws attention to the major technical, economic and political uncertainties upon which the success of each option depends. With this approach, it is wholly reasonable that a pessimistic view may be taken on one element of the option and combined with an optimistic view on another element.

USING SCENARIOS TO UNDERSTAND THE AUTHORITY'S PROSPECTS FOR FINANCIAL SUSTAINABILITY

While scenarios have an important role to play in helping the authority to understand the future environment in which it may need to operate, they also impose an invaluable 'reality check' on the authority's prospects for future financial sustainability by ensuring that its financial strategy is able to meet the full range of these future challenges or opportunities.

Consequently, the authority can gain a deeper understanding of its prospects for financial sustainability in the longer term, as required under the FM Code, by (a) developing a longer-term financial strategy and (b) assessing the viability of this strategy under a range of potential future scenarios.

Furthermore, these scenarios can incorporate specific risks, challenges or vulnerabilities identified in the authority's financial resilience assessment, thus allowing the authority to assess the resilience of its financial strategy – and, therefore, its own future financial sustainability – to the specific issues that it is likely to face both now and in the future.

REPORTING TO MEMBERS

The FM Code also requires that, in addition to taking action to understand its prospects for financial sustainability in the longer term, the authority must communicate these prospects to those charged with its governance such as elected members or, in the case of policing, to PCCs and chief constables.

In communicating with members, the authority should take care to present its prospects for future financial sustainability in a clear way, which does not require specific financial or other expertise in order to be understood.

Key things to communicate include:

- what financial sustainability is and why it is important
- key threats to the authority's financial sustainability, eg funding cuts, increased demand for services
- what the authority is doing to address these threats and the likelihood of it being able to address them effectively
- any threats that are beyond the authority's control, how it will know if these threats are realised and what the impact would be on the authority
- any other actions the authority is taking to improve its financial sustainability
- the requirement for prudence, especially in terms of the Prudential Code and the authority's borrowing arrangements
- an overall assessment of the authority's prospects for financial sustainability in the longer term.

The aim here is to present a balanced assessment of the authority's future financial position. The nature of the environment in which the authority operates means that it is always going to face challenges to its future financial sustainability. Members also need to be aware of the specific threats that the authority is likely to face, the impact of these threats on the authority, and what the authority can do – both now and in the future – to address them.

Key questions

- Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?
- Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?
- Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (eg using a technique such as scenario planning)?
- Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?

Financial Management Standard H:

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*

This element of the guidance notes summarises the requirements set out within the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

The FM Code requires the authority to comply with the CIPFA *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code), though there is an exception for chief constables in England and Wales as they only have very limited and specific borrowing powers

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. It requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning.

Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003 and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

THE AIMS OF THE PRUDENTIAL CODE

The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal.

The Prudential Code sets out:

- a clear governance procedure for the setting and revision of a capital strategy
- a suite of prudential indicators against which the authority is to monitor its performance in maintaining the affordability and prudence of its capital activities
- a series of matters to be taken into account when the authority sets, revises and monitors performance against its prudential indicators.

This strategy and these indicators are to be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

The authority's CFO is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration, and for establishing procedures to monitor performance.

The Prudential Code does not itself set out indicative limits or ratios for the indicators to be set and monitored by the authority, as these are for the authority to determine for itself, given its own particular circumstances.

DETERMINING A CAPITAL STRATEGY

The authority should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and that gives due consideration to both risk and reward and to the impact of the strategy on the achievement of the authority's priority outcomes.

As set out in the guidance notes that accompany the Prudential Code (CIPFA's *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners*, 2018) the authority's capital strategy might address a number of themes, including:

Capital expenditure	■ An overview of the governance process for approval and monitoring of capital expenditure, including links to the authority's policies on capitalisation. ■ A long-term view of capital expenditure plans, where long term is defined by the financing strategy of, and risks faced by, the authority with reference to the life of projects/assets. ■ An overview of asset management planning, including the cost of past borrowing, maintenance requirements and planned disposals. ■ Any restrictions that the authority may face in respect of borrowing, funding or capital finance.
Debt, borrowing and treasury management	■ A projection of external debt and the use of internal borrowing to support capital expenditure. ■ Provision for the repayment of debt over the life of the underlying debt. ■ The authorised limit and operational boundary for the following year (see discussion of prudential indicators below). ■ The authority's approach to treasury management, including processes, due diligence and defining the authority's risk appetite.
Commercial activity	■ The authority's approach to commercial activities, including the processes in place to ensure effective due diligence and definition of the authority's risk appetite in respect of such activity.
Other long-term liabilities	■ An overview of the governance process for approval, monitoring and ongoing risk management of any other financial guarantees and long-term liabilities.
Knowledge and skills	■ A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

The capital strategy forms an essential part of the authority's integrated revenue, capital and balance sheet planning. It should be consistent with the authority's longer-term financial strategy, its medium-term financial plan and its annual budget. It should also be consistent with the authority's asset management plan, including the acquisition of new assets and the disposal of those that are no longer required.

The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability. The CFO is expected to report explicitly on the affordability and risk associated with the capital strategy.

The capital strategy should be tailored to the authority's individual circumstances, but should include – as a minimum – consideration of capital expenditure, investments, liabilities and treasury management. The capital strategy should include sufficient detail to allow the authority's leadership team (including its members) to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

The capital strategy forms the basis for the capital programme, which contains the capital projects that the organisation intends to undertake in the medium term. Robust processes need to be put in place for potential projects to be proposed, evaluated and prioritised, and for approving the programme and the resources to fund it. Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for corporate monitoring, control and scrutiny.

In developing the capital strategy, the authority should seek to strike a suitable balance between the amount of detail included and accessibility to the strategy's intended audience. Where detailed information is required, thought should be given to how this is made available, its format and the training needs of members to encourage active engagement.

SETTING PRUDENTIAL INDICATORS

The authority should set the prudential indicators for the forthcoming and following years before the beginning of the financial year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, when the prudential indicators are set for the following year.

The authority's CFO is required to establish procedures to monitor performance against all forward-looking indicators. Consequently, the CFO will need to establish a measurement and reporting process that monitors performance and that highlights significant deviations from the agreed indicators.

The prudential indicators for prudence

Capital expenditure

- **Estimates of capital expenditure** – Estimates of the total of capital expenditure that the authority plans to incur during the forthcoming financial year and at least the following two financial years.

- **Actual capital expenditure** – The actual capital expenditure incurred during the financial year.
- **Estimates of capital financing requirement** – Estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.
- **The actual capital financing requirement** – The actual capital financing requirement for the financial year, calculated directly from the authority's balance sheet.

External debt

- **Authorised limit** – An authorised limit for the authority's total gross external debt, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Operational boundary** – An operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Actual external debt** – The closing balance for actual gross borrowing plus (separately) other long-term liabilities, obtained directly from the authority's balance sheet.
- **Gross debt and the capital financing requirement** – In order to ensure that over the medium term debt will only be for a capital purpose, the authority should ensure that debt does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The prudential indicators for affordability

- **Estimates of financing costs to net revenue stream** – Estimate of the proportion of financing costs to net revenue stream, for the forthcoming financial year and the following two financial years.
- **Actual financing costs to net revenue stream** – The proportion of financing costs to net revenue stream, calculated directly from the authority's income and expenditure statement.

The authority's prudential indicators, both prospective and retrospective, should be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

To this end, these indicators should be set out in a suitable paper or other document, together with explanations for why they are important and what they mean for the prudence and affordability of the authority's capital expenditure and financing activities.

MATTERS TO BE TAKEN INTO ACCOUNT

In setting or revising its prudential indicators, the authority is required to have regard to the following matters:

- service objectives, eg strategic planning for the authority
- stewardship of assets, eg asset management planning

- value for money, eg option appraisal
- prudence and sustainability, eg risk, implications for external debt and whole life costing
- affordability, eg implications for council tax/district rates
- practicality, eg achievability of the forward plan.

The Prudential Code also requires that, in making its capital investment decisions, the authority should have explicit regard to option appraisal and risk, asset management planning, strategic planning for the authority and achievability of the forward plan.

Key questions

- Has the authority prepared a suitable capital strategy?
- Has the authority set prudential indicators in line with the Prudential Code?
- Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?

Financial Management Standard I:

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

The FM Code does not anticipate that a longer-term financial strategy will – or, indeed, should – provide sufficient detail to allow for it to be translated directly into an annual income and expenditure budget.

To bridge this gap, therefore, and to allow the authority to ensure that its annual budget is in alignment with its longer-term financial aims, the FM Code requires the authority to prepare a multi-year medium-term financial plan.

Furthermore, this plan should also be consistent with associated service plans for the authority's principal services.

THE MEDIUM-TERM FINANCIAL PLAN

The medium-term financial plan is a translation of the authority's financial strategy into the near future. It is also the critical link between the authority's financial strategy and its plans for service delivery.

For some authorities, the planning horizon of the medium-term financial plan may represent the limit to which the authority can realistically plan for the future. In such circumstances, the long-term financial strategy and the medium-term financial plan might well be one and the same thing. The development of a longer-term financial strategy is, however, encouraged.

The medium-term financial plan breaks down the authority's financial strategy into key actions to be taken in the next few years, so that the authority is able to plan its activity over this period in more detail. It also contains income and expenditure projections and sets out how the delivery of services will be funded sustainably.

The medium-term financial plan usually covers a multi-year period, but generally no more than five years. Any more than this and the level of uncertainty becomes too great for realistic financial planning. Due to the reduced level of uncertainty inherent to planning in the medium term, the authority is generally able to use more traditional forecasting and analysis techniques when preparing such plans.

The medium-term plan should be rolled forward either every year or after two to three years, to ensure that it still projects a multi-year planning horizon. When the plan is rolled forward, any deviations from the current plan should be identified, understood and integrated in the authority's planning for future periods.

In order to be effective, the authority's medium-term financial plan should:

- be integrated with the authority's service plans and its capital strategy
- respond to uncertainty in the authority's funding regime
- translate the authority's longer-term aims into the medium term
- be developed in a robust manner, taking into account a credible baseline of activity
- integrate suitable drivers of demand and cost
- be subjected to sensitivity analysis to allow any vulnerabilities to be identified.

INTEGRATING FINANCIAL AND SERVICE PLANNING

Especially in this age of austerity, the key concern for financial planning is allocating finite resources over time, to reach the goals set out in the authority's longer-term strategy. It is not, however, enough for the authority to demonstrate simply that it is financially viable, it must go on to demonstrate that they have been brought together in a transparent way within the budget.

Moreover, it is in medium-term financial planning that the authority demonstrates how it will finance the delivery of its services and the operation of the authority as a whole.

For this reason, the financial plan cannot be allowed to become wholly a financial document – it must be integrated fully with service planning, capital financial management, risk management and asset management plans. Medium-term financial planning is not just about forecasting financial flows – it has an important role to play in integrating and harmonising financial and other corporate activities.

A good medium-term financial plan acts as the authority's route planner that plots the path ahead by focusing on policies and priorities in an organised, coherent and systematic manner. Furthermore, it seeks not simply to give provisional budget figures, but also to provide an insight into prevailing trends and their impact on the organisation.

TRANSLATING THE AUTHORITY'S LONGER-TERM AIMS INTO THE MEDIUM TERM

Regardless of the funding environment in which the authority operates, robust medium-term planning is essential to keeping the authority on track and moving towards the achievement of its strategic aims. This is especially important as most effective budget decisions are essentially strategic long-term ones rather than short-term ones focused only on the year ahead.

Furthermore, not everything can be achieved within one short-term planning period. Outsourcing to the third sector or social enterprises, for example, or rationalising property and other assets and working in partnership with other authorities, will take longer than the annual budget cycle to see through to completion and to the realisation of the desired benefits.

For these reasons, it is in medium-term (and longer-term) financial planning that the pursuit of value for money improvements will be most prominent. Such financial planning is not simply an end in itself, but also a means to furthering the delivery of other plans, such as those for asset management, capital investment or income generation.

Where the authority is engaged in a significant transformation programme, such as one that is designed to reconfigure the way in which it provides services, this should be subject to the same rigorous planning, monitoring and oversight arrangements that are applied to the authority's other financial and operational planning and delivery processes. In particular, such transformation projects might sensibly be focused on and structured around the achievement of specific strategic, operational or financial outcomes, the achievement of which can be measured with confidence.

DEVELOPING A ROBUST MEDIUM-TERM FINANCIAL PLAN

The starting point for the medium-term financial plan is a robust and credible baseline plan that identifies and quantifies known commitments and financial pressures by profiling income, expenditure and cash flow over the chosen time period.

The baseline position is established first so that the authority can determine whether its existing policies are financially credible. This also allows the authority to ensure that prudent parameters are placed on future plans.

Expressed at its simplest, the baseline is the authority's financial position in the future if it takes the minimum action necessary to meet its existing commitments and to respond to immediate financial pressures.

To this baseline are added any further actions – and their financial implications – anticipated by the authority's financial strategy or service delivery strategies. Also included in this enhanced plan are the financial implications of any other pressures, such as increased demand for services or the implications of social or demographic change.

The development of the medium-term financial plan in this way may highlight a disparity between the level of resources available and the amount that needs to be done with these resources. In such circumstances, it is vital that the authority finds a way meet service and corporate requirements and statutory duties in the future.

UNDERSTANDING DRIVERS OF DEMAND AND COST

In determining the financial impact of changes to service delivery or other pressures, the authority will benefit from a robust understanding of what drives the costs associated with different aspects of service delivery (including those related to the provision, maintenance and management of related physical assets) and of the management of the authority itself.

For a specific activity, a driver is a factor that can cause a change in the cost of the activity, by impacting on either the volume of activity required or the unit cost of that activity. For financial planning purposes, the same concept is applied to the authority as a whole. These financial drivers are the factors that will determine the cost to the authority of delivering its services.

Some financial drivers, for instance those associated with general price inflation, national pay awards or mandated efficiency improvements, may have an impact across the whole authority. Others may have an impact only on specific services or activities.

The drivers relevant to the authority's financial planning activities fall into two broad types: firstly, demand drivers that determine the level of resources that need to be devoted to meeting demand for a service, and secondly, cost drivers that determine the price or cost of securing those resources.

The medium-term financial plan should be based on credible assumptions and forecasts about the economy and about relevant socio-demographic trends, since these are the principal determinants of the financial pressures on the authority. While it is difficult to forecast such trends when developing a long-term financial strategy, this task is much more feasible when planning for the medium term.

IDENTIFYING RELEVANT DRIVERS

The process for identifying and collecting information on drivers of cost and demand will depend on the nature, size, structure and culture of the authority. A sound starting point for this work is the authority's existing budget and records of service and financial performance, as these will allow the identification of trends in previous periods.

Information on local trends and issues can be obtained from relevant data sources, from partner organisations, by conducting interviews with key stakeholders or by convening focus groups. In addition, various sector umbrella bodies, think tanks and consultancy firms routinely publish analysis of the different pressures facing authorities of different types.

PESTLE ANALYSIS

For a more comprehensive and robust insight into cost and demand drivers, the authority may benefit from undertaking an analysis of the political, economic, social, technological, legal and environmental factors that may impact on service delivery. This is known as a PESTLE analysis.

Some examples of factors that might feature in the authority's PESTLE analysis are as follows:

Political	Technological
■ Public policy	■ Technological change
■ Tax policy	■ Automation
■ Regulatory requirements	■ E-commerce
■ Political instability	■ Online service delivery

Economic	Legal
Economic growth	Authority's legal powers
Interest rates	Discrimination law
Inflation rates	Employment law
Exchange rates	Health and safety requirements
Social	**Environmental**
Population growth	Extreme weather
Age distribution	Sustained periods of low temperature
Health consciousness	Flooding
Public attitudes	Climate change

The principal long-term pressure facing authorities in most developed countries is demographic change, namely an ageing population, caused by increasing life expectancy, declining fertility and the 'demographic bulge' created by the post-war 'baby boom'.

The effects of this are unlikely to change significantly from year to year as projections are rolled forward. It creates sustained upward pressure on health spending, state pension costs and social care costs. Furthermore, these pressures cascade down to a local level, and can have differential impacts according to the authority's individual circumstances.

Not all demographic factors are, however, so stable net migration assumptions, for instance, depend both on the employment market and on government policy. In addition, the national picture can mask a wide variation in the positions across different regions or among different migrant groups.

SENSITIVITY ANALYSIS

Sensitivity analysis in this context is an exploration of the impact on the viability of the authority's medium-term financial plan of varying the driver-related assumptions that have been made in the development of that plan.

Effective sensitivity analysis is based on a sound understanding of how the various drivers identified impact on the authority's financial position. It also benefits considerably from insight into the likely parameters within which such drivers could vary in reality over the period covered by the medium-term financial plan.

By varying different drivers within their likely parameters, the authority is able to assess the extent to which its medium-term financial plan will remain viable under different sets of circumstances. It will also allow the authority to take appropriate action at an early stage to address any potential weaknesses and to enhance the resilience of this plan.

The authority may also wish to use 'Monte Carlo' analysis – which provides a 'probability spread' indication of potential situations (ie a range) rather than a specific 'point' estimate – to understand the likely future impact of current or proposed courses of action. This is a complex analytical approach, however, and may need specialist support.

THE ROLE OF ASSET MANAGEMENT PLANS IN THE MTFP

An asset management plan sets out how the authority will seek to ensure that its infrastructure and other assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims. This will include maintaining and enhancing existing assets, developing or purchasing new ones, and decommissioning or selling assets that are no longer required.

The asset management plan is a forward-looking document with a medium to long-term planning horizon.

An asset management plan places the authority's asset portfolio (usually properties and land, but also for highways authorities infrastructure assets) into the context of the authority's objectives, priorities and challenges. It also links closely to the authority's capital strategy, investment strategy and treasury management strategy.

The development of the asset management plan is informed by:

- the nature and extent of assets held by the authority
- the ways in which the assets that the authority holds contribute to service delivery and to the achievement of the authority's strategic objectives
- the condition of the authority's assets, including any action that is required to maintain them to an acceptable standard
- how the authority measures the performance of its assets, including the data that are required to undertake this measurement
- the authority's key priorities for optimising the contribution that its assets make to service delivery and to the achievement of its strategic objectives
- the financial and resources implications of the achievement of these priorities
- the governance arrangements surrounding the authority's asset portfolio, including assets held by or with partner organisations and those for which the authority is a corporate landlord.

The asset management plan also takes into account relevant policies of the authority, including policies that the authority has adopted for the management of its assets (including assets of heritage value).

The asset management plan might include:

- an overview of the authority's asset portfolio
- an assessment of the condition and performance of the assets held
- the authority's priorities for maintaining, enhancing, adding to, and divesting from its asset portfolio
- the actions that will be taken to achieve these priorities, together with the outputs and outcomes that are to be achieved
- the resources that are necessary to maintain and improve the authority's assets portfolio and how it will be secured
- timescales and responsibilities for the actions identified.

The asset management plan would normally be scrutinised by an appropriate committee of the authority, with specialist external support if required, and approved by the authority. Progress in the implementation of the plan is reviewed regularly and reported to the authority's leadership team. Any issues identified as a result of this review are addressed promptly.

Key questions

- Does the authority have in place an agreed medium-term financial plan?
- Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?
- Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?
- Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?
- Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?

CHAPTER 4

The annual budget

The annual budget is a detailed allocation of resources for the immediate future. Usually covering a period of one financial year, the budget provides the financial basis – through projections of income and expenditure at a high level for the authority as a whole and in more detail for individual services – for the allocation of resources, the delivery of services and the management of the organisation over the planning period.

This chapter of the guidance notes considers:

- the way in which the authority complies with its statutory obligations in respect of the budget setting process
- whether the budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.

This chapter summarises the statutory requirements regarding budget setting and considers the chief finance officer's responsibility for setting a suitable budget for the year. It explores how a robust and sustainable budget can be developed. And it sets out how the authority can implement a spending freeze and, if necessary, issue a Section 114 notice.

It also explores the nature of the estimates, assumptions and judgements that form part of the annual budget-setting process and considers how assurance can be sought as to their reliability. It also discusses how the authority can determine the adequacy of its proposed reserves and how any proposed use of these reserves can be communicated effectively.

Financial Management Standard J:

The authority complies with its statutory obligations in respect of the budget setting process

One of the principal objectives of the FM Code is to end the practice by which the annual budget process has often become the focal point of, if not the limit to, authorities' financial planning.

The annual budget should be merely one element in a longer-term approach to ensuring financial sustainability. However, the annual budget preparation process must nevertheless be protected at a time when the need to make difficult decisions may threaten its integrity.

The FM Code requires the authority to be familiar with its statutory obligations in respect of the budget-setting process, to comply with these requirements, and to be able to demonstrate that it has complied with them.

While, in times of routine business, compliance is straightforward, it is in times of financial stress – when there may be pressures for delay or obfuscation in budget setting – that a comprehensive understanding of these statutory requirements is crucial. The same is true in placing reliance on information for budget-setting purposes from other authorities, such as independent precepting bodies.

Consequently, this element of the guidance notes considers not only the authority's statutory obligations in respect of setting a budget, but also other actions that it may wish to take – or, indeed, be required to take – should it experience financial challenges. These include implementing spending controls and issuing a Section 114 notice.

The authority's chief finance officer (CFO) will need to work closely with the chief executive, the monitoring officer and the entire leadership team, to ensure that the authority complies with its statutory obligations in respect of the budget-setting process, and that it does so within the required timescales.

STATUTORY REQUIREMENTS REGARDING BUDGET-SETTING

There is a considerable volume of legislation surrounding the budget-setting process for authorities. The specific legislation and associated compliance requirements will depend on (a) the nature of the authority and (b) the UK home nation in which it is situated.

In general, authorities are required by statute to set and agree an income and expenditure budget prior to the beginning of the financial year to which the budget relates.

For local authorities in England and Wales, for example:

- the Local Government Act 2000 requires the full council to approve the annual budget, on the recommendation of the executive or equivalent, together with the associated council tax demand
- the Local Government Act 2003, Section 25 requires the authority's section 151 officer (an individual appointed under Section 151 of the Local Government Act 1972 to administer the authority's affairs) to report to the council on the robustness of the estimates made in the annual budget and on the adequacy of the proposed financial reserves assumed in the budget calculations.

In exceptional circumstances:

- the Local Government Finance Act 1988, Section 114 requires the section 151 officer to report to all of the authority's councillors if there is, or is likely to be, unlawful expenditure or if the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure
- the Local Government Act 1999, Section 15 states that failure to set a legal budget may lead to intervention from the secretary of state.

The Local Government Finance Act 1992 (amended) sets out, furthermore, an authority's obligations when setting council tax. It requires that billing authorities set their council tax requirements before 11 March (for a financial year running from 1 April to 31 March). The equivalent deadline for precepting authorities is 1 March.

For local policing bodies in England and Wales the statutory requirements are found within the Police Reform and Social Responsibility Act 2011 and its related statutory instruments.

SETTING A ROBUST AND SUSTAINABLE BUDGET

The CFO must use their professional judgement to ensure that the authority's budget is robust and sustainable. The FM Code supports the role of the CFO in complying with Section 25 of the Local Government Finance Act 2003.

In accordance with the Local Government Finance Act 1992, the authority's budget requirement for the year must include:

- the expenditure that the authority estimates it will incur in the year in performing its functions
- an allowance for contingencies in relation to this expenditure
- the financial reserves that the authority estimates it will need to raise in the year to meet its estimated future expenditure
- such financial reserves as might be required to fund deficits generated in previous periods.

A prudent definition of a robust and sustainable budget for the authority would be a financial plan based on sound assumptions, which shows how income will equal expenditure over the short and medium-term. Plans would take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

The authority's CFO must interpret the definition of what constitutes a robust and sustainable budget based on the circumstances of their own authority and should monitor income and expenditure throughout the year to make sure that the finances are on target as required by the Local Government Finance Act 2003.

Any significant variation in income or expenditure may impact on the authority's ability to manage its resources in line with the agreed budget. Factors having such an effect on the authority's income or expenditure could include:

- natural disaster
- sudden policy change
- demographic pressures
- unexpected funding pressures or
- failure to realise planned savings.

In the case of such an eventuality, it would be necessary for the authority to find an alternative way to manage its resources in line with the agreed budget. This would usually be through the introduction of an emergency savings programme.

RESPONSIBILITY FOR SETTING THE BUDGET

The responsibility for the preparation of a suitable budget rests with the CFO, who will also work with the leadership team to set the medium-term financial plan as the framework within which the annual budget-setting process takes place. This medium-term financial plan allows the authority to deliver its long-term goals by ensuring that a suitably robust and sustainable budget can be set for each of the years covered by the plan.

The CFO is also responsible for ensuring that the finance team constantly monitors the financial health of the authority. The CFO cannot, though, work in isolation. They should be supported by the chief executive and the rest of the leadership team, so that the vision and strategies of the authority are sustained through a strong financial plan.

The chief executive is ultimately responsible for the success of the organisation and it is their task to bring the leadership team together. This role is particularly important during a time of financial crisis, when spending restrictions may be imposed. Spending restrictions will be more challenging for services which are demand-led and those that include statutory duties, such as adult social care and children's services.

In such circumstances, the chief executive's role will be to support the CFO in identifying solutions and working with the leadership team to produce a measured response. It is important that the chief executive maintains an ethos of proactive communication and collaboration throughout the authority.

Any approach to remedying financial difficulties will only be successful if there is a consistent and clear message from the leadership team. The chief executive will be responsible for ensuring that this message is also communicated to external stakeholders and delivery partners.

In policing, it is the PCC and chief constable who are responsible in their different ways for ensuring the success of their local police force and Office of the Police and Crime Commissioner (OPCC). They will work together and with their respective CFOs to ensure the PCCs' vision, police and crime plan and force strategies are sustained through a strong financial plan.

IMPLEMENTING SPENDING CONTROL

Implementing spending control is a way of helping to balance the books in-year. It sits alongside all the planned approaches and strategies set out in the budget when it was first approved. The need for a spending control in-year may arise because of an unplanned event or an unexpected set of circumstances, which mean the authority is heading for an unmanageable overspend at year-end or in future years.

How a spending control is implemented in practice will vary between authorities, though it will invariably mean having to navigate a path between the requirements of statutory service delivery and meeting the terms of current service contracts.

The most common approach is where expenditure is limited or stopped altogether. A series of spending gateways will most likely need to be introduced, with specific approval required where spending over a certain figure occurs. For example, the CFO might be required to sign any commitment above a certain threshold.

However, it must be recognised that temporary suspension of spending can still accommodate an emergency release of funding if specified in advance. Some services, such as adult social care and children's services, will still have to spend during the period of control.

It is necessary, therefore, for the CFO, supported by the chief executive, to work collaboratively with others to identify an approach to minimise spend or to exclude certain areas from the spending freeze. While this adds additional pressures to the authority as a whole, it will help to ensure that statutory duties to vulnerable service users are met.

Examples of short-term measures incorporated into a spending control include not filling non-essential job vacancies, not renewing computer equipment or not spending on routine repairs, staff training, and highways and pavement maintenance. Budget holders would be asked to consider if the expenditure is absolutely necessary, if it can be deferred or if an alternative is available.

ISSUING A SECTION 114 NOTICE

Under Section 114 of the Local Government Finance Act 1988, the section 151 officer shall issue a report if it appears to them that the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.

The process for issuing such a notice is governed by the Act, which states that, once the notice has been issued, the authority has 21 days to consider a response. However, during that time, spending and other financial activity is suspended.

A number of reasons could cause a Section 114 notice to be issued and these include:

- the authority has failed to heed previous warnings from the CFO about the financial risks to the authority
- the authority has failed to appreciate the seriousness of the budgetary position or
- the CFO has failed to warn of the risks.

For policing in England and Wales, there is the added complication of having two separate legal entities in their PCC and chief constable, each with their own CFOs (or a shared CFO role undertaken by the same person). Both CFOs have Section 114 responsibilities.

Issuing a Section 114 notice should not be seen as a failure, but it will result in the loss of financial control by the leadership team. The Section 114 process should be seen as a last resort.

Key questions

- Is the authority aware of its statutory obligations in respect of the budget-setting process?
- Has the authority set a balanced budget for the current year?
- Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?

Financial Management Standard K:

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

In line with Section 25 of the Local Government Act 2003, the FM Code requires the authority's section 151 officer (for authorities in England and Wales) to report alongside the annual budget, when it is submitted for approval, on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. For local policing bodies in England and Wales this would be the responsibility of the PCC's section 151 officer.

The aim of this report is to provide information and assurance in respect of the estimates included within the annual budget, so that those responsible for scrutinising and approving the budget can take these into account as part of the scrutiny and approval process.

UNDERSTANDING BUDGET ESTIMATES

All budgets are an estimate of income to be received and expenditure to be incurred over the course of the financial year in question. However, there are numerous aspects of the budget in which specific estimates will have to be made, including:

- whether specific transactions will occur
- when transactions will occur
- the financial value associated with such transactions.

Some of the more significant estimates that the authority will need to make as part of the budget-setting process include:

- the level of demand for individual services
- staff pay levels and pension scheme contribution levels
- interest rates, likely returns on financial investments and other capital finance issues
- pressures on major capital projects
- the level of funding received through council tax and other sources
- receipts from the sale of capital assets
- the achievement of savings plans and targets.

PROVIDING ASSURANCE IN RESPECT OF BUDGET ESTIMATES

In order to comply with the FM Code, the authority might wish to identify within its report the significant estimates that have been made as part of the budget-setting process and to set out how these estimates have been made.

This could include specific consideration of the information that has been used to make each estimate, the reliability of this information and the authority's confidence in the estimate.

Where possible, the authority may wish to provide additional information to support the estimates that it has made or to give assurance on its track record in making such estimates. This could include, for example:

- information on historical trends to support the estimates made, such as council tax collection rates in previous years
- guidance from professional advisors, such as forecasts from treasury management consultants in respect of future interest rates and/or investment returns
- details of levels of service demand experienced by the authority in previous years, perhaps linked to underlying demographic trends.

The authority could also provide assurance by setting out the process of internal scrutiny to which the budget has been subject prior to being submitted for approval. This could include, for example, review by service managers, the CFO and specialist advisors.

While most estimates can be made with a relatively high degree of confidence, there will, inevitably, be some budget estimates where considerable uncertainty remains. The authority would be well-advised to highlight these in the report and to explain the reason for the uncertainty. Where possible, the authority might also undertake and provide the results of sensitivity analysis, so that those approving the budget are aware of the potential impact of the underlying uncertainty.

THE ADEQUACY OF THE PROPOSED RESERVES

While the authority's financial reserves can, in theory, be called upon to help balance the budget in the short-term by managing fluctuations in income and expenditure, to use reserves in this way is far from ideal.

In general, reserves should only be used for:

- planned investment
- capital projects
- change programmes
- unexpected events such as natural disasters
- other reasonable uses for which they have been 'earmarked'.

The authority's reserves should not generally be used to pay for day-to-day expenditure. They should not, except in the most exceptional circumstances, be used to fund a budget shortfall either, without a plan in place to address the underlying deficit and to replenish the reserves.

The authority will, ideally, have in place a policy setting out the reserves that it maintains, a prudent balance at which it seeks to maintain them (taking into account the nature of the financial risks that the authority faces), and the broad purposes for which these reserves should be used.

A summary of this policy can be included in the report required under Section 25 of the Local Government Act 2003.

The report might also include confirmation of the adequacy of the reserves currently held or, where current reserves fall below the desired balance, the impact of this shortfall and how it is to be addressed.

Where is it proposed that reserves be drawn upon during the financial year, this could be set out within the report, together with an indication of how these resources will be spent and whether, and how, they will be replenished.

If the reserves are to be used to fund an in-year shortfall in revenue resources, the report could explain why this is the case, what alternatives have been considered and how the longer-term impact of the revenue shortfall is being addressed.

PCCs and fire and rescue authorities in England are required, by the Home Office Revised Financial Management Code of Practice for the Police Forces of England and Wales and

Fire and Rescue Authorities, created under Section 4A of the Fire and Rescue Services Act 2004, to establish and publish a policy on financial reserves. It also requires them to publish information on their current and planned reserves, including general and earmarked reserves.

Key questions

- Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?
- Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?
- Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?
- Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?

CHAPTER 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. Furthermore, the authority must make decisions in respect of the allocation of resources in a robust and transparent manner.

This chapter of the guidance notes considers:

- the extent to which the authority has engaged with relevant stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- whether the authority uses an appropriate option appraisal methodology to demonstrate the value for money of its decisions.

It starts by considering how the authority can identify relevant stakeholders with whom to consult, using the power/interest matrix to inform and to prioritise its consultation efforts. It then discusses how the authority can engage effectively with these stakeholders and, perhaps most critically, how it can use the results of the consultation process to improve its approach to financial planning.

This chapter discusses what option appraisal is and how it works, from understanding the authority's requirements through to generating and assessing options and making a decision on a suitable course of action. It also considers when an option appraisal should be undertaken and how financial and non-financial factors can be factored into the appraisal process. It also explores how the results of the option appraisal can be communicated effectively.

Financial Management Standard L:

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget

The FM Code sets out clearly that stakeholder consultation can help to set the authority's priorities and to reduce the possibility of legal or political challenge. Furthermore, stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery.

This is especially the case when the authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector and other partners, may facilitate future reductions in service costs.

Stakeholders are the individuals, groups and organisations that have an interest in how the authority operates, the services that it delivers and how it delivers them. Not only may stakeholders be affected by what the authority does, they may also have the power to influence how it goes about its activities.

In many cases, authorities seek to develop and maintain long-term strategic relationships with key stakeholders, which they use to drive the delivery of efficiency and effective services that meet the needs of their local community.

The FM Code requires the authority to engage, where appropriate, with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget. In complying with this element of the FM Code, there are a number of things to consider, namely:

- how to identify key stakeholders
- how to engage effectively with these stakeholders
- how to use the results of this engagement wisely.

Where the authority already enjoys productive strategic relationships with its key stakeholders, this level of explicit engagement when developing the authority's long-term financial strategy, medium-term financial plan and annual budget may not be necessary, provided the needs of these stakeholders are already sufficiently well understood. Where this is not demonstrably the case, however, more focused engagement at this stage may be required.

IDENTIFYING KEY STAKEHOLDERS

The first step in engaging with the authority's stakeholders is to identify who they are.

The easiest way to do this is to make a list of (a) everyone – be it individuals, groups or organisations – who is affected by what the authority does, (b) everyone who has an influence on what the authority does, and (c) anyone else whose support is important to the authority's ability to achieve its objectives or who has an interest in how well the authority delivers its services.

These, then, are the authority's stakeholders. But not all of these stakeholders will be 'key' to the authority's ability to achieve its goals.

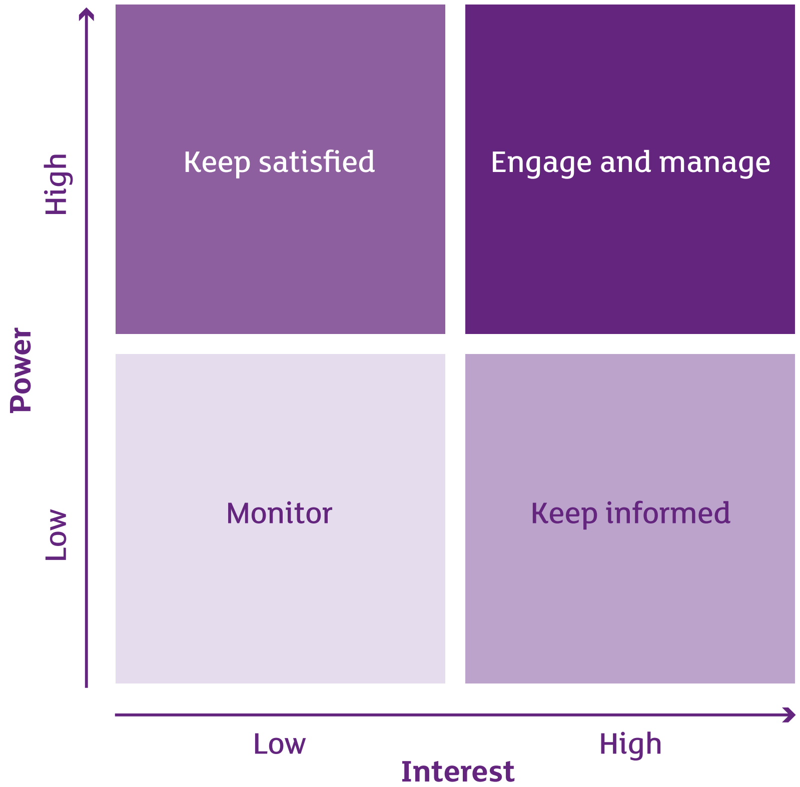
In an ideal world, the authority would be able to have an engaged and personalised relationship with each of its stakeholders. It is more likely, however, that the authority has many stakeholders and limited resources to engage with them. In such cases, the authority needs to prioritise its engagement.

A simple way to prioritise and to inform engagement with the authority's stakeholders is the 'power/interest matrix'. The matrix consists of two axes and four boxes and allows the authority to categorise each of its stakeholders in two ways, each of which features on one of the axes of the matrix:

- the stakeholder's **power** to influence the authority's activities
- the stakeholder's **interest** in influencing the authority's activities.

By allocating a 'high' and a 'low' option to each of these criteria, the authority ends up with a two-by-two matrix like the one in Figure 2 below.

Figure 2: The power/interest matrix



The authority can then use the matrix to decide how – and how much – it should engage with each of its stakeholders:

Low power/low interest	The authority should **monitor** these stakeholders, in case their level of power or interest changes, but does not need to spend too much time engaging with them or to subject them to unnecessary communications.
Low power/high interest	The authority should keep these stakeholders **informed** and draw on their expertise when it can, but should not allow these stakeholders to wield undue influence on its activities.
High power/low interest	These stakeholders can cause the authority problems if they have reason to do so, so the authority should seek to keep them **satisfied** and to avoid causing them any consternation.
High power/high interest	These are very much the authority's key stakeholders. The authority should **engage** with them, **manage** its relationship with them carefully and do everything it can to keep them on board.

ENGAGING EFFECTIVELY WITH STAKEHOLDERS

Engagement is a two-way process. Simply sending a copy of the authority's long-term financial strategy, medium-term financial plan or annual budget to its key stakeholders is not sufficient. Neither is sending these stakeholders a draft copy of the strategy, plan or budget and asking for their thoughts.

Effective engagement begins when the authority first starts to think about the development of its long-term financial strategy, its medium-term financial plan or its annual budget. It then continues throughout the development, agreement and implementation of this strategy, plan or budget.

Ideally, key stakeholders will be engaged at the following stages:

- when the authority is determining its priorities for the period covered by the strategy, plan or budget
- when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources
- when it is agreeing the strategy, plan or budget
- when it is reviewing formally its performance against the strategy, plan or budget, with a view to identifying learning points for the preparation of future strategies, plans or budgets.

As a bare minimum, the authority might wish to engage with key stakeholders at the second of these stages, ie when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources.

As to how best to engage with key stakeholders, the easiest way to determine this is simply to ask them how they would like such engagement to work. Some may favour personal contact to discuss the authority's plans face-to-face, while others may prefer written papers upon which to comment.

In reality, engagement with key stakeholders is likely to take the form of a combination of different modes of engagement, such as:

- one-to-one conversations
- informal group discussions
- structured focus groups
- surveys
- town hall meetings or drop-in sessions
- discussions at committee meetings
- review of a written document and provision of verbal or written feedback.

The key is to choose the mode of engagement that works best for the stakeholder or stakeholder group with which the authority wishes to engage, not what works best for the authority.

It is also helpful for the authority to define what it seeks to gain as a result of the engagement. This might be, for example, assistance in determining priorities for the next five years or an indication of what level of council tax increase might be acceptable if it is linked to the delivery of specific outcomes. In addition to allowing the authority to focus on the issues in which it is interested, this sort of targeted engagement is also more cost-effective for both the authority and those with whom it seeks to engage.

In these financially straitened times, the authority may not have the capacity or the resources to adopt the level of stakeholder engagement that it would normally wish to. In such circumstances, it is for the authority to decide how best to prioritise its capacity and resources to achieve the most meaningful stakeholder engagement and to secure the maximum benefit of this engagement.

USING THE RESULTS OF THE ENGAGEMENT

The authority may wish to put in place a suitable mechanism to respond to the results of its engagement with stakeholders and to be in a position to demonstrate that it has done so.

The way in which the results of the engagement process are used will depend on:

- the stakeholders involved
- the focus of the engagement
- the authority's specific aims in engaging with the stakeholder(s)
- the mode of engagement
- the results of the engagement process.

In many cases, it can be helpful to produce a separate report as a result of the engagement process, setting out its key findings. This allows the results of the engagement process to be assessed, analysed and presented in a useful format, ideally highlighting key points and recurring themes.

In an ideal world, the authority would be in a position to identify clearly the impact of the engagement process on the development of its long-term financial strategy, its medium-term financial plan or its annual budget.

In reality, though, things are rarely this simple. The authority might, however, ensure as a minimum that the main findings from the engagement process are integrated demonstrably into the development of the strategy, plan or budget.

The authority might also find it beneficial to communicate with the stakeholders with which it has engaged, setting out how the results of the engagement process have informed its thinking. If the authority does not feel able to do this, this may well be a sign that it has not engaged sufficiently conscientiously with the engagement process itself.

Key questions

- How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget?
- How effective has this engagement been?
- What action does the authority plan to take to improve its engagement with key stakeholders?

Financial Management Standard M:

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Option appraisal is about making informed choices and better decisions. Nowhere is making good decisions more important than within authorities of all types, as the choices they make dictate how public funds are spent and impact on how people live their lives. Consequently, a robust approach to undertaking option appraisals is crucial to securing value for money.

DEFINING OPTION APPRAISAL

Option appraisal is a robust and systematic approach for the authority – and, indeed, all organisations – to find the best way of doing something, whether that is restructuring a failing entity, providing a new service to the local community, financing the construction of a new municipal building, or creating an innovative public service delivery partnership.

Whatever the authority is seeking to achieve, there will inevitably be many different ways of achieving it. Option appraisal is about how the authority identifies these options, assesses them and finds the one that will work best in the particular set of circumstances in which the authority finds itself.

Clearly, the approach taken to the identification and appraisal of options should be proportional to the nature, size, importance and complexity of the activity to which the options relate. Not all appraisals need to be subjected to a formal option appraisal as detailed here.

In order to ensure that decisions benefit from an appropriate level of appraisal, it would be beneficial for the authority to set out clearly when such an option appraisal should be implemented and the circumstances in which a lighter-touch approach would be acceptable.

HOW OPTION APPRAISAL WORKS

There are many different ways of doing an option appraisal, depending on the nature of the project or activity and the specific appraisal tools and techniques that the authority chooses to use. However, all option appraisals work in essentially the same way, in that they follow the same four steps.

Understanding what the authority wants to achieve	It is vital that the authority has a clear understanding of its aims in undertaking the project or activity that is the subject of the option appraisal. It will help to identify the available options and to assess them. It will also allow the authority to identify whether the project or activity has been successful.
Generating options	The authority identifies a range of different options to consider in more detail. The more comprehensive the list of options that can be generated, the more likely it is that the authority will be able to find an option that will work well. This means engaging with different stakeholders to ensure that a wide range of options is identified.
Assessing the options	Once a range of options has been identified, the authority develops a set of criteria against which these options can be assessed. These criteria should relate back to the aims of the project or activity and may include both financial and non-financial considerations. The assessment of options may take place in more than one stage to allow a small number of more promising options to be assessed in greater detail.
Making the decision	Once the options have been assessed, the authority makes its decision on a preferred option. This can then be implemented or, in the case of a business case or plan, taken forward for further consideration.

The authority may have a formal approach to option appraisal with which it is required to comply. There is certainly merit in the authority having a consistent approach to option appraisal, not least because it allows the development of standard processes and documentation.

Nonetheless, this should not be at the expense of overlooking special characteristics of each decision, or the need to review and improve the methodology over time.

As a general rule, the approach taken by the authority to option appraisal should comply with the guidance set out in the IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal* (2013).

Consequently, rather than preparing its own documented appraisal methodology, the authority might prefer to record simply that any option appraisals that it undertakes should comply with the guidance set out in this publication, or in CIPFA's own guide to undertaking an option appraisal: *Option Appraisal: A Practical Guide for Public Service Organisations* (2017 Edition).

WHEN TO UNDERTAKE AN OPTION APPRAISAL

Option appraisal becomes necessary when the decision is a difficult one or will have important financial or service implications. For any significant decision, option appraisal should be considered mandatory. Option appraisal should also form an essential part of the development of an authority's capital programme.

As a rule of thumb, decisions displaying any one or more of the following characteristics might reasonably be subject to a comprehensive option appraisal.

Strategic importance	Conflicting time horizons
■ Due to its size or other characteristics, the decision has an impact on the future financial viability of the authority. ■ The decision involves partnership with another organisation, including the transfer of services or functions to the private or not-for-profit sectors. ■ The decision represents a material change to the strategic direction or mission of the authority. ■ The decision involves a fundamental change in the scale of the authority's activities. ■ The decision involves the procurement or disposal of material non-current assets.	■ The long-term options for the project or activity are based on significantly different business models than those available in the short term. ■ A balance has to be struck between an initial outlay and a stream of future financial or non-financial benefits. ■ There are material variations in the timing of the financial implications associated with the different options available.

Conflicting priorities	Risk and uncertainty
■ The costs and benefits of different potential courses of action are not all quantifiable in cash terms. ■ Limited resources mean that activities will need to be prioritised within budgetary constraints. ■ There is a choice to be made about the quality, scale, location or timing of a service. ■ There are a wide range of stakeholders or stakeholders with diverging or conflicting interests.	■ There are options with a high level of risk and uncertainty in their delivery. ■ There is doubt as to whether or not any action should be taken. ■ Some of the potential options – such as new delivery models – are unfamiliar to the authority. ■ There is likely to be significant public interest in the chosen course of action.

This list does not, of course, capture all of the circumstances in which an option appraisal is necessary. When faced with circumstances not covered by this list, the authority might wish to consider the risks involved with getting the decision wrong. If these are significant, then a formal option appraisal is advisable.

THE APPRAISAL PROCESS

The key to reducing uncertainty in decision making is clarity about what the authority wants to achieve. Consequently, the starting point for an effective option appraisal is a clear, concise and specific statement of the objectives to be achieved by the decision.

The next step is to generate a broad range of options for how these objectives could be achieved. These options should always include the 'base case', which is the minimum action necessary to meet statutory requirements and unavoidable policy commitments.

Once a suitable 'long list' of options has been generated, the authority can decide which criteria it will use to undertake an initial assessment of the suitability of these options.

This sifting process will allow the authority to identify a 'short list' of technically feasible and politically acceptable options for further consideration. This is when the detailed appraisal of these options begins in earnest. This detailed appraisal may draw on a number of financial and non-financial techniques.

It is unlikely that the authority will plan or deliver projects or activities where money is no object. Consequently, consideration of income, expenditure and the associated cash flows forms a significant part of most option appraisals.

One common approach to the financial analysis of options – and the one that might currently be used – is net present value analysis. Using this approach, all incremental future cash flows are discounted to their present day value to calculate a net present value for each option as a whole. The option with the highest net present value (which may, in some cases, be the least negative net present value) is the optimum from a financial perspective.

The authority might also consider the affordability of the options under consideration. In doing so, the authority will need to explore a range of issues concerning the income and expenditure generated by the project, including their nature, timing and amount.

It is also important to consider the implications of these for the authority's financial strategy and, where capital investment or financing is required, for the authority's compliance with its prudential indicators. In addition, the authority may wish to consider the appropriate accounting treatment associated with the options under consideration, together with any implications of this for the authority and for the appraisal process.

As the authority's activities focus, in the main, on the delivery of non-financial outcomes, it is not sufficient for a selected option to simply be the most financially advantageous. It must also achieve the authority's objectives in respect of service delivery. Consequently, the non-financial aspects of option appraisals are just as important as the financial ones.

There are a number of common approaches to the consideration on non-financial factors in an option appraisal, including:

Economic appraisal	A financial evaluation that considers the costs and benefits of a proposed course of action for the economy as a whole, rather than just for a particular authority.
Cost-benefit analysis	An extension of the economic appraisal, which also considers the social costs and benefits of a project or activity.
Multi-criteria analysis	An approach that allows the impact of various non-financial factors on the relative desirability of different options to be assessed through a methodical weighting and scoring of different criteria.
Impact assessments	A technique that allows the impact of a proposed course of action in different areas (eg promoting equality, safeguarding human rights, protecting the environment) to be assessed in a robust way.

These approaches will not all be feasible in all circumstances. It is for the authority to decide which, if any, approach is most relevant to the option appraisal being undertaken and to ensure that it undertakes sufficient analysis to arrive at an informed decision.

ADDRESSING UNCERTAINTY

The authority operates in an uncertain world. Consequently, it is important that the authority reflects this uncertainty in its option appraisals. It is equally important that it puts into place appropriate mechanisms to learn from its experiences.

There are a range of techniques that the authority can use to address uncertainty and to facilitate learning, including:

Risk and uncertainty	Using adjusted discount rates to compensate for the inherent uncertainty surrounding cash flows for higher-risk projects or activities.
Sensitivity analysis	Identifying key assumptions made in the option appraisal and quantifying the impact on the appraisal of variations in these assumptions.
Optimism bias	Compensating for the unwitting tendency of organisations undertaking option appraisal to understate the cost of options and to overstate the benefits.
Peer reviews	Using independent external review both during and after the option appraisal to scrutinise, challenge and improve the quality of the option appraisal process.

Post-implementation reviews	Testing the reasonableness of the assumptions and judgements made at the time of the original appraisal through a post hoc assessment of the decision-making process and the results, benefits and outcomes of the decision.

REPORTING THE RESULTS OF THE OPTION APPRAISAL

The reporting requirements for an option appraisal will have an impact on the nature and scope of the work to be undertaken, so it is sensible to consider a reporting framework at the outset of the appraisal itself.

By considering the messages and information that need to be conveyed, as well as to whom they need to be communicated, the authority can generate a work plan for the option appraisal that sets out the issues that must be addressed.

The focus of the report should be on providing the leadership team or other decision-making body with the information that it needs to make the necessary decision. Most importantly, however, the report should provide a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

While the authority will need to tailor the appraisal report to the needs of the particular decision to be made, the following elements might usefully be included.

Approach	■ An overview of the approach adopted for undertaking the option appraisal. ■ Details of any assumptions made and how these assumptions have been reached. ■ Information on any specialist advice that has been sought. ■ An overview of how relevant stakeholders have been identified and engaged in the appraisal process. ■ The accounting treatment of the proposed options and the implications of this for the authority and for the appraisal process.
Constraints	■ A summary of the main constraints, including contractual commitments, affordability and the scope for fundamental business change. ■ An explanation of the implications of not proceeding.
Long and short list of options	■ A statement of the base case. ■ The long and short lists of options. ■ A statement explaining the short-listing process. ■ A summary of the full analysis of (ideally) at least three options for meeting the business need.
Financial analysis of short-listed options	■ An evaluation of the net cash flows anticipated from the alternative options. ■ An assessment of the affordability of the selected option, including an explanation of any special financial arrangements. ■ A record of technical details, such as the price basis and the base date for discounting.

Non-financial analysis of short-listed options	■ An assessment of the non-financial elements of the project or activity, using economic appraisal, cost benefit analysis, multi-criteria analysis or some other appropriate technique. ■ Identification and discussion of any unquantifiable costs and benefits and their implications for the appraisal. ■ The results of relevant impact assessments and their implications for the appraisal.
Risk	■ Identification and assessment of the risks associated with the project or activity and the arrangements to be put in place for their management and mitigation.
Sensitivity analysis	■ An analysis of the implications of variations in the drivers determining the outcome of the appraisal, with an explanation of how any significant implications will be addressed.
Optimism bias	■ An account of how the appraisal process has addressed the systematic tendency for people and organisations to be overly optimistic about the outcome of planned actions.
Peer review	■ An account of any peer review processes carried out during the appraisal process.
Post-implementation review	■ An outline plan for implementing the project or activity and for achieving the desired outcomes, with key milestones and timescales. ■ An explanation of the mechanisms in place for a post-implementation review, if required.

In all cases, it is important that the report remains objective and that it provides a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

Even the most comprehensive and diligent option appraisal can come into question if it is reported poorly. Therefore, a high-quality report can provide considerable assurance to all stakeholders that the resulting decision has been made openly, honestly and with due regard to the issues involved.

Key questions

- Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal*?
- Does the authority offer guidance to officers as to when an option appraisal should be undertaken?
- Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?
- Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?
- Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?

CHAPTER 6

Monitoring financial performance

The authority's long-term financial strategy, medium-term financial plan and annual budget set out its financial plans for the periods that these documents cover. Unexpected pressures can, nevertheless, impact on the authority's ability to manage its financial resources in line with these plans. It is important, therefore, that the authority is able to identify such pressures and to take prompt action to address them.

This chapter of the guidance notes considers:

- the way in which the leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- how the leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

This chapter considers the things that the authority's leadership team needs to be aware of if it is to be able to identify and to respond to risks to its budget strategy and financial sustainability, such as deviation from planning assumptions, expenditure against budget, service pressures and the implementation of savings initiatives. It also discusses the characteristics of an effective report and the need for reports to be prepared in a timely manner.

It is a requirement of the FM Code that authorities should monitor closely the material elements of their balance sheet that may give indications of a departure from financial plans. This chapter outlines good practice for balance sheet management from a governance perspective and considers the risks that could arise from the different elements of the authority's balance sheet. It also discusses how the authority can seek to identify, monitor and respond to such risks.

Financial Management Standard N:

The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The earlier the authority identifies that it is deviating from its plans, the easier it is to get things back on course. Consequently, proactive review of focused financial and activity performance reports should be a regular task for the leadership team.

In order for the leadership team to have access to the information it needs to identify emerging risks, the authority needs to ensure that its leadership team:

- receives reports about the right things
- receives reports at the right time
- receives reports in the right format
- takes action in respect of any issues identified.

RECEIVING REPORTS ABOUT THE RIGHT THINGS

The earlier the authority becomes aware of a potential risk to the achievement of its financial strategy, medium-term financial plan or its annual budget, the sooner – and the more effectively – it can take action to address that risk and to mitigate its impact on the authority.

Consequently, the authority might seek to include in its reporting, where possible, forward-looking indicators of financial and operational performance. This is not to say that backward-looking performance information is not important – it is simply that, by its very nature, it is less useful in identifying problems that may arise in the future.

Useful forward-looking indicators do not necessarily need to relate to the authority's own performance. Information in respect of the environment in which the authority is operating can also be a helpful way of identifying issues or trends that may impact on the authority's ability to deliver its services and to maintain financial sustainability.

Some examples of information and other factors that it might be helpful to report to the authority's leadership team include:

- the key **planning assumptions** used in developing the financial strategy, the medium-term financial plan and the annual budget, together with a review of these assumptions that highlights any significant deviation from the initial estimates used and assesses the impact of any such deviation on the achievability of the authority's financial plans
- ongoing **financial performance against budget** across different service areas, including capital projects and programmes, which can allow the leadership team to identify potential financial issues – provided the budget is profiled effectively or a forecast outturn position is provided
- the **significant risks** to the achievement of the authority's financial plans in the short, medium and long term, together with an indication of the current status of each of these risks (ie are they 'crystallising') and any action that the authority should take to mitigate them
- performance in **implementing savings initiatives** and in realising targeted savings or efficiency gains
- the authority's **performance in delivering its key services**, including things like service performance indicators, capacity issues, backlogs, etc, which will allow the leadership team to identify any pressures on these services and to assess the implications for the authority's ability to achieve its financial plans
- the **performance of key partners**, especially those involved in the delivery of critical services including contract monitoring information which will allow risk to be managed and
- **staff and service user feedback**, which can be a helpful indicator of financial and operational pressures and can allow the leadership team to address such pressures before they impact on the authority's ability to deliver its services effectively and to maintain financial sustainability.

RECEIVING REPORTS AT THE RIGHT TIME

In order to be effective, information reported to the leadership team needs to be timely. This means that data included in reports to the leadership team needs to be collected, analysed and reported within suitable timescales.

It has become normal for authorities to collect a range of financial and performance data on a monthly basis and to report this to the leadership team in line with the meeting schedules of its constituent elements, such as senior leadership team meetings, finance committee meetings, full council meetings, etc.

In times of considerable financial pressure, however, where issues can arise that need to be addressed urgently, the authority may wish to consider whether such timescales allow information to be reported to the leadership team in a sufficiently timely manner.

In some circumstances it may be more appropriate to report critical information on a more frequent basis. For example, in a critical service area facing significant financial pressure and with limited capacity to manage demand, daily reports on capacity, demand and performance may be desirable. Where services are commissioned or delivered in partnership there should be a clear understanding around such reporting requirements.

Such situations may require the authority to develop suitable reporting lines to provide the leadership team with the information that it requires.

There should also be minimal delay between the period to which the performance information relates and the reporting of this information to the leadership team. This may require the authority to streamline the way in which it collects, collates, analyses and reports performance information.

RECEIVING REPORTS IN THE RIGHT FORMAT

The authority will wish to ensure that reports to the leadership team are:

Clear	Reports are written in clear and understandable language, with any technical terminology defined or explained. Key information is highlighted. Graphs, charts and tables are used, where suitable, to present information effectively.
Accurate	Information provided in reports is free from material errors. Where estimates have been included, this is made clear. Care is also taken to ensure that the presentation of any data is not misleading.
Timely	The leadership team receives reports in a timely manner, so that they can identify issues and risks before these become critical to the achievement of the authority's budget strategy and to its financial sustainability.
Relevant	Reports focus on what the leadership team needs to know. Clear statements of fact are more useful than pages of discussion or long tables of data. Extraneous detail is avoided. Any necessary supplementary information is put in an annex.
Well-structured	Reports have a clear structure and a strong narrative flow. The main point(s) of the report are set out at the beginning, so that the reader knows why they are reading the report. Those writing reports consider the questions that the reader may have and how these questions can best be answered.
Concise	Reports are as brief as possible.

Reports that allow the monitoring of financial performance against budget, in particular, might include sufficient information for the leadership team to understand how well the authority is performing against budget and, where relevant, the reasons for any significant variations against budget.

Such reports could include, for example:

- the budget for the period under consideration
- accruals-based income and expenditure to date
- a forecast for the remainder of the year and an estimate of the year-end position
- relevant underlying service activity data
- action to be taken to address any variation from budget
- who to contact for further information (eg the relevant budget holder).

TAKING ACTION IN RESPECT OF ISSUES IDENTIFIED

Critical issues raised in respect of the authority's financial sustainability need to be acted upon promptly.

It is, ultimately, up to the leadership team itself to ensure that it takes appropriate action in response to reports that it has received. However, the authority can facilitate the taking of such action by setting out, when presenting information to leadership team, recommendations as to what action is required.

Under some circumstances, it may be apparent that the authority's activities or the environment within which it operates may have changed to such an extent that its financial plans, for example the annual budget, are no longer realistic. In such cases, it may be prudent to recalibrate such plans.

The leadership team may wish to keep a record of action that it has taken in response to reports that it has received, whether through minutes of its meetings or other mechanisms. It might also gain benefit from reviewing the impact of the action that it has taken, to ensure that it has had the desired effect.

Key questions

- Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?
- Do the reports cover both forward and backward-looking information in respect of financial and operational performance?
- Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data?
- Are the reports provided to the leadership team in a timely manner and in a suitable format?
- Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?

Financial Management Standard O:

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The CIPFA publication *Balance Sheet Management in the Public Services: A Framework for Good Practice* (2017) outlines a number of elements of good practice for balance sheet management from a governance perspective.

These are as follows:

1. In organisational culture, appropriate emphasis is placed on balance sheet management activities and considerations.
2. Balance sheet management requirements are addressed coherently and comprehensively across all relevant strategies and plans.
3. Balance sheet management responsibilities are identified and assigned to appropriate people.
4. The authority's decision-making framework is effective and requires appropriate consideration of balance sheet implications.
5. Appropriate levels of assurance are provided over all aspects of balance sheet management.
6. Financial and operational risk management activity pays due regard to balance sheet drivers and impacts.

The authority might seek to comply with the FM Code by engaging with these elements of good practice, as they allow it to create an environment within which effective management of the balance sheet is promoted and valued.

In order for the leadership team to be able to monitor the elements of the authority's balance sheet which pose a significant risk to its financial sustainability, a more targeted approach may be required.

Consequently, to comply with the FM Code, the authority might choose to:

- determine which elements of its balance sheet pose a significant risk to its financial sustainability, through a comprehensive review of its assets and liabilities
- put in place mechanisms to monitor these elements of its balance sheet
- respond promptly and proactively to any issues that these mechanisms identify.

While this financial management standard focuses specifically on the authority's balance sheet, it is worth recognising that the various elements of the authority's balance sheet do not exist in isolation. Rather, they are linked to other aspects of the authority's activities, such as service provision asset management, capital investment, treasury management, etc.

Consequently, while the monitoring of risk inherent to the authority's balance sheet can be undertaken as a stand-alone activity, it should also usefully be integrated into other aspects of the authority's performance monitoring and risk management processes. The main thing is that any such risks are identified and managed.

DETERMINING RISK ON THE BALANCE SHEET

The elements of the balance sheet that pose a risk to the authority's financial sustainability will depend on the authority's activities and on the assets and liabilities that it holds on its balance sheet.

It is useful, therefore, for the authority to review its balance sheet in the light of its financial strategy and its medium-term financial plan and to identify those elements that are critical to the achievement of its long and medium-term objectives.

Some aspects of the balance sheet that may be critical to the authority's financial sustainability include:

Non-current assets (ie fixed assets)	Where the authority uses its physical assets (eg buildings such as housing and schools) to deliver services, it is important that these are maintained in a suitable condition and the right assets to deliver services.
Long-term and short term investments	Where the authority holds investments it must operate within current guidance and reflect a clear understanding of the implications of these on its financial planning and risk management arrangements, since they can have a significant impact on an authority's financial sustainability (see CIPFA's *Prudential Property Investment* (2019)).
Debtors	The collection of payments from service users and other 'trade' debtors provides valuable income to support the authority's services. Should the authority experience difficulty in collecting this debt, the financial sustainability of the associated services could be threatened.
Cash	The maintenance of a sufficient cash balance to pay the authority's expenditure and debts as they become due is imperative. A shortfall in cash represents a fundamental and imminent problem and could threaten the authority's very ability to function.
Current liabilities	Where payments are due to be made to creditors in the short term, it is vital that the authority has sufficient cash – or assets that can quickly be converted to cash – to ensure that such payments can be made.
Provisions	The risk is not just existing provisions and the potential for their value to increase, but also events that may give rise to provisions that the authority was not expecting. While such provisions may not require immediate cash settlement, they can reduce the usable reserves of the authority on the balance sheet. This effectively means that assets, for example cash, are being held by the authority in case settlement is required. It may only become clearer later if settlement is absolutely required, and how much the cash outlay will be.
Pensions Liabilities	Authorities will normally have a liability to fund part or all of the future pensions which are payable to retired employees. The measurement of these liabilities is reflected on the balance sheet, but authorities are not normally required to fund them (ie reduce usable reserves) when the liabilities are incurred. Instead such liabilities are normally managed in the longer term, including adjustments to the employer's annual contributions to the pension scheme involved. The legal commitments to fund pension liabilities, and the profile of those payments over future years, will need to be considered in financial sustainability assessment.
Long-term borrowing	Long-term borrowing has become a normal part of authorities' balance sheets. The critical risk here, though, is the authority's ability to make interest or other payments when they are due.

Service concession arrangements	If the authority benefits from service concession arrangements operated under the private finance initiative, it may rely heavily on these concessions for the delivery of services to the public. It will also be required to make regular payments to the provider organisation. A failure to make these payments will have a significant impact on service delivery and on the authority's continued ability to function.
Usable reserves	Usable reserves may be held for variety of reasons, including to balance out uneven cash flows or unexpected events. They are also a means of funding strategic developments, especially those for which it would be difficult to secure external funding or borrowing. An insufficient – and especially an insufficient and falling – level of reserves is reason for additional scrutiny.

MONITORING RISK ON THE BALANCE SHEET

In monitoring elements of the balance sheet that could pose a risk to its financial sustainability, the authority might opt to operate a two-pronged approach of prevention and detection.

The prevention element of monitoring risk addresses the way in which the authority avoids risk arising in the first place.

It includes the following (this list is not intended to be exhaustive):

- treasury management policies and how the authority selects approved counterparties for its investments
- credit control policies for trade debtors and how the authority pursues unpaid debts
- cash management strategies
- how the authority identifies the need for new provisions
- management of borrowing, including the setting of the authority's prudential indicators
- management of service concessions arrangements
- policies on levels of reserves and what reserves may be used for.

The detection element of monitoring risk, on the other hand, concerns how the authority identifies when such risk has 'crystallised', ie when it has turned from a theoretical threat to a practical problem.

To ensure that the crystallisation of such risks is identified promptly, the authority might usefully develop suitable 'early warning' mechanisms for the elements of the balance sheet that it considers to be critical to its financial sustainability.

This could include, for example:

- close monitoring of the authority's financial performance and of its impact on the authority's reserves
- reporting to the leadership team of any unplanned use of the authority's reserves
- monitoring of investment returns and the forecasting of future cash inflows
- regular review of aged debtors and of the actions being taken to secure recovery
- forecasting of cash balances and of the authority's ability to pay amounts coming due

- regular monitoring of performance against the authority's prudential indicators
- forecasting of service concession arrangement payments and modelling of their future affordability
- inclusion in regular management accounting reports of relevant balance sheet information.

For each element of the balance sheet that poses a threat to the authority's financial sustainability, the authority could seek to develop a suite of preventative and detective measures that, together, (a) reduce the likelihood of the risk occurring and (b) maximise the chance of the authority detecting it should the risk crystallise.

This means that the balance sheet is not something that the authority can worry about just at year end when it is preparing its financial statements. Instead, it needs to receive the same level of regular attention as the authority's income and expenditure records.

RESPONDING TO RISK INHERENT TO BALANCE SHEET ITEMS

It might also be sensible for the authority to seek to mitigate the potential impact on its financial sustainability should one of more of the identified balance sheet risks crystallise. This is, however, difficult to achieve in practice. As such it is important for the authority to respond promptly when risks crystallise.

The action that the authority takes will depend on:

- the element of the balance sheet in question
- the risk or issue that has arisen
- the impact that it is likely to have on the authority.

In some cases, the authority may be able to reduce the risk to which it is exposed relatively quickly and easily. In other cases, the issue may be less tractable and might require a more engaged response. In some cases the authority may not be able to respond effectively acting alone, so may need to work with other authorities or branches of government to resolve the issue.

The key, though, is for the authority to identify the issue and to take action promptly. This can only happen if the leadership team knows what is important, knows what to look for and monitors the critical elements of its balance sheet proactively and effectively.

Key questions

- Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?
- Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?
- Is the authority taking action to mitigate any risks identified?
- Does the authority report unplanned use of its reserves to the leadership team in a timely manner?
- Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?

CHAPTER 7

External financial reporting

The publication of financial information is one of the primary ways in which the authority demonstrates accountability to service users, taxpayers, to citizens and to other organisations across the public sector. Furthermore, the authority's statutory financial statements provide a definitive audited record of its financial position and financial performance, as well as a secure foundation for effective financial management.

This chapter of the guidance notes considers:

- the extent to which the chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- the degree to which the presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

This chapter starts by summarising the statutory basis for local government financial reporting in the UK and by exploring the purpose of the annual financial statements.

It then considers explicitly the role of the authority's chief finance officer in the preparation and publication of the financial statements and how the authority can ensure that the chief finance officer has met their obligations in this regard.

Effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year. This chapter considers how financial outturn information can be reported effectively and sets out some key questions that the leadership team should ask when presented with such information.

Financial Management Standard P:

The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*

The external financial reporting process for authorities is prescribed by statute. Local authorities are required to produce their statutory accounts on an annual basis in accordance with:

- the Accounts and Audit Regulations 2015 for English Authorities
- the Local Government (Accounts and Audit) Regulations Northern Ireland 2015
- the Local Authority Accounts (Scotland) Regulations 2014 or
- the Accounts and Audit (Wales) Regulations 2014, as amended.

The *Code of Practice on Local Authority Accounting in the United Kingdom* (the local authority accounting Code) is prescribed by the above-mentioned statutory instruments as proper (accounting) practices to specify the principles and practices of accounting that are required to give a 'true and fair' view of the authority's financial position, financial performance and cash flows (including the group accounts where the authority has material interests in subsidiaries, associates or joint ventures).

THE PURPOSE OF THE STATUTORY FINANCIAL STATEMENTS

The local authority accounting Code specifies that the objective of local authority financial statements is to provide information about the authority's

- financial performance (income and expenses)
- financial position (assets, liabilities and reserves)
- cash flows.

That is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions. They should therefore be able to give electors, service users, those subject to locally levied taxes and charges, members of the authority (as representatives of service recipients) and other interested parties clear information about the authority's finances.

The financial statements should answer such questions as:

- What did the authority's services cost to deliver over the course of the year?
- Where did the money to fund the authority come from?
- What were the authority's assets and liabilities at the end of the year?

It is important that two particular aspects are understood clearly. First, all financial statements should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the local authority accounting Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published statements of accounts.

Secondly, interpretation and explanation of the accounts are important mechanisms to ensure that the messages in the financial statements are communicated effectively to the users of the financial statements. The local authority accounting Code requires that there should be a narrative report to accompany the financial statements, which should explain the more significant features of the accounts. It should be based on the information contained in the financial statements and should not contain material inaccuracies or misleading statements.

The narrative report (management commentary in Scotland), however, has another important function. Its purpose is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The narrative report should provide a commentary on how the authority (including the group accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies. It will support the financial statements in responding to the three questions set out above.

Wherever possible, the financial statements and the supporting notes should be written in clear, comprehensible language. Technical terms or jargon should be used only sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly.

Where the authority also publishes a summarised or simplified version of its financial statements, this should contain a clear reference to the existence of the full financial statements and should explain how the full financial statements can be accessed.

THE ROLE OF THE CHIEF FINANCIAL OFFICER

CIPFA's *Statement on The Role of the Chief Financial Officer in Local Government* states that it is the responsibility of the authority's CFO to publish annual financial statements on a timely basis, in order to communicate the authority's activities and achievements, its financial position, financial performance and cash flows.

Furthermore, the local authority accounting Code requires the authority to provide in its financial statements a 'statement of responsibilities' setting out the responsibilities of the authority and the CFO in respect of the financial statements. The statement of responsibilities must confirm that the financial statements have been prepared in accordance with the requirements of the local authority accounting Code.

For local authorities in England, Wales and Scotland, the following wording is recommended, but not mandatory:

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts (England and Wales only).

The chief financial officer's responsibilities

The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this statement of accounts, the chief financial officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The chief financial officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

In England and Wales, the chief financial officer should sign and date the financial statements, stating that they give a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

In Scotland, the proper officer is required to submit the unaudited accounts to the authority and to its appointed auditor by 30 June. The audited financial statements must be laid before a meeting of the authority or a committee of that authority whose remit includes audit or governance functions no later than 30 September.

For authorities in Northern Ireland, the following wording of the statement of responsibilities is proposed:

The council's responsibilities

Under Section 1 of the Local Government Finance Act (Northern Ireland) 2011, the council shall make arrangements for the proper administration of its financial affairs. Under this section, the council is required to designate an officer of the council as its chief financial officer. Arrangements for the proper administration of its financial affairs shall be carried out under the supervision of its chief financial officer.

The council is required to approve the statement of accounts.

The chief financial officer's responsibilities

Under Regulation 8 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, the chief financial officer is responsible for the preparation of the council's statement of accounts in the form directed by the Department for Communities (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this statement of accounts, the chief financial officer is required to:

- observe the accounts direction issued by the Department for Communities (NI), including compliance with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The chief financial officer should sign and date the statement of accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

THE CFO'S RESPONSIBILITIES FOR THE ACCOUNTS OF THE AUTHORITY

In order to demonstrate compliance with the requirement of the FM Code that the authority's CFO has both personal and statutory responsibilities for ensuring that its financial statements comply with the local authority accounting Code, the authority could:

- ensure that the preparation and submission of annual financial statements that comply with the local authority accounting Code is included within the CFO's job/role description and annual performance management objectives

- consider the extent to which the CFO has prepared and submitted annual financial statements that comply with the local authority accounting Code as part of the CFO's performance management review (or equivalent) and used to inform any performance management ratings or judgements
- challenge the CFO in the event that the annual financial statements are not prepared and submitted in line with the required timescales or if the review of the financial statements by the authority or its auditors identifies any other issues in respect of their preparation.

The authority should, however, also ensure that the CFO is provided with sufficient resources – including a suitably-resourced finance team – to fulfil their personal and statutory responsibilities under this element of the FM Code.

Key questions

- Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?
- Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?
- Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom?*

Financial Management Standard Q:

The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

The FM Code states that effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year, including how material variances from initial and revised budgets to outturn have arisen and been managed.

The success of these arrangements will be demonstrated by the ability of the leadership team to use them to make informed decisions about the authority's future financial strategy and plans. In some circumstances, such reporting might lead to a reappraisal of the achievability of the long-term financial strategy and of the financial resilience of the authority.

PRESENTING EFFECTIVE FINANCIAL OUTTURN INFORMATION

The key to presenting financial outturn figures and budget variations so that they can allow the leadership team to make strategic financial decisions is to ensure that this information is:

Accurate	Information on financial outturn and variation from budget needs is robust and reliable. If it cannot be relied upon, then it should not be used to inform strategic decision making. The authority also ensures that budgets are set – and profiled – in a robust and realistic manner.
Relevant	The information is relevant to the decisions to be made and provides the leadership team with the information that it needs to make these decisions. It also seeks to give an insight into the drivers of the cost of the service and how actual figures for these drivers have compared against planning estimates.
Granular	The leadership team is able to 'drill down' into the data to gain greater insight into the authority's financial performance. For example, if the leadership team is interested in the success of the authority's savings plans, it is able to look beyond the headline figures into the specific savings achieved – or not achieved – by individual activities and projects.
Analysed	A robust analysis of the financial information provided is vital. For example, if a particular service has overspent against budget, it is important to know why this is the case. Has demand been higher than anticipated while unit costs have remained on budget? Or have unit costs risen beyond expected levels?.
Put into context	Financial information is put into the proper context. This means that it is presented in the context of relevant internal and external factors such as: ■ changes to legislation ■ changes to the way in which a service is delivered ■ changing patterns of demand ■ service demand and performance. It may also be helpful to present financial information in the context of performance by other authorities or of relevant performance benchmarks.

The authority might usefully choose to take these factors into account whenever outturn figures and variations from budget are presented to the leadership team.

SPECIFIC QUESTIONS FOR THE LEADERSHIP TEAM TO ASK

When reviewing financial outturn figures and variations from budget, there are a number of key questions that the leadership team might usefully ask. Asking these questions will help the authority to comply with the FM Code, by ensuring that outturn figures and variations from budget are presented in a manner that facilitates strategic decision making.

These include:

- **Is the final outturn position broadly in line with the budget?**

While the authority should prepare its annual budget diligently, variations in income and expenditure budgets will inevitably arise. If the budgeted outturn position and the actual outturn position differ significantly, however, the leadership team will need to review the authority's approach to setting its budget.

- **How well have different services performed against budget?**

It is reassuring if services have performed in line with budget, as this is an indication that income, activity and expenditure are (probably) in balance. If services have overspent against budget, either because of a shortfall in income or an excess of expenditure, this is a concern and should be addressed. Similarly, if a service has spent less than budgeted or has generated more income than expected, the reason for this should be determined.

- **Have any issues been highlighted prior to the end of the year?**

There should be no real surprises in the year-end financial outturn of budget variance information, as any significant issues should have been communicated to the leadership team as and when they became apparent. Where issues are raised only in the year-end reports, this is indicative of a problem in the way in which financial information is reported throughout the year.

- **Has the authority achieved its savings targets?**

If the authority has set savings targets for specific services or activities, the leadership team should ensure that these targets have been achieved. This is especially the case when such savings have been integrated into service budgets, as it is easy for them to 'disappear' in the overall figures for the service as a whole.

- **Is the authority's capital programme on track?**

Where the authority has a programme of capital projects and expenditure, the leadership team should ensure that progress against the programme – in terms of expenditure and timescales – is in line with what has previously been agreed. Where projects are exhibiting cost overruns or delays in the completion schedule, these should be addressed promptly.

The leadership team might also usefully undertake a critical examination of the financial outturn figures and budget variations and assess them against the picture of the authority's performance that it has received from other sources of information, such as service reports, inspection reports, feedback from staff and service users, etc. If these sources of information do not all present a consistent picture of the authority's performance, the leadership team may wish to take action to understand why this is the case.

Key questions

- Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?
- Is the information in these reports presented effectively?
- Are these reports focused on information that is of interest and relevance to the leadership team?
- Does the leadership team feel that the reports support it in making strategic financial decisions?

Other sources of guidance and support

CIPFA has produced or contributed to a range of publications upon which the authority may wish to draw when considering the extent to which it complies with the FM Code and when thinking about how it might wish to improve its financial management arrangements.

- *Balance Sheet Management in the Public Services: A Framework for Good Practice (2017)*
- *Capital Strategies and Programming (2014)*
- *CIPFA Prudential Property Investment (2019)*
- *CIPFA Standard of professional Practice on Ethics (2018)*
- *CIPFA/IFAC International Framework: Good Governance in the Public Sector (2014)*
- *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom*
- *Delivering Good Governance in Local Government Framework (2016), along with the associated guidance notes for local authorities and other public sector organisations*
- *Leadership Matters (2020)*
- *The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners*
- *The Prudential Code for Capital Finance in Local Authorities (2017)*
- *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018)*
- *The Role of the Chief Financial Officer in Local Government (2016)*
- *The Role of the Chief Financial Officer of the PCC and the Chief Finance Officer of the Chief Constable (2012)*
- *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017)*
- *Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Forces and Fire and Rescue Authorities (2018)*

Beyond these titles, CIPFA has also published guides to a range of related topics that may help the authority to improve its financial management arrangements, such as developing a financial strategy and undertaking an option appraisal.

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READING BOROUGH COUNCIL REPORT BY

EXECUTIVE DIRECTOR OF RESOURCES

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**14th July 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.

1.3 Appendix 1 attached sets out all audit recommendations not yet completed, the officer responsible for implementing them and progress with delivery.

2. RECOMMENDED ACTION

2.1 The Committee are asked to consider the report.

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

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 completed (21) at the last meeting have been removed from the tracker and 27 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) can be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.

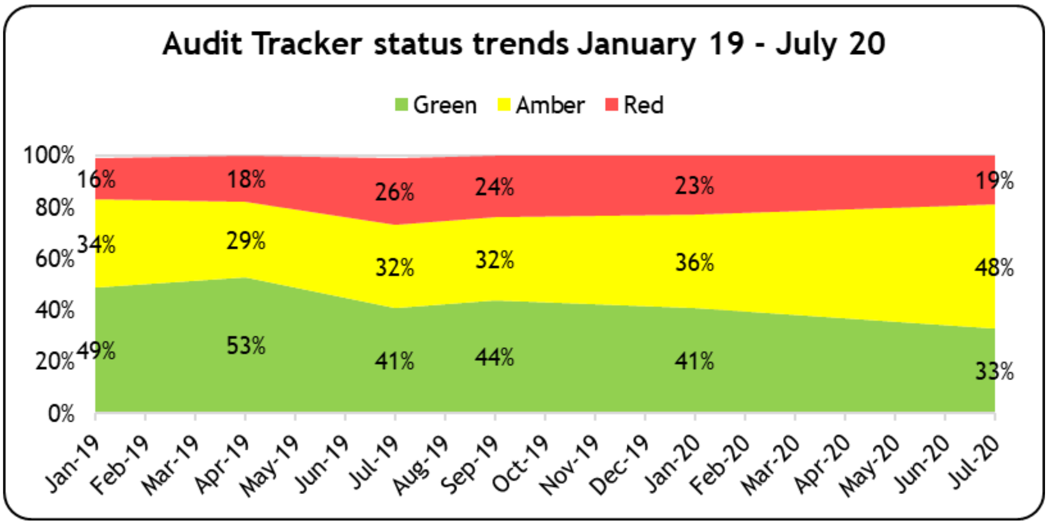
4.5 There are 104 Internal Audit recommendations on the tracker attached at Appendix 1, the status is as follows

Status	Percentage	Number
Green	33	34
Amber	48	50
Red	19	20

13 recommendations are complete and will be deleted from the next report.

RAG Status		Audit & Governance Meetings		
	Sep 19	**Jan 20**	**July 20**	**Trend**
Green	**44%**	**41%**	**33%**	**Decrease**
Amber	**32%**	**36%**	**48%**	**Increase**
Red	**24%**	**23%**	**19%**	**Decrease**

The graph below shows trends in status for recommendations presented to Audit & Governance meetings over the past eighteen months. There has been a 4% decrease in those recommendations rated red since the last report. However, there has also been a decrease of 8% in those rated green and a 12% increase in those which are amber. The decline in overall progress since the last report is in large part attributable to the significant impact of the Covid 19 pandemic and the capacity of managers who have been focussed on dealing with the crisis rather than operational matters.



5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The proposals contained in the report support the Council's Corporate Plan priority of "Ensuring the Council is Fit for the Future" and therefore remains financially sustainable to deliver its service priorities.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1. Audit plans and the implementation of recommendations tracker will continue to be a reported to this Committee.

7. ENVIRONMENTAL IMPACT

7.1 The Council declared a Climate Emergency at its meeting on 26 February 2019. There are no specific environmental and climate implications to report in relation to the recommendations set out in this report.

8. EQUALITY IMPACT ASSESSMENT

8.1 The equality duty is relevant to the implementation of Audit recommendations. Specific recommendations are subject to consultation and equality impact assessments where required and are progressed as appropriate.

9. LEGAL IMPLICATIONS

9.1 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.

10. FINANCIAL IMPLICATIONS

10.1 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.

10.2 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.

10.3 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.

10.4 Whilst there are still 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.

11. BACKGROUND PAPERS

11.1 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	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. 2. Greater staff/resource resilience is required to ensure the reconciliations are completed on a timely basis throughout the year. 3. Departments should be required to provide a reconciliation position statement each month. 4. Response will be addressed in rec 5 2017-18 action plan 5. In conjunction with recommendation 3, reconciliation needs to be brought up to date. 6. The completion and review of the bank reconciliation status MUST be a monthly key priority.	16/17	09/02/2017	4-Oct-17	Mike Hirst - Chief Accountant	All these recommendations have been implemented. Emphasis currently being placed on ensuring timeliness of monthly bank recs does not slip	23/6/20	51 to 75	Amber
2	DoR	Bank rec & control account reconciliations	Following implementation of recommendation 1 of last years action plan, business process documents should be written for each reconciliation process to include: • 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	09/02/2017	4-Oct-17	Mike Hirst - Chief Accountant / Wai Lok Technical Lead	The Technical Accounting team had introduced new procedures which ensured that appropriate bank reconciliations were in place - however recent reconciliations have been delayed by issues caused by a systems upgrade, which are currently being addressed. It is anticipated that all reconciliations will be up to date by the time of the scheduled sign-off of the June reconciliation on July 21st. The other control account reconciliations are being addressed by the Finance Improvement Programme, which will review and rationalise all Control, Holding and Suspense codes to ensure that they facilitate efficient and effective working practice, and develop a scheduled review process to ensure that they are reconciled at appropriate intervals. The scheduled conclusion for this aspect of the programme being 14th September.	26 June 2020	51 to 75	Amber
3	DoR	Creditors/AP	Operational issues identified should be addressed in new procedure manual to avoid reoccurrence.	18/19	01/05/2018		Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager Jennifer Bruce - Financial Systems Manager / Ranbir Heyre - Senior Project 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. This is being addressed as an integral element of the AP / AR Transformation project.	23/6/20	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
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	25/03/2017	1-May-18	Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Ranbir Heyre - Senior Project 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 which is being addressed as an integral element of the AP / AR Transformation project.	23/6/20	51 to 75	Amber
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	23/03/2017	1-May-18	Mike Hirst - Chief Accountant / Andrew Jehan - 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 is being addressed as an integral element of the AP / AR Transformation project.	23/6/20	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	23/03/2017	1-May-18	Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Kate Graefe - AD Procurement	Cull of inactive suppliers all done. The role of supplier set up and maintenance has moved to procurement who have recruited to the position, they are also undertaking a project to create a preferred supplier list.	23/6/20	76 or more	Green
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	05/06/2017	7-Feb-18	Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Kate Graefe - AD Procurement	Cull of inactive suppliers all done. The role of supplier set up and maintenance has moved to procurement who have recruited to the position, they are also undertaking a project to create a preferred supplier list.	23/6/20	76 or more	Green
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	05/06/2017	7-Feb-18	Andy Jehan - 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 October 2020	23/6/20	51 to 75	Amber
9	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	16/02/2018	01-Jun-18	Jo Purser, Locality Manager Adult Social Care Long Term Services	The income target for 20/21 was reviewed, a manageable target was identified with the aim for the team being cost neutral. Progress against this target will be monitored as part of the budget monitoring process.	21 April 2020	Complete	Green

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10	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	06/04/2017	31-May-18	Mike Hirst - Chief Accountant / Stuart Donnelly - Financial Planning & Strategy manager / Ranbir Heyre - Senior Project Manager	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. This will be addressed as a part of the Finance Transformation project	23/6/20	51 to 75	Amber
11	DoR	General Ledger	All journals need proper designation as to the type of journal and its purpose.	18/19	04/06/2018		Wai Lok, Technical Lead	An initial review has been conducted by the Technical Accountant which has not identified any significant issues with current practice. Continued monitoring of journal postings will take place across Finance teams.	26 June 2020	76 or more	Green
12	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	04/06/2018		Wai Lok, Technical Lead	Following the closure of accounts 2017-18 and 2018-19, it has been identified that holding codes be rationalised. There is a transformation project underway to review this area and to ensure best practice, that involves the Financial Planning & Strategy Manager, Technical Team and the Financial System Team.	26 June 2020	51 to 75	Amber
13	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	08/02/2017	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. There is a plan to procure software which will provide an interface with iTrent to ensure that training undertaken on LearningPool will automatically updated and therefore provide accurate data regarding compliance training. The work to complete this should be completed by August 2021.	30 June 2020	51 to 75	Amber

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14	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	08/02/2017	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, but have been unable to meet due to the Covid 19 situation. 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. There is plan to procure software which will provide an interface with iTrent to ensure that training undertaken on LearningPool will be automatically updated and therefore provide accurate data regarding compliance training. The work to implement this should be completed by August 2021.	30 June 2020	51 to 75	Amber
15	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	07/10/2016	9-Apr-18	Michael Graham - 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. Required actions being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	25 or less	Red
16	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	07/10/2016	9-Apr-18	Michael Graham - 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. Required actions being reviewed by new director to allocated tasks. Further information to be provided on progress at next update	02 July 2020	51 to 75	Amber
17	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	17/10/2016	01-Nov-17	Jon Dickinson - Deputy Director of DACHS	This continues to be monitored regularly through reporting and at Performance board. Numbers are significantly lower than before and challenge is set to continue to reduce any anomalies. Weekly reports are distributed to managers for data accuracy. Any outstanding data quality issues are being challenged at the DMT and/or performance board.	02 July 2020	Complete	Green

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18	DACHS	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	17/10/2016	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.	30 June 2020	76 or more	Green
19	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	29/09/2017		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 January 2020	76 or more	Green
20	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	30/09/2016	14-Jul-17	Mark Worringham - Planning Policy Team Leader	In addition to new written procedures and staff training, the Planning service has 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. 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 up to that date. A finance report to enable reconciliation has been requested on a more regular basis 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, although this has been followed up on a number of times, this access has still not yet been provided.	30/06/2020	76 or more	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
21	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	30/09/2016	14-Jul-17	Mark Worringham - Planning Policy Team Leader	The Exacom System and updated procedures are now in place. This provides an appropriate methodology for recording, collecting and monitoring the payment status of S106 monies. 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 fthe 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 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 has been signed off by managers. Access to Finance systems agreed in principle to allow Planning to generate reports and relieve pressure on Finance. However, although this has been followed up , this access has not yet been provided.	30/06/2020	76 or more	Green
22	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	02/11/2016	14-Jul-17	Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Ranbir Heyre - Senior Project 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. This will be incorporated within the end-to-end Finance Transformation Project.	23 June 2020	51 to 75	Amber
23	DOR	Use of Cash Vouchers & Cash Accounts	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:- a) Conducting an annual review to ensure the records are correct and up to date. 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. 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.	16/17	02/11/2016	14-Jul-17	Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Ranbir Heyre - Senior Project 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. This will be incorporated within the end-to-end Finance Transformation Project.	23 June 2020	51 to 75	Amber

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24	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	12/12/2016	24-May-17	Michelle Crick - Waste Services Manager/ David Moore - Neighbourhood Services Manager	A waste management software system has been purchased. The Whitespace system is in place and the link between green waste payments and directly updating schedules is live. The system is live for crews to access their scheduled work, and report any exceptions in real time. The call centre have access to view collections and exceptions to manage missed bin reports and collection enquiries. There has been an issue with connectivity of the missed bins crew reporting element which has now been resolved, and the web team are working on this element for testing. The bin delivery process is in design phase and the Trade Waste service implementation is underway. 01.07.20 The trade waste service has yet to be added to the whitespace system due to delays with the configuration of the system. This will now be carried out by the end of 2020. The number of bins and the frequency is nor recorded on the Flare system. A capital investment in a weighing bin lift was made in 2019 and all bins are now weighed and overweight customers charged for the additional waste collected. Some customers have been discontinued as a result and the system is now monitored every day.	30 June 2020	76 or more	Green
25	DoR	Additional Payments	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. 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. Policies and procedures should be publicised and promoted to relevant staff and managers and be available on Iris.	18/19	31/03/2019		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 policies covered in this audit will be prioritised.	26 June 2020	26 to 50	Red
26	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	18/10/2018		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. We have decided to keep this action open until we have confirmed how Transport ICT will link in with the ICT Future Operating Model. Resolution expected Q2-20/21.	17 June 2020	76 or more	Green
27	DoR	Network Security (ICT)	Council make Cyber Security and Cyber awareness training mandatory for staff	18/19	18/10/2018		John Barnfield (On behalf of) Russell Gabbini - Organisational and Workforce Development Manager	CC2i Dojo Training has been rolled out to council staff with a communications launch and an open invitation extended to BFFC to enrol to deploy to their staff.	18 June 2020	Complete	Green

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28	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	18/10/2018		John Barnfield - ICT Technology and Services Manager	The Council's approved IT Policies Link to the Councils Disciplinary Processes and reminders have been issued to staff reminding laptops must be routinely reloaded. The IT Policy has also been included for reference as part of Cyber Security and Information Governance training rolled out June 2020 via Learning Pool.	18 June 2020	Complete	Green
29	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	19/09/2018		John Barnfield - ICT Technology and Services Manager	As replacement of the Council's SIEM Monitoring tool is not a practical option given the impending changeover to the Future Operational Model, Northgate have been asked to provide proactive reporting from Forcepont(Websense), Watchguard (Firewall), Active Directory (Logins), Trend (Antivirus), Splunk (existing limited Security Incident Event Management) in order to produce a summary dashboard of threats managed to be reviewed as part of the monthly Operations Board Monitoring with Northgate Publics Services Limited. Work request has been submitted and are awaiting confirmation on delivery.	18 June 2020	51 to 75	Amber
30	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	07/11/2018		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.	30 June 2020	76 or more	Green
31	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	07/11/2018		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.	30 June 2020	76 or more	Green
32	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	27/11/2018		Jo Purser, Locality Manager Adult Social Care Long Term Services	NHSE has reviewed the Berkshire West CHC process and will be making recommendations for the CCG and partner agencies to implement. This will be monitored by NHSE.	21 April 2020	Complete	Green

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33	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	18/12/2018		Michael Graham, AD of Legal and Democratic Services Shella Smith, AD of HR and Organisational Development	A new policy has been drafted and is being reviewed before submission to CMT for approval in July 2020	26 June 2020	26 to 50	Amber
34	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	18/12/2018		Michael Graham, 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 Summer 2020.	26 June 2020	51 to 75	Amber
35	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	18/12/2018		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 in Summer 2020.	26 June 2020	51 to 75	Amber
36	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	18/12/2018		Shella Smith, AD of HR and Organisational Development	Agreed. This will be considered once the iTrent self service roll-out is complete, in Summer 2020	26 June 2020	25 or less	Red

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37	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	05/12/2018		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. Progress is being made with someone now in post and a timetable to implement will be developed by September 2020	01 July 2020	26 to 50	Amber
38	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	05/12/2018		Charan Dhillon Assistant Director, Property & Asset Management 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 trailing the Asset element of this software, to assess its effectiveness and evaluating its compatibility with the Planet works ordering facility, The review should be completed by end September 2020	01 July 2020	51 to 75	Amber
39	DoR	Debtors - follow up review	*New recommendation* The procedures and processes for managing and monitoring sundry debt need to strengthened to actively reduce and prevent the current level of debt. The following areas should be considered:- * 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		Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Ranbir Heyre - Senior Project 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. This will be addressed as part of the end-to-end AR transformation project	23/6/20	26 to 50	Amber
40	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).	30 June 2020	complete	Green
41	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. Due to a 50% turnover in staff on this team anticipated in August, all procedures are currently under review to ensure fit for purpose.	30 June 2020	51 to 75	Amber

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42	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, there was an aim to have this completed by June 2020 if not too resource intensive, however due to Covid, this will need to be extended till September 2020.	30 June 2020	25 or less	Red
43	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, there was an aim to have this completed by June 2020 if not too resource intensive, however due to Covid, this will need to be extended till September 2020.	30 June 2020	25 or less	Red
44	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. Due to a 50% turnover in staff on this team anticipated in August, all procedures are currently under review to ensure fit for purpose. The Council Tax reconciliation process has undergone a review by the System Control Team Manager, this is due for completion imminently but have experienced delays due to the additional reconciliation required as a result of the Civica upgrade.	30 June 2020	51 to 75	Amber
45	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		Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Kate Graefe - AD Procurement	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 completed	23 June 2020	76 or more	Green
46	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		Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Kate Graefe - AD Procurement	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 Ranbir Heyre	23 June 2020	51 to 75	Amber
47	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		Mike Hirst - Chief Accountant / Andrew Jehan - Exchequer Manager / Kate Graefe - AD Procurement	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 completed	23 June 2020	76 or more	Green
48	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		Michael Graham, SIRO Assistant Director for Legal & Democratic Services Martin Chalmers Chief Digital & Information Officer	An officer action group has been assembled involving Legal, Audit, HR, Corporate Improvement, Digital Transformation & Digital to take this forwards. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at the next update	2nd July 20	25 or less	Red

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49	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		Michael Graham, 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. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at the next update.	2nd July 20	25 or less	Red
50	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		Michael Graham, SIRO Assistant Director for Legal & Democratic Services Martin Chalmers Chief Digital & Information Officer	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. Required actions are being reviewed by new Assistant Director for Legal & Democratic Services to allocate tasks. Further information on progress to be provided at the next update.	02 July 2020	25 or less	Red
51	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		Michael Graham- 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. 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. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	26 to 50	Amber
52	DEGNS	Homes for Reading	It is recommended that Homes for Reading establishes a standard proforma for the documentation of its systems and procedures, including: a) ensuring these are reviewed and where necessary, updated at regular intervals; b) ensuring that the date of review / update is clearly identified; and c) that these procedures are reviewed, agreed and approved by an appropriate person.	18/19	12/04/2019		Zelda Wolfle Assistant Director Housing & Communities	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. 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. 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.	02 July 2020	Complete	Green

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53	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	Local market testing exercise complete	02 July 2020	Complete	Green
54	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 suppliers and regular PAs account numbers has been implemented.	25 June 2020	Complete	Green
55	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, though work required from the team as part of the Covid-19 response has meant little monitoring has been completed. The team is now fully resourced and the focus has returned in the last two weeks to making progress on the backlog. Performance statistics for the team have been developed and are recorded weekly. 96 cases are up to date, with 84 less than 3 months and 161 more than 3 months overdue. This compares to figures from April'19 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 from August.	25 June 2020	76 or more	Green
56	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. The process has been agreed with the Technical accountant.	02 July 2020	Complete	Green
57	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. Payroll reconciliations are up to date (end May 2020).	26 June 2020	76 or more	Green

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58	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	Technical Accountant has not identified any significant issues with current practice. Payroll reconciliations are up to date (end May 2020).	26 June 2020	76 or more	Green
59	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		Michael Graham, AD Legal & Democratic Services	The existing guidance for FOI's for staff has been updated and is on the intranet. The Assistant Information Officer provides the link to the guide when sending on each request to the relevant service. Required actions are being taken forward by the new Assistant Director to allocate tasks. Further information on progress to be provided at next update	02 July 2020	51 to 75	Amber
60	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		Michael Graham, 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. Required actions are being taken forward by the new Assistant Director to allocate tasks. Further information on progress to be provided at next update	02 July 2020	51 to 75	Amber
61	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		Michael Graham, AD Legal & Democratic Services	No training yet identified. Required actions are being taken forward by the new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	25 or less	Red
62	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		Michael Graham, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	New single team in place.	17 June 2020	Complete	Green
63	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		Michael Graham, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	FOI Module implementation underway. To be completed later this year	17 June 2020	76 or more	Green
64	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		Michael Graham, AD Legal & Democratic Services Isabel Edgar Briancon AD Corporate Improvement & Customer Services	Functionality linked to item 69/63 – to be implemented during FOI module implementation	17 June 2020	51 to 75	Amber

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65	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		Michael Graham, AD Legal & Democratic Services	CMT receiving weekly reports to improve turnaround and completion rates. New performance targets to be established following new centralised team set up. Required actions are being reviewed by the new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	25 or less	Red
66	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		Michael Graham, AD Legal & Democratic Services	Weekly reports are produced on any outstanding FOI requests and on any internal reviews. Required actions are being reviewed by the new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	25 or less	Red
67	DoR	Freedom of Information	Annual performance reporting should include, but not be limited to: • 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		Michael Graham, AD Legal & Democratic 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. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	51 to 75	Amber
68	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		Michael Graham, AD Legal & Democratic Services	A report on outstanding FOI's is produced to CMT on a weekly basis. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	51 to 75	Amber
69	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		Michael Graham, AD Legal & Democratic Services 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. Required actions are being reviewed by new Assistant Director of Legal & Democratic Services to allocate tasks. Further information on progress to be provided at next update.	02 July 2020	51 to 75	Amber
70	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		Michael Graham, AD Legal & Democratic Services	All responses outline right of appeal procedure. Required actions are being reviewed by new Assistant Director to allocate tasks. Further information on progress to be provided at next update	02 July 2020	25 or less	Red

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71	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 date, however, a full list is yet to be compiled with review dates.	02.07.2020	51 to 75	Amber
72	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 up by the end of Jan 2021	02.07.2020	25 or less	Red
73	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	02.07.2020	51 to 75	Amber
74	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 was updated Jan 2020 and 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. ERRG is to be reviewed once more Post-Covid as part of recovery planning and refreshed guidance will be sent around to all the workforce regarding this.	09 June 2020	51 to 75	Amber
75	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	Communications continue through all channels (Important system Messages, COVID News, Chief Executive Blog, Targeted comms). CC2i Dojo Cyber Security and Information Governance Training has been rolled our to Council Staff. Promotion of security will continue as an on-going activity with review of any security events now through the resurrected Information Governance Board. As such this is considered dealt with and closed.	18 June 2020	Complete	Green

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76	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 remains outstanding work awaiting scheduling by Northgate and has been escalated as a priority to the Development Manager overseeing the Portfolio with NPS.	18 June 2020	25 or less	Red
77	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	The current statutory food law code of practice states that new businesses must be inspected within 28 days, however since March 2020 due to the COVID19 pandemic the Food Standards Agency has deviated from the code of practice and instructed local authority officers to only inspect a very specific type of premises when absolutely necessary which does not include new food businesses unless they are deemed high risk. An update to the deviated guidance came in on Thursday 25th of June to allow food safety teams to now prioritise their categories of premises for intervention, however some new businesses may not fall into our top priority category. This prioritisation exercise is on-going this week. Moving forward there are further reasons why this target may not be achievable such as use of team resources for contact tracing, food incidents or high risk premises inspections and possibility of difficulty in recruitment for an upcoming maternity leave post. We await further guidance from the Food Standards Agency regarding the future of food hygiene interventions. This target should remain amber until we get that further clarification. Locally we intend to continue our prioritisation exercise and inspect as per the outcome and new premises will be contacted remotely in the first instance and inspected by an officer as determined by our priorities.	29/6/2020	51 to 75	Amber
78	DoR	Business Rates	System reports should be stored in a secured format and hyperlinks and/or cross references should be used to provide clear audit trails between the system reports and reconciliation balances.	19/20	03/02/2020		Samantha Wills, Recovery & Control Team Leader	Hyperlinks are now incorporated into all reconciliation (Council Tax, Business Rates, Housing Benefit Overpayments & Sundry Debt). Reconciliation since April 20 is being saved as a PDF once complete to demonstrate no changes are made subsequently. Not marked recommendation as complete as reconciliation is not being provided to Finance regularly by the 3rd week in the following month, will change to complete when this is being achieved on a consistent basis.	30/6/20	76 or more	Green

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79	DoR	Sundry debtors	The corporate debt policy, recovery strategy and the procedures for this should be reviewed, documented and made available to ensure compliance with Financial Regulations. This process should include ensuring: - • All income streams are identifiable as either a sundr debt, charge, grant or taxation. • There are no subsidiary or conflicting debt accountin systems in operation.	19/20	12/03/2020		AD Finance	The corporate debt policy is in course of being updated, along with accompanying processes and procedures. All recommendations and issues are being addressed during the course of the update process.	01 July 2020	51 to 75	Amber
80	DoR	Sundry debtors	The operating, accounting, control systems and the resources for managing and monitoring debt across the council should be fully appraised by Finance to ensure this is carried out in an effective, efficient and secure way. This should include ensuring: - •Information is complete and accurate •Controlled end to end processing •Matching of payment and suspense account management • The accounting framework allows specific and timel analysis • There are proper audit trails in place to secur supporting documentations • There are proper checks and balances in place fo monitoring and reporting upon compliance and the, status of workflow.	19/20	12/03/2020		AD Finance	The policy, procedures and governance of reading's debt monitoring and management are all currently being updated. A review of the resource for managing council debt is within the scope of the Finance transformation programme, which is targeted to have concluded by 1st October 2020.	01 July 2020	51 to 75	Amber
81	DoR	Sundry debtors	The governance framework for monitoring compliance, the status of debt and respective risks should be reviewed and reaffirmed by senior management to ensure it is appropriate and remains fit for purpose. This should include: - • The separate identification and control of non commercial and commercial debt • Review and confirmation of the legal recover processes, operational resources, mechanism and responsibilities for monitoring, reporting and recovering debt	19/20	12/03/2020		AD Finance	A debt board has been set up, to ensure robust governance. The Corporate debt policy is being updated, and will be accompanied by a review and update of the reporting and the recovery process and procedures	01 July 2020	51 to 75	Amber
82	DoR	Accounts payable	There should be a full procedure manual for the Accounts Payable operation.	19/20	03/04/2020		AD Finance	Full procedure manuals for the Accounts Payable operation will be written and embedded under the Finance Transformation Programme, which is targeted to have reached conclusion by 1st October 2020.	01 July 2020	51 to 75	Amber
83	DoR	Accounts payable	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.	19/20	03/04/2020		AD Finance	The Finance Transformation Programme, which should reach conclusion by 1st October 2020, has a specific workstream addressing Accounts payable. An element of the workstream directly addresses A.P. processes for all areas of operation.	01 July 2020	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
84	DoR	Accounts payable	Staffing levels and business processes need re-examining in the light of the issues highlighted with the current operation of the supplier's portal.	19/20	03/04/2020		AD Finance	The Finance Transformation Programme, which should reach conclusion by 1st October 2020, has a specific workstream addressing Accounts payable. An element of the workstream directly addresses business processes and staffing levels	01 July 2020	51 to 75	Amber
85	DoR	Accounts payable	There needs to be a formal decoupling of the Accounts Payable function from the Procurement function, with procurement input to establish standard items and costs for goods and services.	19/20	03/04/2020		AD Finance	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 completed	01 July 2020	76 or more	Green
86	DoR	Accounts payable	In the shorter term there is a need for a dedicated resource for control over supplier set up requests and managing the supplier database has should be identified. This role should be situated in the Procurement Team (not AP) with the responsibility for accrediting suppliers and will replace the current arrangement using a temporary employee who is not RBC staff.	19/20	03/04/2020		AD Finance	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 completed	01 July 2020	51 to 75	Amber
87	DoR	Accounts payable	As part of the need for the business process documentation identified in recommendations 2 and 3 there needs to be a review of the supplier portal and the failure to achieve self-accreditation by suppliers which is perpetuating the situation addressed by recommendation 5.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
88	DoR	Accounts payable	Action needs to be taken corporately to identify potential issues that are causing delays to processing invoices. The issue is wider that the AP function particularly in areas using the Mosaic system for Adults and Children's Care.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
89	DoR	Accounts payable	Action need to be taken to identify purchase orders where invoices are outstanding in the Mosaic that cut across the period between the formation of BFfC.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
90	DoR	Accounts payable	Management action is required corporately to address the issues around purchase orders still being raised after the invoice has been received.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
91	DoR	Accounts payable	The current process for electronic invoice processing needs a review to establish if there are efficiencies to be made by sending invoice emails directly to Oracle for processing.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	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
92	DoR	Accounts payable	The current process for electronic invoice processing needs a review to establish what records of invoices need to be retained to support VAT and other legal processes and whether the current arrangements with Oracle meet that need.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
93	DoR	Accounts payable	The Oracle scanning process needs to be reviewed to establish why there is such a high failure rate in scanning and whether other operational processes could be followed to reduce the need for holds and checking.	19/20	03/04/2020		AD Finance	This is being Addressed as a part of the Finance Transformation Programme, which is reviewing end-to-end processes and which has a targeted completion date of October 1st.	01 July 2020	51 to 75	Amber
94	DoR	Accounts payable	The council should publish a public report on whether it is meeting its targets with the reasons why targets are not being met.	19/20	03/04/2020		AD Finance	The council publishes the statistics required under statute to show performance and demonstrate whether targets are being met. There is no statutory obligation to publish reasons why targets are not being met, however the full recommendation will be evaluated as part of the Finance Transformation Programme	01 July 2020	51 to 75	Amber
95	DoR	Rent Accountin	Finance and the Rent Accounting team should co-ordinate and ensure that reconciliations should be performed between OHMS and the Accountancy Stock database at least annually. Reconciliations should be produced at least annually and include: 1) A record to show the segregations of duties between the individual that has prepared the reconciliation and the individual that has reviewed and approved it. 2) A record of the actions taken to resolve unreconciled items / issues within the reconciliation. 3) A copy of the working papers and source data/reports used in the preparation of the reconciliation.	19/20	17/04/2020		Alex Mackie - HRA Business Partner	This is almost complete but there are still a couple of minor issues to be resolved before there is a completed, signed off Reconciliation as at 31-03-20; notably being the update of the Beacons' valuation for the properties. Historically, this reconciliation had not been performed for four years but now there is a reconciliation between OHMS and Finance's stock database with clear explanations for the differences.	25 June 2020	76 or more	Green
96	DoR	Rent Accountin	Finance and the Rent Accounting team should formally agree responsibility for completion of reconciliations between OHMS and the general ledger and that these are produced on a regular basis and: 1) The frequency with which reconciliations are to be completed should be determined and this discipline kept to. 2) Reconciliations should identify the officer responsible for producing the reconciliation(s) and the officer responsible for reviewing and approving. 3) Reconciliations should be held on file alongside supporting documentation. 4) A complete procedure note should be produced that sets out the process for the production of the reconciliations.	19/20	17/04/2020		Alex Mackie - HRA Business Partner	This reconciliation has not been completed for a period of 4-5 years but is now very close to being able to be produced on a regular timeframe. However, at this juncture the reconciliation at 31-03-20 has not yet been signed off & completed. Although the OHMS charges Reconciliation as at 31-03-20 has been prepared, the 2019-20 OHMS to Oracle Fusion as at 31-03-20 has not been fully completed. A Procedure note will be produced after the completion of the year end reconciliation between OHMS and the general ledger,	25 June 2020	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
97	DoR	Oracle Fusion - RBC/BFfC segregation and access arrangements	Where decisions are taken with respect to the implementation and design of Oracle Fusion in which the risks are altered a record should be maintained of: •The reason for the alteration. •The authority with which the alteration is made. •Risk mediation activities undertaken in order to control for additional risk.	19/20	20/01/2020		Jennifer Bruce (Financial Systems Manager)	Changes are documented and users informed of changes that will impact them	23 June 2020	51 to 75	Amber
98	DoR	Oracle Fusion - RBC/BFfC segregation and access arrangements	In the period between the application of new security rules to the BFfC finance staff the following activity should be undertaken: 1. The number of BFfC staff with access to RBC codes should be documented appropriately and approved. 2. The permissions / ability to interact with the RBC entity of BFfC staff should be documented appropriately and approved. 3. Controls and monitoring should be established to ensure that any instances of inappropriate activity are detected and corrected. 4. Until such time that new security rules are implemented and controls established confirmation of the activity/inactivity of BFfC staff with access to RBC codes should be reported to the Fusion board.	19/20	31/03/2020		Jennifer Bruce (Financial Systems Manager)	Post cut over audit for BFFC is now complete; only those BFFC staff that need to transact on behalf of schools have access to the RBC business unit - access is restricted to just the schools cost centres. Only RBC staff who need to transact on behalf of BFFC to fulfil SLA requirements (Accounts Payable, for example) have access to the BFFC business unit and cost centres. User access is regularly monitored to check it remains appropriate and proportionate	23 June 2020	Complete	Green
99	DoR	Bank & Cash reconciliations	All reconciliations should be provided for authorisation and approval as soon as practicable. Where delays are found to occur in the authorisation and approval of reconciliations the process should be reviewed in order to determine whether alternative arrangements can be made to ensure prompt action.	19/20	16/06/2020		Mike Hirst. Interim Chief Accountant	All recommendations currently being reviewed and actions implemented	23 June 2020	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
100	DoR	Bank & Cash reconciliations	Reconciliation templates should be completed fully to record: a)The printed name of the officer that has prepared the reconciliation b)The signature of the officer that has prepared the reconciliation c)The date on which the reconciliation has been prepared d)The printed name of the officer that has check the reconciliation, if different to the approver e)The signature of the officer that has prepared the reconciliation, if different to the approver f)The date on which the reconciliation has been checked g)The printed name of the officer that has approved the reconciliation h)The signature of the officer that has approved the reconciliation i)The date on which the reconciliation has been approved	19/20	16/06/2020		Mike Hirst. Interim Chief Accountant	These are prepared and being used	23 June 2020	76 or more	Green
101	DoR	Bank & Cash reconciliations	•The decision not to implement the control designed by the previous Chief Accountant whereby completion of control account reconciliations would be monitored to ensure they are timely, completed satisfactorily and reviewed should be revisited. In the absence of a centrally held list of reconciliation to evidence the monitoring undertaken and to enable any issues or delays to be identified or addressed, it should be determined whether the current arrangements provide a satisfactory alternative	19/20	16/06/2020		Mike Hirst. Interim Chief Accountant	All recommendations currently being reviewed and actions implemented	23 June 2020	26 to 50	Amber
102	DoR	DBS checks	It is recommended that the Council's policies, systems and procedures governing DBS systems are routinely reviewed and updated where necessary and agreed by the appropriate manager(s). As the principal point of DBS check across RBC, it is further recommended that HR liaises with other services who carry out DBS checks, namely Regulatory Services and the PBS team, to ensure these services also follow these policies.	19/20	02/03/2020		Ben Morgan, Resourcing Manager	Work is in process to produce further guidance for services. All DBS checks are facilitated by Human Resources.	29 June 2020	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
103	DoR	DBS checks	HR should always be able to demonstrate that all staff either: a)do not require DBS clearance; or b)for those that do, that checks are in progress. For those that do require DBS clearance that evidence of this being up to date should be on file in each case.	19/20	28/02/2020		Ben Morgan, Resourcing Manager	Largely in place - some remedial work to do on aged JDs	29 June 2020	51 to 75	Amber
104	DoR	DBS checks	Guidance should specifically require managers to ensure that all staff, whether permanent, agency or temporary, are appropriately DBS checked if the relevant criteria are met, even if this is for a limited period.	19/20	30/06/2020		Ben Morgan, Resourcing Manager	Work is in process to produce further guidance for services. All DBS checks are facilitated by Human Resources.	29 June 2020	51 to 75	Amber
									Status		
									25 or less	13	
							Red %	**19**	26 to 50	7	
							Amber %	**48**	51 to 75	50	
							Green %	**33**	76 or more	21	
									Complete	13	
								100	Total	104	

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Reading Borough Council

Draft Audit results report

Year ended 31 March 2018

10 July 2020

Building a better working world

10 July 2020

Dear Audit Committee Members

We are pleased to attach our draft audit results report for the forthcoming meeting of the Audit & Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Reading Borough Council for 2017/18. We will issue our final report at the conclusion of the audit.

Background and context - It is important that we set out the background and context to the 2017/18 audit. The previous audit year, 2016/17, was challenging for the Council, our audit opinion was qualified in four areas, Debtors, Creditors, I&E and Pensions, the value for money conclusion was an adverse report and we issued statutory recommendations to the Council highlighting areas for improvement. It took well over two years to complete the work on the 2016/17 statements due to the issues identified and the opinion was issued in July 2019.

There have been a number of changes implemented to address our recommendations in relation to processes, documentation and controls and there have also been a number of new appointments during 2017/18 and to date. Due to the fact that the 2017/18 year was well underway whilst these changes were being implemented, the issues arising were not addressed by the 2017/18 year end. Therefore this report also highlights a number of matters where improvements were not yet embedded by 31 March 2018. We expect to see the improvements reflected in the 2018/19 financial statements.

Timelines - Given the timing of this report the Authority has significantly missed the deadline for certification of the accounts. This is due to the extensive delays in certifying the 2016/17 accounts which were signed off in July 2019 and which therefore significantly missed the deadline of 30 September 2018. The changes to date are reflected in the positive improvement in timescales and the 2017/18 audit has taken a year to complete which is a significant improvement on the 2016/17 audit. In addition the 2018/19 statements are ready for us to begin our audit once we have completed our work in 2017/18. We also expect to complete the work on 2018/19 in a shorter timescale again to help the Council get back on track in relation to the timing of the audit cycle.

Current position - We are making good progress in our audit of Reading Borough Council for the year ended 31st March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue a qualified audit opinion on the financial statements. At this stage we have left Section 3 blank as we have not yet concluded on the wording of the audit opinion but it will be included at Section 3 in the final draft of this report once the work has all been completed. We also have matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 14 July 2020. We would like to thank your staff for their help during the engagement.

Yours faithfully

Maria Grindley

Associate Partner, For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 27 January 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Update on materiality:

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £5.254 m, with performance materiality, at 50% of overall materiality, of £2.627 m, and a threshold for reporting misstatements of £0.265 m. This level of materiality remains appropriate for the actual results for the financial year. The basis of our assessment has remained consistent with prior years at 1% of gross expenditure on provision of services. As we already had received the draft unaudited financial statements at the date of our Audit Planning Report this has remained consistent throughout the audit. We will update our final materiality on receipt of the final signed audited financial statements to determine that our audit testing has been appropriate.

Group Scoping:

There has been no changes to report in our Group Scoping. For the purposes of in-scope components Reading Transport Limited (RTL) is in-scope.

Covid-19

We are reviewing the implications of Covid-19 on the audit in relation to the Council's assessment of going concern and post balance sheet events.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

We are making good progress in our audit of Reading Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report.

A key element within this to bring to your attention is the impact of coronavirus (COVID-19) on the Council's going concern assessment and post balance sheet event disclosures. This is a new issue that the Council will need to be reflected in their financial statements.

Subject to satisfactory completion of the outstanding matters set out in Appendix D we expect to issue a qualified opinion on the Authority's financial statements. Once we have completed our procedures we will add in a draft auditor report in Section 3.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Reading Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee.

Audit differences

We have no identified uncorrected adjustments greater than our reporting thresholds as at date of Audit & Governance Committee.

We have identified audit differences with an aggregated impact of £56.828m which have been adjusted by management (subject to receipt and review of the final statement of accounts). Details can be found in Section 4 Audit Differences.

As we are still concluding a number of areas it is possible that further adjustments may arise.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in Section 7 of this report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

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.

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.

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We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources for the 2017/18 year.

1) <u>Informed Decision Making:</u>

i) In 2016/17 we reported concerns around the reliability of financial management and reporting. We concluded that in 2017/18 this had improved and the Council had managed it's financial performance in a more controlled manner resulting in an underspend of £5m against its core revenue budget which in turn supported an increase in the size of usable General Fund balances.

ii) In 2016/17 we also raised significant findings in respect of the system of internal control in effect at the Council. This focused specifically on concerns around the completion of key reconciliations and the lack of controls around journals. Whilst there was some improvement in respect of addressing these deficiencies this was not consistent or timely in 2017/18 to ensure that all noted deficiencies could be corrected. As a result this finding is noted as not having been fully corrected in 2017/18 with many of the changes not taking effect until late during 2017/18.

2) <u>Sustainable Resource Deployment:</u>

i) In August 2016 Ofsted reported significant findings in respect of the provision of Children's services at Reading Borough Council. Given their significance this impacted on our value for money conclusion in 2016/17. We committed to following up on this area in 2017/18. We reviewed the subsequent Ofsted inspection reports for 2017/18 and noted that despite pockets of improvement the consistent tone of the messaging in 20i7/18 was still one which continued to raise concerns. Given the lack of sustained improvement and the continued concerns of the regulator this has therefore again impacted on our conclusions regarding the sustainable resource deployment sub-criteria.

Further details on our assessment of value for money can be found at section 5.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are normally required to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Our work in this area is not concluded. Given the delay in the certification of the audit we will need to understand what is required. We will report any matters arising to the Audit Committee via our Annual Audit Letter.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.

Communications

Throughout the year we have attended the Audit & Governance Committee., presenting reports as appropriate. We also ran an Audit & Governance Committee. workshop at the beginning of the audit to talk through the audit approach in more detail and we have also met with the management team multiple times throughout the audit to discuss audit progress and rising findings.

02 Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. 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.

For Reading Borough Council, we consider this risk to be present in:

- Additions to property, plant and equipment; and
- Inappropriate transfers between the Housing Revenue Account (HRA) and the General Fund.

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.
In addition there is a risk where transfers between the HRA and general result in incorrect treatment of HRA revenue expenditure.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including classification between the General Fund and Housing Revenue Account.

What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

Our testing is complete and in final review stage and the following is our current conclusion but may change as we complete our final procedures.

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

We focused our testing on property, plant and equipment, investment property, and REFCUS capital additions.

Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised, or any inappropriate transfers between the Housing Revenue Account and the General Fund.

Significant Risk

Significant risk

Impact of Qualified Accounts from 2016/17 - Income and Expenditure, Debtors and Creditors, and IAS 19 Pension Assets

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 judgements are we focused on?

Our judgements are focused specifically on the closing balances from the qualified accounts in 2016/17 accounts and the potential need to qualify the corresponding opening balances carried forward in the 2017/18 accounts. Income and Expenditure account balances do not carry forward in the same way that balance sheet items (debtors and creditors) do for example. Our judgements were therefore focused on this distinction.

What did we do?

We reviewed any brought forward closing balances from 2016/17 which had an associated qualification and we considered the impact on qualification of opening balances for 2017/18 where appropriate.

We designed our substantive testing procedures to understand how we can test these balances and obtain the appropriate audit evidence required. This involved testing at appropriate thresholds which reflected the increased risk profile of these accounts and the associated significant risk.

On specific areas of Income and Expenditure testing we disaggregated the balances to isolate specific accounts to see if we could obtain the relevant assurance.

What are our conclusions?

On completion of our audit we will need to consider these specific areas and the implications on the auditor report. We then need to formally consult on the proposed qualification on opening balances on debtors and creditors given the qualification on these accounts in 2016/17 and the inherent nature of these accounts forming the opening balances for these accounts in 2017/18. We will also need to consider whether we have enough assurance on Income and Expenditure and IAS19 for the 2017/18 opinion.

We will seek representations from management as to what they have done to ensure the validity of opening balances on debtors and creditors specifically and the recoverability or obligation on all such balances.

Significant Risk

Significant risk

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

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. Correspondence with KPMG has indicated that as they are no longer the Pension Fund auditor 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.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team.

What did we do?

- Liaised with the auditors (old and new) of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Reading Borough Council;
- Assessed the work of the Pension Fund actuary, Barnett Waddingham, including the assumptions they have used by relying on the work of PWC and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Authority has correctly reflected the IAS 19 entries provided by the actuaries in the financial statements We are also satisfied that the actuaries are appropriately qualified.

We are liaising with the new auditors of the Berkshire Pension Fund, Deloitte LLP, to determine if there is any possibility that they may be able to provide any form of assurance. However given the fact that they were not the Pension Fund auditors we are aware that any assurance provided could be limited in nature and strongly caveated.

We are liaising with management to confirm what may be possible in the circumstances and we will need to consider the impact on the audit opinion.

Significant Risk

Significant risk

Completion of Cash & Bank and Control Account Reconciliations

What is the risk?

There were issues in previous with the completion of the bank account reconciliations 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.

We also found that completion and review of control accounts was not timely during 2016/17 and for the majority of 2017/18.

We consider the timely completion and review of the bank and control account reconciliations as important controls that help to ensure financial control.

What judgements are we focused on?

Our judgements are focused on the financial system control environment and specifically the completion of key reconciliations. This was a significant risk area in 2016/17 and due to the ongoing and delayed nature of the 2016/17 audit, and the appointment of the Director of Finance in March 2018 bringing a new focus on this area, the control environment was not in place for the majority of 2017/18. We therefore needed to consider the impact on our audit strategy for 2017/18.

What did we do?

We completed our walkthrough of key financial systems in line with our audit approach to identify key inputs to the General Ledger.

We reviewed the regular internal audit reports on this area. We know that this aspect of the control environment in 2017/18 was also flagged as a specific concern by internal audit in their reporting to the Audit Committee and was a contributory factor in their Limited Assurance Head of Internal Audit Opinion in 2017/18.

We discussed the progress with senior management at regular intervals throughout the audit to understand the changes being made and the timeliness of those changes to determine the impact on the 2017/18 control environment.

What are our conclusions?

We note that for 2017/18 the progress in this had been slow. This was due, in part, for a number of reasons. The appointment of the Director of Finance and the re-organisation of the finance team occurred late in 2017/18 giving little time to make the necessary changes.

For example, we note that key journal controls which had been removed in 2016/17 were only restored in full from October 2017. In effect this meant that for at least half of the year the control environment and controls on journals was limited. This included the lack of a sufficient audit trail. A process of retrospective authorisation and review was therefore required to ensure the validity of journal postings. This was undertaken with internal audit being used to sample check these and reporting their conclusions regularly to the Audit Committee.

Progress in 2017/18 in respect of key account reconciliations was also slow. Issues continued to include timeliness of completion and issues around reconciling items.

This was also reported by Internal Audit in 2107/18 and was a contributing factor in their Limited Assurance Head of Internal Audit Opinion in 2017/18.

Significant Risk

Areas of Audit Focus

Other significant risk matters

Misstatements due to fraud or error

As identified in ISA 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 would otherwise appear to be operating effectively.

This is a risk that we recognise on all engagements. Our overall response to this for Reading Borough Council included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes for safeguarding against fraud; and
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risk may manifest themselves and identified separate fraud risks as discussed above.

We have not identified any issues or indications of management override in our testing as at the date of this report. We will provide an update at the conclusion of the audit. We did however identify the journal authorisation controls should be improved. We have discussed this further in section 6 of this report.

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?	What did we do?
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.	We: ▸ Considered 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 tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Considered 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; ▸ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; ▸ Considered changes to useful economic lives as a result of the most recent valuation; and ▸ Tested accounting entries have been correctly processed in the financial statements. We note some adjustments in respect of valuations at Section 4. Our audit work is still subject to final conclusion on valuations and so it is still possible that further adjustments may arise.

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?	What did we do?
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.	We: ▸ Reviewed 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; ▸ Involved a technical reviewer from our Financial Reporting Group to complete a review of the draft 2017/18 accounts. This 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 were shared with the Council and we are working through the final items. This approach is consistent with the prior year; and ▸ We also involved 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. We note some adjustments in respect of all accounts at section 4. Our audit work in respect of the EY technical review is still subject to final conclusion on all accounts. We are in the process of collating our findings and will update the audit adjustments section once all final adjustments in respect of the technical review have been agreed.

03 Audit Report

Draft audit report

Placeholder for the draft audit report once our work is complete

Our opinion on the financial statements

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences agreed to date

We highlight the following misstatements greater than £2.3m (TE) which have been corrected by management that were identified during the course of our audit:

- Short Term Borrowings and Long Term Borrowings misclassification, ST borrowing understated by £10,129k, LT borrowing overstated by £10,129k
- Property, Plant and Equipment opening balances presentation error: 17/18 Opening Cost and Valuation being understated by £17.555k, Opening Accumulated Depreciation being Overstated by £17,555k (PPA).

Other misstatements identified:

- We have noted an overstatement in the PPE amounting to £868,000, due to the incorrect derecognition/writing off of the property Amethyst Lane Development Site in the FAR even if the demolition have not taken place as at 28 November 2019. Impairment loss recognised in revaluation reserve understated by £95,895, Impairment loss recognised in Income statement understated by £772,105, Gain from sale of fixed assets understated by £868k.
- We have noted that buildings under the surplus assets was not depreciated during the current year. Depreciation cost understated by £38,807 and Property, plant and equipment balance overstated by £38,807.
- Based on the review of PPE additions, we have noted negative additions that relates to the prior year correction of errors. Property, plant and equipment 16/17 ending balance being understated by £703,614, Accruals being understated by £214,360, Capital Adjustment Account understated by £489,254.
- We have noted that there is an overstatement in the loss on sale of fixed assets and overstatement in revaluation gain as a result of the incorrect split made in the opening balance of land and building of the Civic Centre. The related opening balances of the land should be £5m whereas the building is nil. Revaluation gain overstated by £2m, loss on sale of fixed assets overstated by £2m.
- We have noted that there is a difference in the ending balances of Kennet Wharf (£1.375m) and Adelphi House (£295k) investment property as at 31 March 2018 from the valuation report issued by Sanderson and Weatherall. Investment Property understated by £1.67m, Gain on change of Fair Value understated by £1.67m.
- As communicated by the management, we noted that there were 3 schools (EP Collier, St. Michaels and Thameside) that have some revision in the 2016 and 2017 valuation report. We summarized the net impact on each year and proposed adjustment for the changes. The proposed adjustment in the opening balances of the 2016-17 comparative figures in Note 14 of the SOA includes the following entry. PPE – Other Land and Buildings understated by £420k, Revaluation reserve understated by £420k.
- As communicated by the management, we noted that there were 3 schools (EP Collier, St. Michaels and Thameside) that have some revision in the 2016 and 2017 valuation report. We summarized the net impact on each year and proposed adjustment for the changes. The proposed adjustment in the opening balances of the 2017-18 Movement in PPE in Note 14 of the SOA includes the following entry. Revaluation reserve overstated by £660k, PPE – Other land and building overstated by £660k.

Audit Differences

Summary of adjusted differences

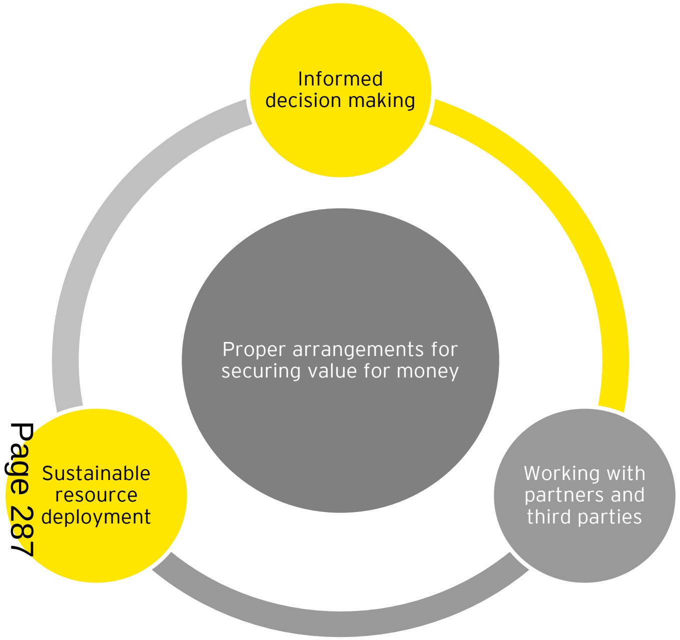
- In children's service expenditure testing, we found one sample that has recognised Services relating to 18/19 in 17/18 resulting an overstatement of both income and expenditure of £178,902.
- We have noted difference in the prior year balance of council dwellings value as per HRA Stock Database and the statement of accounts. Revaluation reserve overstated by £997,683, PPE – Council Dwellings overstated by £997,683.
- Infrastructure addition not reflected in 2016-17 accounts: Short term creditor - PO accruals being overstated by £146,465, PPE-Infrastructure being overstated by £178,749.
- We noted that there are related PO accruals made by the council which no accruals of VAT component was made. We quantified the total impact on key items of these transactions and proposed an adjustment to record the VAT Component of the accruals. Short term debtor - VAT Control Account understated by £616,476, Short term creditor - PO Accruals being overstated by £616,476
- We noted that there were transactions recorded as PO accruals which relates to transactions/services to be performed after 31 March 2018. We collated all the noted findings and proposed an adjustment to revers the accruals made for these items. Short term creditor - PO Accruals overstated by £600,508, Fixed Assets being overstated by £357,418, Various expenses overstated by £243,090; Short term creditor - Sundry creditor overstated by £298,846, Short term debtor - Sundry debtor overstated by £298,846.
- To adjust the overstatement in the short term portion of the pension prepayments: Expenses understated by £246,061, Short term debtor - Payroll payment in advance (Pension prepayments) overstated by £246,061.
- Misstatement in PY accounts Note 32. Grants RIA understated by £1,589,613 and cash by the same.

Please note that the adjustments above are subject to receipt and review of final accounts. As work is still ongoing it is still possible that other adjustments could be identified.

There were also a number of other presentational and disclosure amendments which management have corrected which were below our summary of audit differences thresholds.

05 Value for Money

Value for Money



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.

Overall conclusion

We identified a significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having the following matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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. 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.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	In reaching our conclusion on the 2017/18 value for money conclusion we have specifically focused on the following key areas: 1) **Revisiting the recommendations made as part of the 2016/17 audit to understand the Council's progress against these. The areas specifically identified in the Section 24 Schedule 7 (2) Report included:** i) <u>Informed Decision Making:</u> **Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information:** We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making. **Reliable and timely financial reporting that supports the delivery of strategic priorities** We found that the financial reporting was not reliable throughout 2016/17. **Maintaining a sound system of internal control** We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliation did not balance and there were no control procedures over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected.

Value for Money Risks

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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. 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.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	In respect of the appropriateness and reliability of financial information we have seen positive progress in this respect in 2017/18 as evidenced in the positive movement on financial outturn in 2017/18 resulting in a £5m underspend. This has been helped by more accurate financial reporting in 2017/18 as well which has enabled management to make better informed decisions. With regards the financial controls highlighted as not operating effectively. Progress in correcting these was mixed and certainly even where progress was noted this was not in place throughout 2017/18. Journal controls, for example, which had been relaxed during 2016/17 were only fully re-established in January 2018 meaning that there were no controls in place for the majority of the year. The message is similar with regards some of the other key financial system controls highlighted. Bank reconciliations was another area where we had raised concerns over their completion. This area has also been highlighted by Internal Audit in their annual review of key financial systems and has been flagged in the Annual Governance Statement as a contributing factor in Internal Audit issuing a Limited Assurance Head of Internal Audit Opinion in 2017/18. Given the issues highlighted above in respect of maintaining a sound system of internal control we conclude that this is evidence of weakness of arrangements in 2017/18 in respect of Taking Informed Decisions.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

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Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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. 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.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	**ii) Sustainable Resource Deployment:** **Children's Services:** In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board. It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk. The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial a report and in its update letter, issued in June 2017 concluded that the Council was not making the expected progress in improving services for its children and young people. We note below our consideration of subsequent inspection findings throughout 2017/18 i.e. the year of our value for money conclusion considerations **June 2017 Inspection Report:** - Progress remains too slow and has been too process oriented; - Some instability noted at senior management; - Caseloads have increased in the care leavers team **November 2017 Inspection Report:** - Ofsted noted substantial progress being made since the previous visit; - Specifically they made reference to the fact that skilled, experienced early help practitioners and their managers have a stronger profile and influence in children's services;

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
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. 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.	Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties	**2) Considering the Council's outturn position in 2017/18 and considering the impact of the financial outturn on the Reserves balances.** In previous years we had raised specific concerns around the lack of sustainable financial planning and the reliance on usable reserves to support the financial operations of the Council. This was exacerbated by the lack of an embedded savings programme. In 2017/18 we noted an improved direction of travel with a significant £5m underspend on revenue budgets. This £5 m underspend represented an underspend of approximately 4% (PY: 3.3% overspend). In addition the Council also delivered approximately 90% of its savings programme in 2017/18. This demonstrated a greater degree of financial stability and financial management and enabled the Council to return General Fund Reserves to £7m. This was an amount previously agreed by the Council as the minimum amount for such balances. In addition to the £7m General Fund balances the Council also had a total of £32.9 m in Earmarked Reserves. Given the impact of the Covid-19 pandemic in March 2020 and the subsequent impact on Councils' finances a strong usable reserve position will be crucial in ensuring the financial sustainability of the Council over the medium term. Given the timing of the audit we can now also see the 2018/19 outturn position as presented in the draft unaudited accounts. This shows further progress on delivery with a £7 m underspend noted in 2018/19. The underspend also enabled a further contribution of £0.5 m taking available General Fund balances as at 31 Match 2019 of £7.5 m. This position demonstrates two consecutive years of strong financial performance and management by Reading Borough Council. We have no further comments in respect of this and there is no impact noted here in respect of the value for money conclusion in 2017/18. We will continue to monitor the ongoing financial performance in future years to ensure that the recent progress in this area is sustained and focused.

06 Other Reporting Issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements. We noted a number of internal casting and consistency errors which have been accepted and corrected by management.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit & Governance Committee upon completion of the audit.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have detailed the proposed modifications to the audit report in the Executive Summary. We have nothing further that we need to draw to the attention of the Committee.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We wish to report the following matters.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 20117/18 audit. At the completion of the audit we will issue a [formal management letter containing all of the identified points.

	High	Moderate	Low	Total
New points raised in FY1X	2	7	0	9

Key:

- (Green) [A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.]
- (Yellow) [Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.]
- (Red) [Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.]

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Payroll
Rating	
Observation	Casual workers who have worked at the Council and subsequently left are not removed from payroll in a timely manner. As part of the audit we identified instances where the casual workers were not removed from the payroll system for up to 1 year after leaving.
Management comment	

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Area	Payroll
Rating	
Observation	We identified one instance where an employee was being paid but was not on the payroll Masterfile.
Management comment	

Assessment of Control Environment

Area	MOSAIC System
Rating	
Observation	Since 2016, the authorisation screen does not appear for any of the PO that were raised through Mosaic System so any approval of POs cannot be evidence. The client states that this was approved by an individual at a higher level than the head of service but we were not provided with evidence to support this.
Management comment	

Area	Exit Packages
Rating	
Observation	Our testing of Exit Packages identified an example where there was no formal termination agreement confirming the terms of redundancy. This increases the risk of breaches and potential litigations
Management comment	

Assessment of Control Environment

Area	Employee Recharging	Rating	

Observation	Three issues have been noted regarding employee recharges. 1. Managers have double counted hours leading to more employees who have had their wage charged beyond 100%. 2. No year end review of the hours allocated or a meeting with the actual employee occurs at the end of the year so all hours are based on manager's projections. 3. There is an inconsistency in the methodology of employee recharges as some are based on hours while others are based on number of staff they managed.
Management comment	

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Area	NNDR Appeals Provision	Rating	

Observation	As part of the audit we were unable to obtain supporting evidence to conclude that the NNDR write offs are approved by authorised personnel.
Management comment	

Assessment of Control Environment

Area	Council Tax Bad Debt Provision	Rating	
Observation	As part of the audit we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy of the data used in the Council Tax Bad Debt Provision calculation particularly the Academy Report from where the 31/3/18 Remittance and Refunds data were taken from. Accordingly, we are unable to conclude on the reasonableness of the provision. We will need to assess the impact on our audit opinion.		
Management comment			

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Area	NNDR Appeals Provision	Rating	
Observation	The client contact was unable to provide the rationale behind the additional provision on top of the amount assessed by Analyse Local amounting to £5.67m. We will need to assess the impact on our audit opinion.		
Management comment			

Assessment of Control Environment

Area	NDR Impairment of Debt
Rating	
Observation	We are unable to obtain evidence to conclude that the NDR write off is approved by authorised personnel.
Management comment	

08 Data Analytics

Use of Data Analytics in the Audit

Data analytics – revenue and expenditure recognition and payroll

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing [journal entries and employee expenses], to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2018

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

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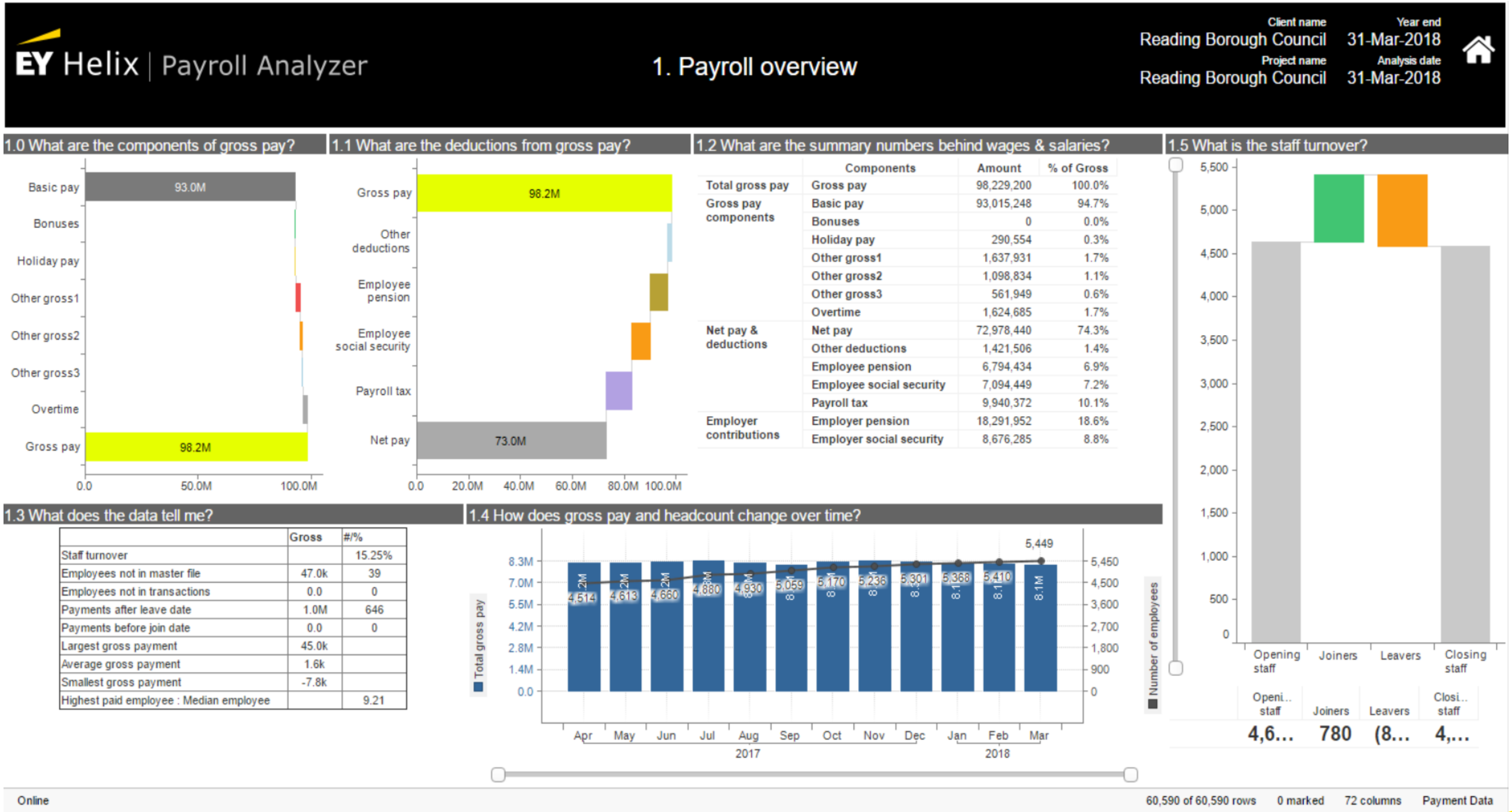
Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.



	Components	Amount	% of Gross
Total gross pay	Gross pay	98,229,200	100.0%
Gross pay components	Basic pay	93,015,248	94.7%
	Bonuses	0	0.0%
	Holiday pay	290,554	0.3%
	Other gross1	1,637,931	1.7%
	Other gross2	1,098,834	1.1%
	Other gross3	561,949	0.6%
	Overtime	1,624,685	1.7%
Net pay & deductions	Net pay	72,978,440	74.3%
	Other deductions	1,421,506	1.4%
	Employee pension	6,794,434	6.9%
	Employee social security	7,094,449	7.2%
	Payroll tax	9,940,372	10.1%
Employer contributions	Employer pension	18,291,952	18.6%
	Employer social security	8,676,285	8.8%

	Gross	#/%
Staff turnover		15.25%
Employees not in master file	47.0k	39
Employees not in transactions	0.0	0
Payments after leave date	1.0M	646
Payments before join date	0.0	0
Largest gross payment	45.0k	
Average gross payment	1.6k	
Smallest gross payment	-7.8k	
Highest paid employee : Median employee		9.21

Payroll Testing

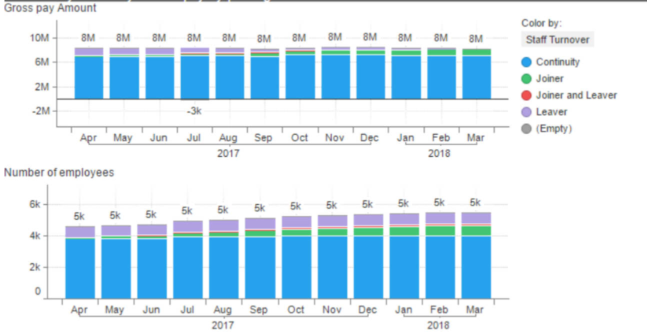
What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – 31 March 2018

Select a variable from the drop down list below to view the analysis for different payroll transaction types. Select individual months in chart 4.0 to obtain transaction level data for the selected month, this will appear in 4.2 payment data drilldown.
Select variable: Gross pay Select frequency: Monthly Select color by: Staff Turnover

4.0 Monthly summary: Gross pay by posting date



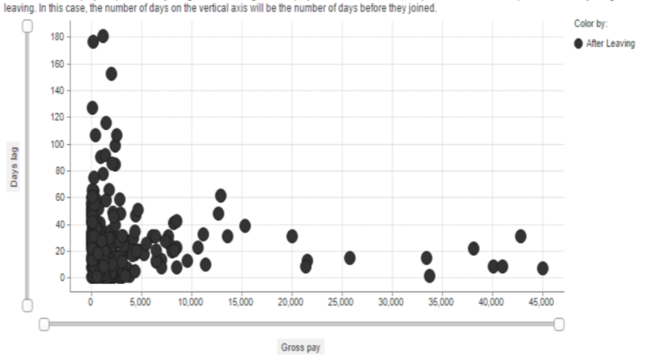
4.1 Monthly summary: Gross pay

Please select from bar or line graph in 4.0 to limit data shown.

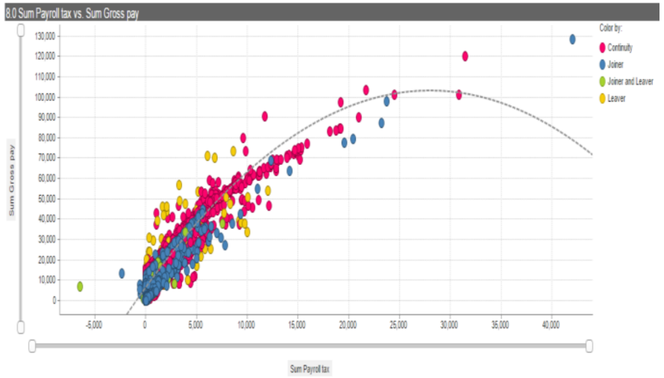
Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2017	Apr	8,183,404.13	1,813	4,514	100.00%	12/4514	
	May	8,156,577.75	1,768	4,613	100.00%	120/4613	-0.33%
	Jun	8,221,985.50	1,764	4,660	100.00%	184/4660	0.80%
	Jul	8,301,994.58	1,701	4,880	100.00%	260/4880	0.97%
	Aug	8,205,801.64	1,664	4,930	100.00%	498/4930	-1.16%
	Sep	8,030,264.89	1,587	5,059	100.00%	734/5059	-2.14%
	Oct	8,229,847.72	1,592	5,170	100.00%	716/5170	2.49%
	Nov	8,321,008.41	1,589	5,236	100.00%	796/5236	1.11%
	Dec	8,283,431.49	1,563	5,301	100.00%	841/5301	-0.45%
2018	Jan	8,128,097.38	1,514	5,368	100.00%	964/5368	-1.88%
	Feb	8,095,839.63	1,496	5,410	100.00%	1017/5410	-0.40%
	Mar	8,070,947.03	1,481	5,449	100.00%	1064/5449	-0.31%
Grand total		98,229,200.15	1,621	60,590	100.00%	7206/60590	0.00%

7.1 Gross pay vs. days lag

This shows the employees paid before joining or after leaving. If an employee leaves and returns, it is possible for them to be paid both before joining and after leaving. In this case, the number of days on the vertical axis will be the number of days before they joined.



8.0 Sum Payroll tax vs. Sum Gross pay



What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2020.

We complied with the FRC Ethical Standards and (the requirements of the PSAA's Terms of Appointment**. In** our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you **and your Audit & Governance Committee** consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee meeting on 14 July 2020.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on Teacher's Pensions and Housing Capital Receipts. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are set out in the following table. Further detail of all fees has been provided to the Audit & Governance Committee.

We confirm that none of the services listed in the following table have been provided on a contingent fee basis.

As at the date of this report, there are future services which have been contracted and a written proposal to provide non-audit services has been submitted. These non-audit services are in respect of Housing Capital Receipts, Teacher's Pensions and Housing Benefits for 2018/19 and also 2019/20.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2018.

We confirm that we have undertaken non-audit work outside the NAO Code requirements. We undertook work on Housing Capital Receipts and Teacher's Pensions. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	**TBC****	**TBC****	**108,938**	**708,938***
Housing Benefits	34,591	34,591	34,591	18,623
Non-audit work – Housing Capital Receipts	TBC***	6,500	N/A	6,000
Non-audit work – Teacher's Pensions	10,500	10,500	N/A	10,000
Total non-audit services	**TBC*****	**51,591**	34,591	34,623

All figures are exclusive of VAT

* – Due to the extensive and pervasive issues identified during the 2016/17 audit certification was delayed by approximately 2 years and required significant additional audit input including significant specialist input. The 2016/17 accounts were qualified on a number of specific areas. An additional fee of £600,000 was incurred and this was approved by Public Sector Audit Appointments Ltd (PSAA) in January 2020 following review.

** – Given the significant issues identified in the 2016/17 audit, including qualification of the accounts, there will be additional fee on the 2017/18 audit. As the audit is still not complete we have not yet agreed this additional fee. Similar to 2016/17 the additional fee will be subject to approval by PSAA Ltd.

*** - Certification has not yet been completed due to some technical issues. We will provide an update when the claim is fully certified.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade and other receivables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Trade and other payables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach

Appendix B

Summary of communications

Date	Nature	Summary
July 2019 through to January 2020	Meetings	There were a number of meetings to discuss progress with the audit and planned timings for completion – these were updated as progress was made so that all parties were up to speed on the latest position.
January 2020	Report	The draft audit planning report, including confirmation of independence, was issued to the Audit Committee.
January 2020	Meeting	The Associate Partner and senior members of the audit team met met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit planning report.
January 2020 through to July 2020	Meetings	There were a number of meetings to discuss progress with the audit and planned timings for completion – these were updated as progress was made so that all parties were up to speed on the latest position.
July 2020	Report	The draft audit results report, including confirmation of independence, was issued to the Audit Committee.
July 2020	Meeting	The Associate Partner and senior members of the audit team met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit results report,

In addition to the above specific meetings and letters the audit team including the partner in charge of the audit met with the management team multiple times throughout the audit and held calls to discuss audit findings and specific technical issues.

Appendix C

Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit and 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.	Audit planning report presented to the January 2020 Audit & Governance Committee
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	▸ 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 ▸ Findings and issues regarding the opening balance on initial audits	Draft Audit results report presented to the July 2020 Audit & Governance Committee

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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	We have identified Covid-19 as an event or condition and we will be completing a process of internal consultation to determine the impact on our audit opinion.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Draft Audit results report presented to the July 2020 Audit & Governance Committee

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and audit results report presented to the January 2020 and July 2020 Audit & Governance Committee respectively.

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Draft Audit results report presented to the July 2020 Audit & Governance Committee
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit 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 committee may be aware of	We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Draft Audit results report presented to the July 2020 Audit & Governance Committee

Appendix C

Our Reporting to you

Required communications	What is reported?	When and where
Group Audits	▸ 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 and draft audit results report presented to the January 2020 and April 2020 Audit & Governance Committee respectively.
Written representations we are requesting from management and/or those charged with governance	▸ 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 or misstatements of fact identified in other information which management has refused to revise	▸ 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	▸ 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	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report and draft audit results report presented to the January 2020 and April 2020 Audit & Governance Committee respectively.
Certification work	▸ Summary of certification work	2017/18 Certification Report presented to the January 2019 Audit and Governance Committee.

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Statement of accounts	Incorporation of EY review comments on disclosure notes	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit & governance committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Property, Plant and Equipment	Finalising conclusion of EY testing including existence and valuations.	EY and management
IAS 19 / Pension Liability	Obtaining IAS 19 letter from Berkshire Pension Fund's external auditor to enable EY to perform required audit procedures	EY, Management and Deloitte LLP
Group Audit	Conclusion on the component team audit of Reading Transport Ltd	EY, Management and BDO
Other Financial Statement testing	Conclusion on all testing areas of the financial statement audit including I&E, Debtors, Creditors, Collection Fund and HRA.	EY and management
EY Technical Review	Conclusion and resolution of EY Technical Queries	EY and management
EY Consultation	Internal consultation on Going Concern, Post Balance Sheet Events and audit opinion	EY and management
Whole of Government Accounts	Production of updated data collection tool and supporting working papers.	Management
	Audit of revised data collection toll	EY

Draft Management representation letter

Draft Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
FAO: Maria Grindley
Apex Plaza
Forbury Street
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Reading Borough Council ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Reading Borough Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. There are no unadjusted audit differences.

Draft Management representation letter

Management Rep Letter (cont.)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the 14 July 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Draft Management representation letter

Management Rep Letter (cont.)

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

E. Subsequent Events

1. Other than those described in Note X to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. Accounting policy a) General Principles to the consolidated and council financial statements discloses all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.

J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the asset valuations and net pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Asset Valuation Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.

Draft Management representation letter

Management Rep Letter (cont.)

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Director for Finance and Resources

____

Chair of the Audit Committee

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