



WOKINGHAM BOROUGH COUNCIL

A Meeting of the **AUDIT COMMITTEE** will be held in David Hicks 1 - Civic Offices, Shute End, Wokingham RG40 1BN on **WEDNESDAY 6 JUNE 2018 AT 7.00 PM**

A handwritten signature in black ink, appearing to read 'Manjeet Gill', is written over a light grey rectangular background.

Manjeet Gill
Interim Chief Executive
Published on 29 May 2018

This meeting may be filmed for inclusion on the Council's website.

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WOKINGHAM BOROUGH COUNCIL

Our Vision

A great place to live, an even better place to do business

Our Priorities

Improve educational attainment and focus on every child achieving their potential

Invest in regenerating towns and villages, support social and economic prosperity, whilst encouraging business growth

Ensure strong sustainable communities that are vibrant and supported by well designed development

Tackle traffic congestion in specific areas of the Borough

Improve the customer experience when accessing Council services

The Underpinning Principles

Offer excellent value for your Council Tax

Provide affordable homes

Look after the vulnerable

Improve health, wellbeing and quality of life

Maintain and improve the waste collection, recycling and fuel efficiency

Deliver quality in all that we do

MEMBERSHIP OF THE AUDIT COMMITTEE

Councillors

David Chopping

Imogen Shepherd-DuBey

Anthony Pollock

Chris Smith

Daniel Sargeant

Oliver Whittle

ITEM NO.	WARD	SUBJECT	PAGE NO.
1.	None Specific	ELECTION OF CHAIRMAN 2018/19 To elect a Chairman for the 2018-19 municipal year.	
2.	None Specific	APPOINTMENT OF VICE CHAIRMAN FOR 2018-19 To appoint a Vice Chairman for the 2018-19 municipal year.	
3.	None Specific	APOLOGIES To receive any apologies for absence	
4.	None Specific	MINUTES OF PREVIOUS MEETING To confirm the Minutes of the Meeting held on 7 February 2018.	5 - 12
5.	None Specific	DECLARATION OF INTEREST To receive any declarations of interest	
6.	None Specific	PUBLIC QUESTION TIME To answer any public questions A period of 30 minutes will be allowed for members of the public to ask questions submitted under notice. The Council welcomes questions from members of the public about the work of this committee. Subject to meeting certain timescales, questions can relate to general issues concerned with the work of the Committee or an item which is on the Agenda for this meeting. For full details of the procedure for submitting questions please contact the Democratic Services Section on the numbers given below or go to www.wokingham.gov.uk/publicquestions	
7.	None Specific	MEMBER QUESTION TIME To answer any member questions	
8.	None Specific	EXTERNAL AUDIT PROGRESS REPORT To receive an update on External Audit.	Verbal Report
9.	None Specific	EXTERNAL AUDIT ANNUAL FEE 2018-19 To receive the annual external audit fee 2018-19.	13 - 16

10.	None Specific	UPDATE ON COMPLAINTS AND COMPLIMENTS To receive an update on complaints and compliments.	To Follow
11.	None Specific	TREASURY MANAGEMENT OUTTURN 2017-18 To receive the Treasury Management Outturn Report 2017-18.	17 - 44
12.	None Specific	ANNUAL GOVERNANCE STATEMENT 2017/18 To consider the Annual Governance Statement 2017/18.	45 - 50
13.	None Specific	UPDATE ON INTERNATIONAL FINANCIAL REPORTING STANDARD 15 To receive an update on International Financial Reporting Standard 15.	Verbal Report
14.	None Specific	EXTERNAL QUALITY ASSESSMENT OF CONFORMANCE TO THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS To receive an External Quality Assessment of Conformance to the Public Sector Internal Audit Standards.	51 - 70
15.	None Specific	INTERNAL AUDIT OF 21ST CENTURY COUNCIL PROGRAMME To receive a report regarding the Internal Audit of the 21 st Century Council Programme.	71 - 80
16.	None Specific	CORPORATE RISK REGISTER To consider the Corporate Risk Register.	81 - 94
17.	None Specific	ANNUAL REPORT 2017/18 - SHARED AUDIT & INVESTIGATION SERVICES To receive the Annual Report 2017/18 – Shared Audit & Investigation Services.	95 - 108
18.	None Specific	FORWARD PROGRAMME 2018-19 To consider the Forward Programme 2018-19.	109 - 110

Any other items which the Chairman decides are urgent

A Supplementary Agenda will be issued by the Chief Executive if there are any other items to consider under this heading

CONTACT OFFICER

Madeleine Shopland
Tel
Email
Postal Address

Democratic & Electoral Services Specialist
0118 974 6319
madeleine.shopland@wokingham.gov.uk
Civic Offices, Shute End, Wokingham, RG40 1BN

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 7 FEBRUARY 2018 FROM 7.00 PM TO 8.25 PM**

Committee Members Present

Councillors: Anthony Pollock (Chairman), Prue Bray, UllaKarin Clark and Barrie Patman

Also Present

Madeleine Shopland, Democratic Services & Electoral Services Specialist

Manjeet Gill, Interim Chief Executive

Martin Jones, Financial Planning Specialist

Andrew Moulton, Assistant Director Governance

John Ogden, Lead Specialist Finance

Paul Ohsan Ellis, Strategy and Commissioning Support Manager

Stuart Bignell, Customer Relations Officer

Malcolm Haines, Ernst & Young

42. APOLOGIES

Apologies for absence were submitted from Councillors Chopping and Halsall and Helen Thompson, Ernst & Young.

43. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 4 December 2017 were confirmed as a correct record and signed by the Chairman.

44. DECLARATION OF INTEREST

There were no declarations of interest submitted.

45. PUBLIC QUESTION TIME

There were no Public questions.

46. MEMBER QUESTION TIME

There were no Member questions.

47. GENERAL DATA PROTECTION REGULATIONS

The Committee received a presentation on the General Data Protection Regulations.

During the discussion of this item the following points were made:

- The General Data Protection Regulations (GDPR), an EU law, would replace the Data Protection Act 1998 and would be enforced from 25 May 2018.
- There was a UK Data Protection Bill which was currently going through Parliament and the GDPR provisions would be absorbed into this. However, it was not known when this Bill would come into effect.
- Compliance would be evidence driven and fines for breaches could be up to €20million. It was not yet known how the Information Commissioner's Office (ICO) would fine although the ICO had indicated that fines would be proportionate.
- The Customer Relations Officer informed the Committee that a Project Group had been established in August. Subject matter experts in the different areas were providing support.
- The GDPR would be enforced from 25 May 2018. It was appreciated that the 21st century council project would still be ongoing at that point. It was important that a

project plan and communications plan was in place at that time which outlined what items remained, which could be provided to the ICO if requested.

- The Customer Relations Officer took the Committee through action that was required to ensure GDPR compliance.
- Privacy Notices would be required so that the Council was transparent about how and why it collected data. There would be some exceptions and exemptions.
- Members were informed that the retention schedule was under review. Councillor Patman questioned whether the Council currently held information which would need to be disposed of in order to comply with the GDPR. The Customer Relations Officer commented that there was a number of boxes of documents which had passed their review date which would require disposal. He went on to state that there were various different retention periods for different types of data.
- There would be a Data Protection Officer, which would be a mandatory role with new legislatively set responsibilities.
- Members were informed of work already completed and work still to be done to ensure compliance.
- It was noted that the privacy impact assessment checklist was completed and being trialled.
- E learning for staff would be introduced in April, and regular communications issued on new and important parts of GDPR for staff.
- The Information Asset Register would be a live document which needed to be monitored to ensure that it did not go out of date quickly.
- The wording of contract clauses was being updated to ensure compliance.
- Quality checking and publishing to the Council's website would begin from 1st May.
- Councillor Bray questioned how the Council could be assured that its suppliers were compliant with GDPR. The Customer Relations Officer stated that the wording of tender documents would be updated to highlight the importance of compliance, and that the letter amendment would cover existing suppliers.
- Councillor Bray went on to ask how the residents' online accounts would be dealt with and was informed that with all data capture forms and the online accounts, there would be wording which would advise people to click a link for further information (Privacy Notice). This would be easier to maintain.
- Members asked how many breaches the Council had had in the past and were informed that there had been 2. There were approximately 60 to 70 lesser incidents per year.
- The Committee felt that it would be useful to be updated on any breaches.
- Councillor Bray asked what would happen if personal information was sent to the wrong person which was then not retrieved. The Customer Relations Officer commented that it would be dependent on the type, sensitivity and confidentiality of the information and who it had been sent to. Incidents and breaches needed to be investigated on a case by case basis.
- Councillor Clark asked how the schools were preparing to comply for GDPR. She was advised that the schools, as were the Council owned companies, were separate entities and were responsible for their own compliance. An officer from People Services was supporting the schools in this process.
- Councillor Bray questioned whether Members would receive a briefing on the matter. The Assistant Director, Governance, agreed to take this forward.

RESOLVED: That the presentation on the General Data Protection Regulations be noted.

48. PROPOSED CHANGES TO THE CONSTITUTION FOLLOWING IMPROVEMENTS TO THE PROCUREMENT PROCESS

The Committee received a report detailing proposed changes to the Procurement Regulations within the Constitution.

During the discussion of this item the following points were made:

- Members were reminded that the Council's Procurement and Contracts Rules and Procedures (PCRP) had been developed in response to the new Public Contracts Regulations 2015 (PCR2015) and formally adopted as Chapter 13 of the Constitution in November 2015.
- It was noted that from the 1 April 2018 the Council would be adopting e-procurement software in order to comply with mandatory requirements within PCR2015. This would also improve the procurement process.
- The Committee was advised that the introduction of e-procurement software would necessitate two substantive changes to the Constitution;
 - Removal of the provisions relating to tender openings;
 - The introduction of a threshold for tenders between £5k and £50k to mandate the use of electronic 'Quick Quotes'.
- Councillor Bray noted that it was proposed that 'Service area to add contract data to central contracts register' for contracts under £5,000, be removed from the Constitution. The Strategy and Commissioning Support Manager commented that this was in line with the Council's transparency requirements. Contracts with a value over £5,000 would automatically be populated by an electronic contract register. For contracts under £5,000 these would be via a purchase order.

RESOLVED: That the changes detailed within the report to the Council's Procurement and Contracts Rules and Procedures which form part of the Council's Constitution (Chapter 13) be recommended to Council, via the Constitution Review Working Group.

49. CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2016-17

The Committee received the Certification of Claims and Returns – Annual Report 2016-17.

During the discussion of this item the following points were made:

- Ernst and Young had checked and certified the housing benefits subsidy claim with a total value of £23,278,780. The submission deadline had been met.
- A qualification letter had been issued.
- Certification work had found minor errors which had been corrected by the Council. The main issues reported were highlighted including the fact that the testing of the initial sample of 20 cases of Rent Allowance had identified one case which had failed due to an overpayment of benefits as a result of incorrect determination of earned income.
- Members noted the 2016-17 certification fee.
- It was noted that from 2018-19 the Council would be responsible for appointing its own reporting accountant to undertake the certification of the housing benefits subsidiary claim in accordance with the Housing Benefits Assurance Process requirements being established by the Department of Works and Pensions.
- Members felt that considering the overall size of the claim, the level of error identified was very good, and asked that their appreciation of the committed approach taken by officers, be noted.

RESOLVED: That the Certification of Claims and Returns – Annual Report 2016-17 be noted.

50. EXTERNAL AUDIT PLAN 2017-18

Members received the External Audit Plan 2017-18.

During the discussion of this item the following points were made:

- One significant risk '*Misstatements due to fraud or error*' had been identified. This was a mandated risk and not specific to Wokingham.
- Audit risks identified included valuation of land and buildings, pension liability valuation and financial statements presentation.
- No significant value for money risks had been identified to date.
- Members were informed that for planning purposes, materiality for 2017/18 had been set at £6.8million.
- The planned fee for 2017/18 was £112,800.
- The timetable showing the key stages of the audit and the agreed deliverables was highlighted. Officers were confident that the new July deadline would be met.

RESOLVED: That the External Audit Plan 2017-18 be noted.

51. CORPORATE RISK REGISTER REFRESH – FEBRUARY 2018

The Interim Chief Executive presented the Corporate Risk Register refresh – February 2018.

During the discussion of this item the following points were made:

- Members were informed that there had been two main changes to the Corporate Risk Register since it was last presented to the Committee in December. These were as follows:
 - Risk 28 – '*Leadership: Risk of business continuity, performance dips and not securing value for money through the use of interims in senior management positions for an extended period of time*' had been added.
 - The timescales for mitigating actions had been amended for Risk 27 '*Sustainable Transformation Partnerships align effectively with Borough governance.*'
- Councillor Bray asked why Risk 28 had been scored a low likelihood. The Interim Chief Executive explained that this was around business continuity and ensuring that performance did not drop. There was a clear strategy for the use of interims. Councillor Bray expressed concern regarding the performance of a particular area which she felt had dropped.
- Members asked why Risk 20 '*Risk that the Council, embarking on a major change programme, the 21st century council, fails to maintain service delivery standards, to manage information security, to deliver associated savings, or to effect change, in structures and behaviours, to deliver the vision for the new Council's operating model*' had been scored as a low likelihood. The Interim Chief Executive commented that the 21st century council programme was an ambitious operating model. When the detailed business case had been produced for People's Services it was appreciated that further integrated work with partners was required. Work was being undertaken in a considered way.

RESOLVED: That the Corporate Risk Register refresh – February 2018 be noted.

52. CERTIFICATION OF CLAIMS AND RETURNS – CLAIMS AND RETURNS ORGANISED BY LOCAL AUTHORITIES

The Committee considered a report regarding the Certification of Claims and Returns Organised by Local Authorities.

During the discussion of this item the following points were made:

- The Teachers' Pension Return was an annual return required by the Department of Education by 30 November each year which covered the teachers' pension contributions to the Teachers Pensions Scheme. The cost for the audit of the 2016/17 Teachers Pensions return by Rice Associates, had been £950, a £50 increase on the previous year. The cost had been met from the 2017/18 budget.
- With regards to the Pooling of Housing Capital Receipts Return, in 2016/17, 19 Right to Buy properties had been sold for £2.851million and one non Right To Buy property sold for £89,000, giving a total sales receipt of £2.940million, of which £295,000 had to be repaid to the DCLG, with most of the remainder restricted for reinvestment in social housing in the Borough. The cost of the audit had been £1,425.
- With regards to the provision of External Assurance on Sub-Contracting Controls, the audit had been largely operational rather than financial in nature and had been of a specialist nature.
- In response to a Member question, the Lead Specialist Finance, agreed to check whether the required certificate had been issued and supplied to the ESFA by the 30 January 2018 deadline.

RESOLVED: That the Audit Certification Reports 2016/17 for the Teachers' Pension Return; the Pooling of Housing Capital Receipts Return, and the Review of Sub Contracting Arrangements for the Skills Funding Agency (SFA) be noted.

53. TREASURY MANAGEMENT STRATEGY 2018-19

The Committee considered the Treasury Management Strategy 2018-19.

During the discussion of this item the following points were made:

- For 2018/19 external debt was estimated to increase by £61.5million to £206.7million. This increase was a very prudent estimate and would be reliant on the delivery of the capital programme.
- Members were advised that a couple of tables within the report remained to be confirmed due to sensitivity around next year's revenue budget.
- The Capital Programme was estimated to be £180million next year before carry-forward and over the next three years was estimated to be a total of £534.5million. The Financial Planning Specialist highlighted the different asset types that this was broken down into. This would be funded by £535million of resources. It was noted that there was a small surplus of funding which was currently estimated to be capital receipts.
- Members were advised that with this ambitious Capital Programme came additional borrowing. 37% of this borrowing was for forward funding projects which would be funded by S106 or CIL, 41.5 % of borrowing was for invest to save projects e.g. new leisure projects, 17.5 % was for loans for Wokingham Town Centre Regeneration and Wokingham Housing Limited, and 4% was for approved borrowing (MRP funded).
- The total forecast additional borrowing (£243.2million) would be fully met by a number of resources within 24 years. During this period many large infrastructure schemes

profiles would be refined during the build process which would have an impact on the borrowing forecast.

- For 2018/19 the estimated returns on investments, both external and internal companies, was set to increase from the 2017/18 estimated outturn by £1.0million to £2.4million, rising to £2.9million in 2020/21. This increase was mainly due to the return on the loans made to Wokingham Housing Limited and Wokingham Town Centre Regeneration.

RESOLVED: That the following be recommended to Council for approval:

- 1) Capital Prudential indicators, 2018/19;
- 2) Borrowing strategy 2018/19;
- 3) Annual Investment Strategy 2018/19;
- 4) Flexible use of capital receipts strategy;
- 5) MRP policy; and
- 6) Treasury Indicators: limits to borrowing activity 2018/19.

54. 2018/19 AUDIT AND INVESTIGATION PLAN

The Committee considered the 2018/19 Audit and Investigation Plan. The report detailed the 2018/19 Internal Audit and Investigation Plan and the 2018/19 Internal Audit scopes for each review, excluding Key Operational audits.

During the discussion of this item the following points were made:

- Members were advised that 250 days were proposed for fraud and investigation work as opposed to 200.
- Councillor Bray asked whether the Housing Rents audit would cover Council tenants and tenants of properties of the Council's housing companies. The Assistant Director Governance indicated that this was likely.
- Councillor Pollock questioned whether 8 days would be sufficient for work on Debtors. The Assistant Director Governance commented that follow up work on Debtors was also being undertaken in Q4 of the current financial year so this was thought to be sufficient.

RESOLVED: That the 2018-19 Audit and Investigation Plan be agreed.

55. 2017/18 QUARTER 3 AUDIT AND INVESTIGATION PROGRESS REPORT

Members received the Internal Audit and Investigation Q3 Progress Report which detailed the work of the Internal Audit and Investigation Team from the 1 October 2017 to 31 December 2017.

During the discussion of this item the following points were made:

- Members noted the progress being made against the revised 2017/18 Internal Audit and Investigation Plan.
- There has been one audit report finalised that had received the 3rd category of audit opinion during quarter 3, in respect of the 2016/17 Housing Rents follow up audit which was carried forward into 2017/18. The Lead Specialist Finance further updated the Committee regarding the work undertaken to improve Housing Rents and Debtors.
- The Committee was informed that the level of debt had reduced. Members asked how much the largest single write off was and were informed that it was £200,000.

RESOLVED: That the 2017/18 Internal Audit and Investigation Progress Report to the end of Quarter 3 be noted.

56. UPDATED ANTI FRAUD AND ANTI CORRUPTION POLICIES

The Committee received a report regarding updates to the Council's Anti Fraud and Anti Corruption Policies.

During the discussion of this item the following points were made:

- The Assistant Director of Governance took the Committee through minor changes to the Anti Fraud and Anti Corruption Strategy, Anti Money Laundering Policy, Anti Bribery Policy, Prosecution and Sanctions Policy and changes that reflected current best practice to the Whistleblowing Policy.
- With regards to the Regulation of Investigatory Powers Act (RIPA) Policy, the Policy was now a separate document to the RIPA Procedures so as to capture legislative updates. It was proposed the Policy be included in the Council's Constitution.
- Councillor Clark commented that the Anti Fraud and Anti Corruption Policy made reference to the Data Protection Act 1998. The Assistant Director Governance commented that this would be updated.
- Councillor Bray suggested that names of individuals not be included in future updates as personnel often changed.
- Councillor Bray asked about compliance with the RIPA Policy.

RESOLVED: That the proposed amendments to the Anti-Fraud and Anti-Corruption Policy, the Whistleblowing Policy, Anti Money Laundering Policy, Prosecutions and Sanctions Policy, Anti Bribery Policy and the Regulation of Investigatory Powers Act (RIPA) Policy be noted and recommended for approval to Council, via the Constitution Review Working Group.

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Ernst & Young LLP
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB
Tel: + 44 118 928 1599
Fax: + 44 118 928 1101
ey.com

Manjeet Gill
Chief Executive
Wokingham Borough Council
Civic Offices, Shute End
Wokingham
Berkshire
WR1 3BB

24 April 2018

Ref: 18/19 Fee

Direct line: 023 8038 2099
Email: HThompson2@uk.ey.com

Dear Manjeet

Annual Audit 2018/19

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Wokingham Borough Council.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 9 March 2017 were confirmed, following consultation, in December 2017.

Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that has opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Wokingham Borough Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;

- We can rely on the work of internal audit if planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Wokingham Borough Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	81,325	105,617	105,617
Certification of housing benefit subsidy claim	N/a	7,183	11,787

The appointment of an auditor to certify the Council's 2018/19 housing benefit subsidy claim is not covered by the PSAA appointment, hence is shown as not applicable here.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £20,331.

Audit plan

Our plan will be issued in December 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Services and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

We are committed to providing you with a high quality service. 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, please contact me as your Engagement Lead. 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.

Yours sincerely



Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP

cc. Graham Ebers, Director of Corporate Services
Councillor Anthony Pollock, Chairman of the Audit Committee

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TITLE	Treasury Management outturn 2017-18
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	None Specific;
DIRECTOR	Director of Corporate Services - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Effective and safe use of our resources to deliver service improvements and service continuity through capital investments and prudent treasury management.

RECOMMENDATION

The Audit Committee are asked to:

- 1) note the Treasury Management outturn report for 2017/18;
- 2) note the actual 2017/18 prudential indicators within the report;
- 3) recommend the report to Council for approval.

SUMMARY OF REPORT

This report summarises the Treasury Management operations during 2017/18. It is presented for the purpose of monitoring and review, in accordance with Council's treasury management practices. The council adhered to all agreed prudential indicators during 2017/18.

As at 31 March 2018 the Council achieved an average investment return rate of 1.68% including investments in the Council's group companies. Excluding internal investments, the average external investment return was 0.44% against the London Interbank Bid Rate (LIBID) for 2017/18 which was 0.21%.

No new external borrowing was taken out.

Background

The Council's treasury management strategy is largely influenced by capital expenditure. Revenue expenditure is balanced with expenditure matching income, and short term borrowing and deposits. The key driver of the longer term treasury management strategy is capital expenditure and financing.

There are two aspects of treasury performance – debt management and cash investment:

- debt management relates to the Council's borrowing;
- cash investment relates to the investment of surplus cash balances.

Analysis of Issues

External debt as at 31 March 2018 was:

- General fund (non-housing revenue account): £65.5m
- Housing revenue account: £79.8m.

Capital expenditure for 2017/18 was:

- General fund (non-housing revenue account): £83.1m
- Housing revenue account: £5.5m

Investment return for 2017/18 was £1.3m

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	n/a	n/a	n/a
Next Financial Year (Year 2)	n/a	n/a	n/a
Following Financial Year (Year 3)	n/a	n/a	n/a

Other financial information relevant to the Recommendation/Decision

N/A

Cross-Council Implications

N/A

Reasons for considering the report in Part 2

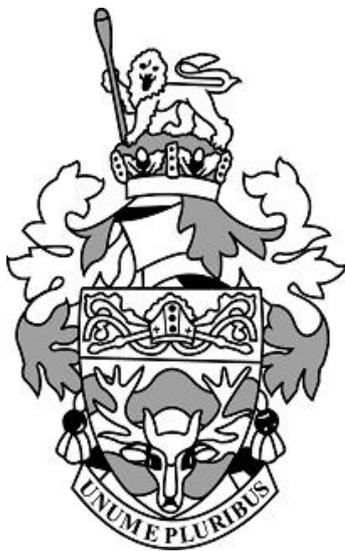
N/A

List of Background Papers
Appendix A – Treasury management outturn report 2017/18
Appendix B – Prudential and treasury indicators 2017/18
Appendix C – Loan portfolio
Appendix D – Investment portfolio
Appendix E – Economic summary
Appendix F – Glossary of terms

Contact Bob Watson	Service Business Services
Telephone No 07801664389	Email bob.watson@wokingham.gov.uk

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WOKINGHAM BOROUGH COUNCIL



WOKINGHAM BOROUGH COUNCIL

Treasury Management Outturn Report 2017-18

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Appendices

Prudential and Treasury indicators	Appendix B
Loan Portfolio	Appendix C
Investment Portfolio	Appendix D
Economic review and update (Inc. Interest rates forecast)	Appendix E
Glossary of Terms	Appendix F

1. Introduction

This report presents the Council's treasury position for 2017/18 in accordance with the Council treasury management practices. This is a backward-looking report reviewing performance to 31st March 2018.

The report provides a summary of the economic conditions affecting the Council's investment strategy over the last financial year. It analyses the capital outturn which is a key element of treasury management, driving the borrowing requirement of the organisation. It then shows how the Council has financed its borrowing between internal and external borrowing and how the Council has managed its short-term cash investments.

The Council's treasury management strategy is largely influenced by capital expenditure. Revenue expenditure is balanced with expenditure matching income, and short term borrowing and deposits. The key driver of the longer term treasury management strategy is capital expenditure and financing.

There are two aspects of treasury performance – debt management and cash investment:

- debt management relates to the Council's borrowing;
- cash investment relates to the investment of surplus cash balances.

2. Economic Review

In 2017/18 UK economic growth has fluctuated but has averaged 0.4% in the year. The Bank of England monetary policy has seen a change in November 2017 with an interest rate rise to 0.5%. Inflation has been running higher than the target 2% meaning more rate rises are not expected until 2019. For a more detailed economic summary please look at Appendix E.

3. The Council's Capital Expenditure and Financing 2017/18

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed in year, immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need or;
- funded by borrowing (internal or external).

Capital expenditure forms one of the required prudential indicators. Tables 1 and 2 on the following page show the actual capital expenditure and the funding.

Table 1:

General fund capital expenditure and financing	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Capital expenditure			
Financed in year	70,322	45,790	56,833
Funded by borrowing (borrowing requirement)	82,527	48,347	26,229
Total	152,849	94,137	83,062

Table 2:

HRA capital expenditure and financing	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Capital expenditure			
Financed in year	5,100	5,100	5,516
Funded by borrowing (borrowing requirement)	0	0	0
Total	5,100	5,100	5,516

4. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2017/18 capital expenditure financed by borrowing, and prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

The Council's general underlying borrowing need (the CFR) is not allowed to rise indefinitely. The Council is therefore required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This ensures the general fund pays for the capital asset and is a proxy for depreciation. The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- an additional revenue contribution to the statutory minimum revenue provision (MRP) each year through a Voluntary Revenue Provision (VRP).

This differs from the treasury management arrangements which relates to cash transfers. Short term treasury debt for cashflow purposes can be borrowed or repaid at any time, but this does not change the CFR.

The Council's CFR forecast for 2017/18 year end is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. However no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 3:

Capital financing requirement: General Fund	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	160,022	160,022	160,022
Capital expenditure funded by Borrowing	82,527	48,347	26,229
Prior year adjustment (Swap funding)	0	0	0
Sub Total	242,549	208,369	186,251
Less Minimum Revenue Provision			
MRP Charge	(3,350)	(3,024)	(3,060)
PFI Principal Charge	(215)	(215)	(302)
Sub Total	(3,565)	(3,239)	(3,362)
Closing Balance	248,984	205,130	182,889
Movement	88,962	45,108	22,867

Table 4:

HRA Capital financing requirement:	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	90,400	90,400	90,400
Repayment of Loan Principal	(1,750)	(2,548)	(78)
Closing Balance	88,650	87,852	90,322

Table 5

Capital financing requirement: General fund and HRA	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	250,422	250,422	250,422
Movements	87,212	42,560	22,789
Closing Balance	337,634	292,982	273,211

The in-year increase in the borrowing requirement is due to a large increase in the capital programme for schemes such as the town centre regeneration and forward funding infrastructure spend; this will reduce again when capital receipts from these projects are recovered. It has also increased as a result of the forward funded infrastructure schemes. These will decrease as developer contributions are received.

The council's total CFR of £273.2m was considerably higher than the Council's external borrowing of £147.0m (see table 6 below)

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. The Council does not borrow all of this money externally but uses some of its internal cash reserves to fund this expenditure. This is referred to as "internal borrowing". This means that the Council's capital financing requirement is higher than its external borrowing figures. External borrowing may be sourced from bodies such as the Public Works Loan Board [PWLB] or the money markets.

5. External borrowing and compliance with treasury limits and prudential indicators

Table 6 demonstrates the outturn for 2017/18 external borrowing.

Table 6:	2017/18 Budget £'000	2017/18 Outturn £'000
External Borrowing		
Market	24,000	24,000
PWLB	178,200	120,594
Local Enterprise Partnership	1,000	1,000
Total borrowing	203,200	145,594

During 2017/18, the Council operated within the treasury limits as set out its borrowing treasury management strategy. The position for the prudential indicators is shown in table 7, which is found below. These show that all prudential indicators have been complied with. Further detail on each of these indicators is included in Appendix B.

Table 7:	Year-end position 2017/18	
Prudential Indicator – Debt	Does gross borrowing exceed CFR?	Has the limit/boundary been broken
Gross external borrowing	NO	
Authorised limit		NO
Operational boundary for external debt		NO
HRA debt limit		NO
Maturity structure of borrowing		NO
Upper limits on interest rate exposure		NO
The percentage of financing costs set aside to service debt financing costs		NO

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (plus the estimates of any additional capital financing requirement for the current and next two financial years). This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

6. Compliance with treasury limits and prudential indicators for investments

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing security and liquidity initially before considering maximising investment return. The return on investments contributes to the Council's budget for both the general fund and housing revenue account.

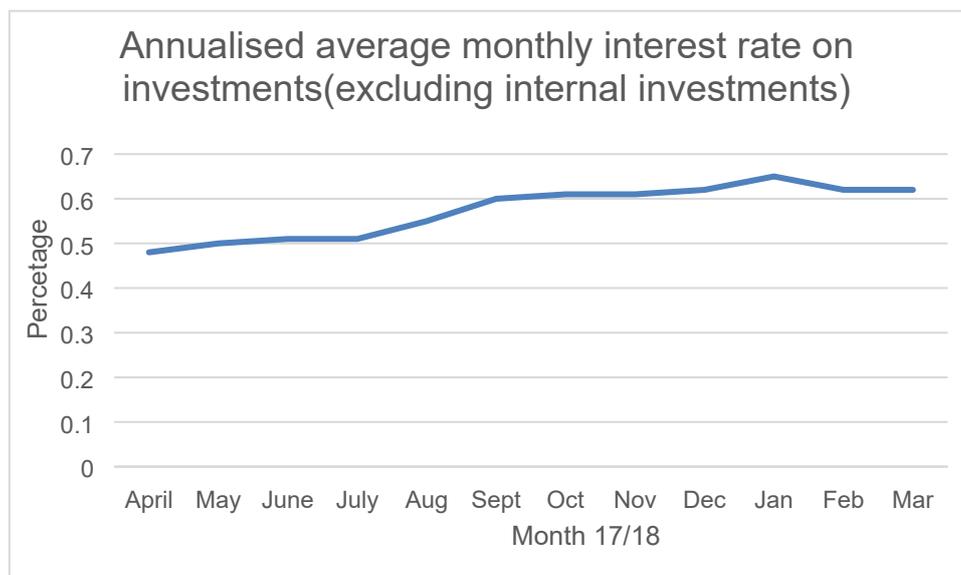
The Council will continue to monitor the economic outlook and money markets to ensure it is able to achieve a yield in line with market expectations whilst ensuring security and liquidity of capital are maintained. Graph 2 below demonstrates the change in investment by type up to 31 March 2018.

Table 8, below shows the counterparties where cash deposits are held. Further detail is available in Appendix D.

Table 8:

Investment Type	Actuals invested @ 31-03-17 £'000	Actuals invested @ 30-09-17 £'000	Actuals invested @ 31-03-18 £'000
Local Authorities	39,000	63,000	54,000
Fund Managers / Money Markets	12,882	0	6,500
Internal investments (WBC companies and HRA)	22,117	15,961	12,590
Total	70,541	80,536	73,090

Graph 3 on the following page shows an analysis of the rate of return for 2017/18.

Graph 3 Average return on investments

During 2017/18 year the Council operated within the treasury limits as set out in investment strategy. The position for the investment prudential indicators is shown in table 10 and full details are available in appendix B.

The Council also loans money to its portfolio of companies which are classed as internal loans. The average return on the Council's portfolio (excluding internal loans) to 31 March 2018 was 0.44%. This is 0.23% above the average 7-day London Interbank Bid Rate (LIBID) of 0.21%. The average rate of return including internal loans is 1.68%.

Table 9 below, gives a breakdown of returns per type and the annual interest rate received.

Table 9:	Amount of interest received 2017/18 £'000	Cumulative interest %
Return on Investment		
Local Authorities	240	0.48%
Fund Managers / Money Markets	34	0.38%
Internal loans	1,061	5.75%
Total	1,335	1.68%

Table 10: Prudential Indicator – Investment Year-end position @ 31-03-18	Has the limit/boundary been broken	Was the budget achieved at year end
Upper limits on interest rate exposure	NO	
Investment interest received		Yes

7. Conclusion

The Director of Corporate Services confirms that the approved limits and prudential indicators incorporated within the Annual Investment Strategy were not breached during 2017/18 with the prudential indicators. The Council is operating in a stringent financial climate, but is still managing to deliver within budgeted interest levels.

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Prudential and treasury indicators as at 31st March 2018

General fund

Table 1: Prudential indicators capital	2017/18 Budget	Quarter 1 17/18 Year end forecast	Quarter 2 17/18 Year end forecast	Quarter 3 17/18 Year end forecast	Quarter 4 17/18 Year end Actual
	£'000	£'000	£'000	£'000	£'000
Capital expenditure	152,389	118,944	94,136	88,414	88,578
Capital financing requirement (CFR)	197,975	224,122	205,130	198,804	182,889
Annual change in CFR	78,962	61,140	45,108	44,988	22,867
In year borrowing requirement	82,527	64,444	48,347	48,211	26,229

Table 2: Prudential indicators borrowing	2017/18 Budget	Quarter 1 17/18 Year end forecast	Quarter 2 17/18 Year end forecast	Quarter 3 17/18 Year end forecast	Quarter 4 17/18 Year end Actual
	£'000	£'000	£'000	£'000	£'000
Ratio of financing costs to net revenue stream	3.17%	3.1%	2.6%	2.48%	2.57%

The percentage of the revenue budget set aside each year to service debt financing costs is shown above. The outturn figure is below budget as a result of favourable returns compared to budget.

This is calculated as follows: financing cost divide by net revenue stream.

As per 2017/18: £3,402 / £132,594 = 2.57%

HRA

Table 3: Prudential Indicators HRA	2017/18 Budget	Quarter 1 17/18 Year end forecast	Quarter 2 17/18 Year end forecast	Quarter 3 17/18 Year end forecast	Quarter 4 17/18 Year end Actual
	£'000	£'000	£'000	£'000	£'000
Capital expenditure	5,100	5,100	5,909	6,923	4,862
Capital financing requirement (CFR)	90,400	90,400	90,400	90,400	90,400
Annual change in CFR	(1,750)	(2,548)	(2,548)	(2,548)	(78)
In year borrowing requirement	0	0	0	0	0

Table 4: Prudential indicators borrowing	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast	Year end forecast	Year end forecast	Year end Actual
Ratio of financing costs to net revenue stream	18.94%	18.48%	18.48%	18.99%	18.48%

The percentage of the revenue budget set aside each year to service debt financing costs. This is calculated as follows: financing cost divide by total income received

As per budget 2017/18: £2,781 / £15,049 = 18.48%

General Fund & HRA

Table 5: Prudential indicators – capital expenditure & CFR	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast	Year end forecast	Year end forecast	Year end Actual
Capital expenditure	157,949	124,044	99,236	95,337	88,579
Capital financing requirement (CFR)	288,375	318,343	302,181	301,540	273,211
Annual change in CFR	77,212	58,592	42,560	42,440	22,789
In year borrowing requirement	82,527	64,444	48,347	48,211	26,229

Table 6: Internal borrowing	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast	Year end forecast	Year end forecast	Year end Actual
CFR (year end position)	286,625	309,014	292,982	293,863	273,211
Less external borrowing	(203,200)	(145,709)	(145,709)	(145,709)	(145,709)
Less other long term liabilities	(8,600)	(10,000)	(10,000)	(10,000)	(7,060)
Internal borrowing *	74,825	153,305	137,273	138,154	120,442
Movement	0	78,480	62,448	63,329	45,617
% of internal borrowing to CFR	0%	49.61%	46.85%	37.56%	37.78%

Note:* This will be reviewed on a regular basis to make sure we are getting best value for money. The Council is currently using its own cash flow (as rates of return are low), if rates start to increase a new external loan may need to be taken out.

Table 7: Upper limit - investments only	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast	Year end forecast	Year end forecast	Year end Actual
On fixed rate exposures	(80,000)	(68,874)	(79,874)	(76,874)	(56,874)
On variable rate exposures	(40,000)	(18,086)	(25,794)	(15,086)	(1,050)

Table 8: Upper limit - debt only	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast £'000	Year end forecast £'000	Year end forecast £'000	Year end Actual £'000
On fixed rate exposures	180,000	147,006	147,006	147,006	145,594
On variable rate exposures	40,000	0	0	0	0

Table 9: Internal investments: interest received	2017/18	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Budget	17/18	17/18	17/18	17/18
	£'000	Year end forecast £'000	Year end forecast £'000	Year end forecast £'000	Year end Actual £'000
HRA Internal loan from the general fund		(449)	(449)	(449)	(449)
Wokingham Holdings	0	(584)	(884)	(884)	(1,061)
	0	(1,033)	(1,333)	(1,333)	(1,510)

Table 10: Internal investments:	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	17/18	17/18	17/18	17/18
	Year end forecast £'000	Year end forecast £'000	Year end forecast £'000	Year end Actual £'000
HRA Internal loan from the general fund	8,874	8,874	8,874	8,874
Wokingham Holdings	17,845	25,193	22,473	12,590
Total	26,359	34,067	31,347	21,464

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General Fund Loan portfolio @ 31st March 2018

PWLB/Market	Loan no	Principle £'000	Interest Rate %	Maturity Date
General Fund				
PWLB - GF	485805	976	4.88	01 August 2022
PWLB - GF	488876	2,343	4.95	01 February 2034
PWLB - GF	491320	2,929	3.85	01 August 2051
PWLB - GF	491456	1,431	4.35	30 September 2046
PWLB - GF	491474	5,587	4.40	01 August 2052
PWLB - GF	493309	9,764	4.60	31 March 2054
PWLB - GF	505949	8,000	2.34	31 March 2035
PWLB - GF	505950	4,000	2.37	31 March 2036
PWLB - GF	505948	6,000	2.30	31 March 2034
Market - GF	3b	4,882	4.35	24 February 2077
Market - GF	2c	4,882	4.60	11 January 2077
Market - GF - KA Finanz	1c	4,882	4.88	06 February 2066
Market - GF	4	1,953	3.68	16 February 2066
Market - GF	5	4,882	3.73	19 October 2076
Market - GF	6	1,953	3.77	19 October 2076
Local Enterprise Board		250	0.00	01 December 2018
Local Enterprise Board		750	0.00	01 December 2019
Total		65,464		

Housing Revenue Fund Loan portfolio @ 31st March 2018

PWLB/Market	Loan no	Principle	Interest Rate %	Maturity Date
Housing Revenue Account				
PWLB - HRA	485805	24	4.88	01 August 2022
PWLB - HRA	488876	57	4.95	01 February 2034
PWLB - HRA	491320	71	3.85	01 August 2051
PWLB - HRA	491456	35	4.35	30 September 2046
PWLB - HRA	491474	135	4.40	01 August 2052
PWLB - HRA	493309	236	4.60	31 March 2054
HRA Self Financing	501034	3,482	2.21	28 March 2021
HRA Self Financing	501035	8,516	3.30	28 March 2032
HRA Self Financing	501036	1,988	1.99	28 March 2020
HRA Self Financing	501037	7,231	3.26	28 March 2031
HRA Self Financing	501038	4,199	2.40	28 March 2022
HRA Self Financing	501039	6,378	3.15	28 March 2029
HRA Self Financing	501040	5,415	3.01	28 March 2027
HRA Self Financing	501043	9,276	3.34	28 March 2033
HRA Self Financing	501044	1,000	3.37	28 March 2034
HRA Self Financing	501045	3,744	2.82	28 March 2025
HRA Self Financing	501046	5,981	3.08	28 March 2028
HRA Self Financing	501047	6,789	3.21	28 March 2030
HRA Self Financing	501048	3,971	2.92	28 March 2026
HRA Self Financing	501049	4,116	2.70	28 March 2024
HRA Self Financing	501050	3,484	2.56	28 March 2023
HRA Self Financing	501051	3,098	1.76	28 March 2019
Market - HRA	3b	118	4.35	24 February 2077
Market - HRA	2c	118	4.60	11 January 2077
Market - HRA - KA Finanz	1c	118	4.88	08 February 2066
Market - HRA	4	47	3.68	16 February 2066
Market - HRA	5	118	3.73	19 October 2076
Market - HRA	6	47	3.77	19 October 2076
External		79,792		
WBC General Fund *		8,874	4.5	
Total		88,614		

* Note this is an internal loan from the general fund to the HRA and is not included in the total external loans.

Total external borrowing loans @ 31st March 2018

WBC External Borrowing	Actuals @ 30-09-17 £'000	Actuals @ 31-03-18 £'000
Market	24,000	24,000
PWLB	122,006	120,594
Local Enterprise Partnership	1,000	1,000
Total borrowing	147,006	145,594

Maturity structure @ 31st March 2018

Long Term Borrowing	31st March 2017 £,000	31st March 2018 £,000	Average rate %
Between 1 and 2 years	0	2,738	1.99
Between 2 and 5 years	13,767	12,232	2.61
Between 5 and 10 years	21,730	23,323	2.93
Between 10 and 15 years	34,895	40,543	3.36
Between 15 and 20 years	30,676	19,000	2.39
Between 20 and 25 years	0	0	0
Between 25 and 30 years	1,465	1,567	4.35
More than 30 years	42,723	42,843	4.34
Total Long Term	145,256	142,246	
Short Term Borrowing			
less than 1 year	2,130	3,348	1.76
Total Borrowing	147,386	145,594	3.38

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Investment portfolio

Current Investments @ 31st March 2018

Institution	Amount £000	Rate	Maturity Date	Broker
Current lending				
Eastleigh BC	3,000	0.28%	23/04/2018	Sterling
Rugby BC	3,000	0.35%	29/06/2018	Tradition
Rugby BC	2,000	0.35%	13/07/2018	Tradition
Kingston Upon Hull	3,000	0.35%	13/07/2018	Prebon
Leeds CC	5,000	0.35%	25/07/2018	Tradition
Aberdeenshire Council	5,000	0.37%	03/08/2018	Tradition
Broxtowe Council	2,000	0.35%	08/08/2018	Sterling
Salford CC	3,000	0.37%	08/08/2018	Tradition
Barnsley BC	2,000	0.39%	31/10/2018	Prebon
Doncaster Metropolitan Council	3,000	0.39%	01/11/2018	Prebon
Tewkesbury Borough Council	3,000	0.55%	01/11/2018	Tradition
Monmouthshire Council	5,000	0.58%	13/11/2018	Tradition
North Lanarkshire Council	5,000	0.72%	15/11/2018	Prebon
Lancashire CC	5,000	0.65%	15/01/2019	Tradition
Fife Council	5,000	0.68%	05/02/2019	Tradition
	54,000			
Money Market Funds / Fund Managers				
Fund Managers		Variable		
Invesco	5,000	Variable		
Deutsche Global (Henderson)		Variable		
Goldman sachs	1,500	Variable		
	Total	6,500		
	Grand total	60,500		

Investments with internal companies		
Wokingham Holdings	12,590	5.75%
Housing Revenue Account	8,874	4.5%
Total	21,464	
Grand Total 81,964		

Economic update

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon the bank rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising the bank rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise the bank rate very soon. The 2 November MPC quarterly inflation report meeting duly delivered by raising the bank rate from 0.25% to 0.50%. The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in the bank rate than had previously been expected.

Market expectations for increases in bank rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

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Glossary of terms

Authorised limit – represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term.

Boundary limit – is an estimate of the authorised limit but reflects an estimate of the most likely, prudent, but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements.

Capital financing requirement (CFR) - reflects the Council's underlying need to borrow for a capital purpose. It shows the total estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision mechanism.

CIPFA prudential code - is a professional code of practice to support local authorities in taking capital investment decisions. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services in accordance with the prudential code.

Consumer price index (CPI) - measures changes in the price level of a market basket of consumer goods and services purchased by households.

Ministry for Housing, Communities and Local Government (MHCLG) - is a ministerial department, supported by 12 agencies and public bodies. They are working to create great places to live and work, and to give more power to local people to shape what happens in their area.

European central bank (ECB) - the central bank for the euro and administers monetary policy of the eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world.

Fair value - is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price

Fed - the Federal Reserve system (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States.

Financing cost to net revenue stream - the percentage of the revenue budget set aside each year to service debt financing costs.

Funding for lending scheme (FLS) – was launched by the Bank and HM Treasury on 13 July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Gross domestic product (GDP) - is the market value of all officially recognized final goods and services produced within a country in a given period of time (usually the fiscal year).

Local authority lender option borrower option (LOBO) - the underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates, such as every 5 years.

Local enterprise partnerships - are partnerships between local authorities and businesses. They decide what the priorities should be for investment in roads, buildings and facilities in the area.

London interbank bid rate - the rate at which banks will bid to take deposits in Eurocurrency from each other. The deposits are for terms from overnight up to five years.

Monetary policy committee (MPC) - interest rates are set by the bank's monetary policy committee. The MPC sets an interest rate it judges will enable the inflation target to be achieved.

Minimum revenue provision (MRP) - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by Borrowing.

Private finance initiative (PFI) - this is funding public infrastructure projects with private capital.

Public works loan board (PWLB) - is a statutory body operating within the Debt Management Office, an executive agency of HM Treasury.

PWLB certainty rate - a reduced interest rate from PWLB to principal local authorities, which provided required information to government on their plans for long-term borrowing and associated capital spending.

Quantitative easing (QE) - a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Voluntary revenue provision (VRP) – this a discretionary provision to reduce the unfinanced capital expenditure (borrowing) by additional loan repayments.

TITLE	Annual Governance Statement 2017/18
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	None Specific
DIRECTOR	Interim Chief Executive - Manjeet Gill

OUTCOME / BENEFITS TO THE COMMUNITY

The Accounts and Audit Regulations 2015 that came into force on 1 April 2015 require authorities to prepare an Annual Governance Statement (AGS) in accordance with proper practices in relation to accounts.

The purpose of the AGS is to comply with this legal requirement and provide a transparent and accurate representation of the council's governance arrangements during 2017/18 and highlight issues that the council wishes to improve.

RECOMMENDATION

The Audit Committee is asked to consider and approve the AGS on behalf of the Council, prior to it being included in the final Statement of Accounts.

SUMMARY OF REPORT

The AGS covers the following key aspects of the governance environment in place at Wokingham Borough Council during 2017/18:-

- Establishing and monitoring the achievement of the council's objectives;
- Facilitation of Policy and Decision-making;
- Financial Management;
- Performance Management; and
- Risk Management.

It also comments on the effectiveness of the council's governance arrangements, including the system of internal control and the effectiveness of Internal Audit. It identifies areas of significant governance weaknesses that the council intends to address to further improve the governance framework in place. This demonstrates the council's commitment to openness and transparency.

Background

The AGS has been produced by the Corporate Leadership Team (CLT) following consideration of a number of Management Assurance Statements (MAS) produced by the council's three Directors, interim Director and two Assistant Directors. MAS's completed by WBC for 2017/18 have been signed by the relevant Director and Executive Lead Member to provide accountability and assurance to the Chief Executive and Leader of the Council, who are legally required to sign the AGS prior to it being included in the final Statement of Accounts.

Analysis of Issues

The AGS sets out the key governance issues during 2017-18.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

Other financial information relevant to the Recommendation/Decision

None

Cross-Council Implications

The AGS considers all aspects of the Council's services and operations.

Reasons for considering the report in Part 2

Not applicable

List of Background Papers

Accounts and Audit Regulations 2015

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk



WOKINGHAM BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT - 2017-18

The Accounting and Audit Regulations 2015 (at section 6.1 a) require a local authority to prepare an Annual Governance Statement.

At Wokingham Borough Council, good governance is everyone's responsibility. However, the Leader of the Council and Chief Executive acknowledge their leadership role in relation to good governance.

The Council has defined its governance arrangements in its *Local Code of Governance: Delivering Good Governance in Wokingham Borough Council*. This details how the council has operated its governance arrangements in the past year. The Council has undertaken a review of its governance arrangements via management assurance statements completed by Directors (including statutory officers), the Council's companies, and Internal Audit.

This process has identified the following improvements:

Environment Directorate

- a. Highways Alliance Governance arrangements have been strengthened particularly with the Council's partner Balfour Beatty and improving governance further in highways;
- b. A lead officer has been appointed to prioritise the delivery of the Building Control Improvement Plan;
- c. Strategic Development Location (SDL) governance arrangements have been operating well and are being maintained;
- d. The work of the Capital Prioritisation Group has been strengthened and is ongoing;
- e. Community Infrastructure Levy (CIL) and S106 expenditure delegated powers updated;
- f. Procedures for external in year bidding for WBC capital agreed at SCWG;
- g. Highway management governance improved and being reviewed (ongoing) particularly in respect of:
 - the SCAPE contract through the Strategic Highways Board and contract governance arrangements
 - Alliance contract renewal through Member working group (in addition to officer Board)
 - Weekly Highways Management Board – officer group

Corporate Services Directorate

- h. Following the audit review of debtors, the service area has put in place processes to firstly analyse the debt into that which is not yet due (eg: sub-30 day aged debt; CIL pre-trigger point), and that which is already under a payment plan. The next stage is to consider which of the remaining aged debt is worth pursuing (cost of recovery vs likelihood of recovery) and propose a scheme of write-off on this debt. That is worth pursuing will be subject to enhanced recovery processes (eg: direct contact with the individuals; consideration of legal enforcement action). Further project work is commencing with legal, and RBWM around the ASC debt to review the processes and engage with legal where it is necessary to secure the debt. All Resource is in place to deliver the actions in the rent improvement plan. Many of the actions have now been completed such as quarterly statements of account, these actions have help stabilise arrears which have remained static from January to March 2018, with April 2018 seeing the total rent arrears amount reduce that is a trend we are confident will continue.
- i. The formation of Strategy and Commissioning has enabled the development of an increasingly integrated approach to policy, strategy and commissioning across people and place services, and further embed the principles of an integrated approach and improved outcomes.
- j. The joint Strategic Needs Assessment process is enabling the Council to increase its outcomes for residents.
- k. Continual updating of all policies including, Anti-fraud and Corruption Polices, Whistle Blowing and the Member Code of Conduct and associated processes.
- l. Enhanced processes have been put in place regarding Executive delegated decisions.

People Services Directorate

The formulation of the People Services Directorate has enabled the development of an integrated systems approach to meeting the needs of local children, young people, families and adults requiring access to universal, targeted and specialist services.

The Integrated People Services Directorate delivery model allows for improved joined – up casework for service users when transitioning between the work of children’s and adult services.

Appointment of a Principal Social worker to provide greater capacity in the work of the Council’s Adult Safeguarding systems and processes.

Strengthened organisational performance governance, oversight and accountability methodology by developing directorate, service and operational team improvement plans along with setting up of children’s service and adult service improvement boards, with external scrutiny.

Development of business continuity plans written for services that previously deployed a separate myriad of documents approach.

All carers being contacted by phone to gain feedback on services to improve carer support, calls logged and themes recorded to inform staff mandatory training on carers support April 2018.

21st Century Council Programme

- m. Member Steering and IT Reference Groups have been merged to provide improved co-ordinated oversight and cross party representation
- n. Dedicated programme board for Customer and Localities in place
- o. Increased training for 4th tier managers prior to involvement in HR consultation processes

Commercial Property

- p. The combining of Strategic Assets with Regeneration will lead to a more efficient process of managing assets and maximising their value.

General

- q. Commencing reviews of our internal governance processes and management of risk including effective processes for continually benchmarking and reviewing value for money.

This process has also identified the following exceptions:

- a. Managing a safe transition from the current Highways Alliance contract to a new contract commencing in 2019 whilst maintaining effective working relationships;
- b. There have been several data breaches from housing services; these have been reported in line with the Council's policy and procedure;
- c. Lack of leadership capacity at Customer and Localities Assistant Director level due to acting up and interim arrangements to cover the Director role have become more pressing as we move through service redesign, staff selection and recruitment and preparation for June 2018 "go-live;"
- d. Within People Services, there were gaps at management levels including a number of temporary appointments that impacted on service continuity;
- e. The key risk for the new Commercial Property team currently is that of resource. The re-structure has enabled an additional two members of staff to come into the team together with a rationalisation of salaries which will lead to rapid recruitment of two long outstanding vacant posts. Through this transition period there is a concern about lack of resource which leads to a risk to process and control. Even when all of these

are recruited to, management of expectations will be necessary to ensure safe delivery and efficient operation

- f. Within the Commercial Property team, there has been an exception around the process for collecting and managing rental income which will be partially resolved when Technology Forge module becomes live. However, there is a limited process for understanding the detail of rental payments which is impacting upon our ability to properly manage the property portfolio. The issue is live with work being done to understand and resolve.

The Chief Executive has identified the actions required to strengthen these areas of governance and will monitor their implementation.

The Council therefore concludes that its governance arrangements are fit for purpose.

Signed:

Leader of the Council:

Date:

Chief Executive:

Date:

TITLE	External Quality Assessment of Conformance to the Public Sector Internal Audit Standards
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	None Specific
DIRECTOR	Director of Corporate Services - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Assurance that the quality of the work of the internal audit team meets the requirements of the Public Sector Internal Audit Standards and therefore enhance confidence that the Council's services and operations are well governed.

RECOMMENDATION

To note the results of the external assessment of the Shared Internal Audit & Investigations service against the Public Sector Internal Audit Standards.

SUMMARY OF REPORT

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS). The standards require periodic self-assessments and an assessment by an external person at least every five years.

Earlier this year, an external assessment was commissioned of the Shared Internal Audit & Investigations Service.

The results from this assessment concluded that the service general conforms to the standards and is a competent, professional, and well-qualified internal audit service that follows best practice. The service is well thought of by its clients, but is keen to improve their overall efficiency and effectiveness, and adapt to the changing needs of its clients.

The detailed assessment report is included with this report together with an action plan to deliver continuous improvements for the service.

Background

The Shared Internal Audit Service (SIAS) was formed in 2014 from the sharing of the internal audit services of Wokingham Borough Council (WBC) and the Royal Borough of Windsor and Maidenhead (RBWM), and these two authorities are the primary clients for the SIAS. However, the SIAS will provide internal audit and counter fraud services to any public sector organisation and currently has two other clients, being Bracknell Forest Council and Rushmoor Borough Council. These two clients purchase internal audit and counter fraud services from the SIAS through section 113 agreements (LGA 1972). The host authority for the SIAS is WBC.

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS). The standards require periodic self-assessments and an assessment by an external person at least every five years.

An external assessment of the SIAS was conducted by CIPFA earlier this year. The results are included in this report together with action plan to ensure continuous improvement to the service.

Analysis of Issues

The overall conclusion was that the internal audit service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead generally conforms to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

Other financial information relevant to the Recommendation/Decision

None

Cross-Council Implications

Internal Audit works across and with all parts of the Council.

Reasons for considering the report in Part 2

Not applicable

List of Background Papers

Public Sector Internal Audit Standards

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Shared Internal Audit Service - Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead -

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy & Technical Section, CIPFA

25th May 2018

Review of the Shared Internal Audit Service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead – 5th to 9th February 2018

1. Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). The standards require periodic self-assessments and an assessment by an external person at least every five years.

2. Background

The Shared Internal Audit Service (SIAS) was formed from a merger of the internal audit services of Wokingham Borough Council (WBC) and the Royal Borough of Windsor and Maidenhead (RBWM), and these two authorities are the primary clients for the SIAS. However, the SIAS will provide internal audit and counter fraud services to any public sector organisation and currently has two other clients, being Bracknell Forest Council and Rushmoor Borough Council. These two clients purchase internal audit and counter fraud services from the SIAS through section 113 agreements (LGA 1972). The host authority for the SIAS is WBC.

The current structure of the Internal Audit Service comprises 11 full-time equivalent (FTE) internal audit and counter fraud specialists. These are made up of a Lead Specialist; a Senior Specialist; 3.6 FTE L2 Specialists; and 5.4 FTE L1 Specialists. The SIAS uses external specialists, such as computer auditors, to supplement the team as and when needed. In addition, there is a designated Chief Audit Executive for the SIAS. This role is fulfilled by the Assistant Director Governance Services at Wokingham Borough Council on a part time basis, as they are also responsible for a range of other services at the Council.

The Service has carried out self-assessments on an annual basis to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and used the outcome of these reviews to inform the quality assurance and improvement programme (QAIP).

3. Review Process

The Assistant Director Governance Services commissioned CIPFA to undertake the mandatory external quality assessment (EQA) of the SIAS. The review was carried out in February 2018, with the on site stage taking place between the 5th and 9th February 2018. The assessment process comprised a series of interviews and document reviews. Interviews were carried out with the members of the SIAS, and key stakeholders from the client Council's Senior Management Teams and members of their respective boards.

The document review phase of the process involved a detailed review of the documents used and produced by the SIAS. The Service provided a comprehensive range of documents that were available for examination prior to and during this review. These included the audit manual; the Service's self-assessment against the PSIAS; individual audit files and working papers; audit protocols; and a range of reports and communications that demonstrated the flow of information between the SIAS, and the senior managers and Boards of the respective Councils. Whilst all of the documents contributed to the external quality assessment, the following are regarded as fundamental and a major contributor to the review process:

- the audit charters and covering reports, and the terms of reference for the respective Boards;
- progress reports to the WBC Audit Committee, the RBWM Audit and Performance Review Panel, and the senior management teams of the two authorities;

- the Chief Audit Executive’s annual reports and opinions to the boards of the two authorities;
- the audit plans and covering reports to the boards of the two authorities;
- the audit manual and the protocols with SIAS’s clients;
- individual audit reports and working papers;
- staff declarations of interest and objectivity; and
- staff qualifications and experience, and their training and development records.

4. Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, it is apparent that the Shared Internal Audit Service is a competent, professional, and well-qualified internal audit service that follows best practice. Although they are well thought of by their clients, they are keen to improve their overall efficiency and effectiveness, and adapt to the changing needs of their clients. The SIAS are providing objective risk based internal audit services to their clients. Nonetheless, there are opportunities to enhance and develop the SIAS’ operations that they should consider embracing if they are to maintain their status with their clients, and enhance the SIAS’ conformity to the PSIAS and the LGAN.

During this review, one minor area of non-compliance with the standards was identified. Although no areas of partial compliance with the standards were identified, we have made some minor observations that should be addressed.

On this basis, it is our opinion that Shared Internal Audit Service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.

The observations identified during the review are set out in section five of the report, together with recommendations (R) and suggestions (S) to address them. These recommendations and suggestions are included in the action plans at section seven of this report.

The process also identified some opportunities (O) for the SIAS to enhance its operations although these do not have an effect on their compliance with the PSIAS or the LGAN. These opportunities have been included for information in section six of the report.

An internal audit service’s conformance with the PSIAS and the LGAN falls into one of the three categories below. Further details on each of these categories can be found in section nine of this report.

Generally Conforms	Partially Conforms	Does Not Conform
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A list of the individuals interviewed during the review is included as section eight of this report.

The Chief Audit Executive and his management team have been provided with details of the areas where there is scope to enhance conformity with the PSIAS and the LGAN, and incorporate further good practice into the SIAS’ operations.

The co-operation of the SIAS in providing the information requested during this review, as well as those stakeholders that made themselves available for interview, was much appreciated and has made it possible to obtain a thorough view of the SIAS’ business, and the contribution it makes to its client’s organisational objectives.

5. Summary of observations, recommendations, and suggestions

Standard	Compliance	Observations	Recommendations & Suggestions	No.
Mission	Does Not Conform	The audit charters do not include the mission statement from the PSIAS as required by the revised (2017) PSIAS. The SIAS has a business plan which includes a section entitled 'Our Vision' which acts as the Service's mission statement but it does not conform to the specific wording of the PSIAS.	Add the mission statement from the PSIAS to the audit charters for all of the clients.	R1
Core principles of internal audit	Generally Conforms	Overall, the SIAS generally conforms to the core principles of internal audit. Refer to the comments is standard 1000 below.	See recommendation R2 below.	R2
Code of Ethics	Generally Conforms	Overall, the SIAS generally conforms to the Code of Ethics for Internal Auditors and the Seven Principles of Public Life. This is stated in the audit charter and is included in the audit manual that underpins the way the SIAS operates.		

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Standard	Compliance	Observations	Recommendations & Suggestions	No.
		however, a review has not been carried out at either authority for some time.		
1100 Independence and objectivity	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN, although there are some observations to address, mainly relating to the Chief Audit Executive's independence and objectivity.</p> <p>The first observation relates to the transparency of the Chief Audit Executive role at RBWM. The protocol between the SIAS and RBWM states that the Assistant Director Governance Services at WBC is the Chief Audit Executive for RBWM, whereas in practice the Lead Specialist from the SIAS fulfils the role. To avoid any element of doubt and potential confusion this should be clarified within the audit protocol.</p> <p>The second observation relates to the potential impairments to the independence and objectivity of the Assistant Director Governance Services' (CAE). The Assistant Director Governance Services is the Monitoring Officer at WBC and has direct responsibility for the Governance, risk management, electoral and democratic services at the Council, as well as the SIAS. Whilst it is not unusual for the Chief Audit Executive to have other responsibilities, these potential impairments to independence and objectivity need to be set out clearly in the audit charter and audit protocol for WBC, together with the reporting lines that the SIAS will follow when auditing the other activities managed by the Assistant Director Governance</p>	<p>It is suggested that the audit protocol between the SIAS and RBWM clarifies which officer from the SIAS actually performs the function of the Chief Audit Executive.</p> <p>Amend the audit charter at WBC, and the audit protocol between the SIAS and WBC, to set out clearly the potential impairment to the Chief Audit Executive's independence and objectivity from directly managing a range of services that the SIAS may review, and how and where the SIAS will report the results of audits carried out in these areas.</p> <p>Recommendation R2 above also relates to this standard.</p>	<p>S2</p> <p>R3</p> <p>R2</p>

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		Services.		
1200 Proficiency and due professional care	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN, although there is one observation to address. This relates to ICT governance and the audit of the ICT arrangements at WBC. The management team at the SIAS are aware that although an ICT audit needs assessment has been carried out for RBWM, one has not been carried out at WBC. As ICT underpins most of the Council's operations, it is important to ensure that the key ICT risks are identified and audited. Updating the ICT audit needs assessment is a task that is on SIAS' QAIP action plan but at the time of the EQA remained outstanding.	It is suggested that the SIAS commissions external ICT audit specialists to undertake an ICT audit needs assessment for the primary clients and use this to inform the future internal audit plans.	S3
1300 Quality assurance and improvement programme	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observation and this is set out below. Standard 1321 allow internal audit services to use the statement 'conforms to the IPPF' or in the case of public sector internal audit services, 'conforms with the PSIAS' when the work they have undertaken fulfils this criteria. The SIAS includes such a statement in its annual report to its clients, but not in the individual internal audit reports that it issues.	The SIAS should consider adding the statement 'conforms with the Public Sector Internal Audit Standards' to the introduction section (paragraph 1.1) of the individual audit reports where the review conforms to the standards. Where it does not conform, a statement of non-conformance should be added instead.	S4
Performance standards				
2000 Managing the internal audit	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observations relating to the SIAS' audit	It is suggested that the SIAS undertakes a comprehensive review of its audit manual to ensure it is up to	S5

Standard	Compliance	Observations	Recommendations & Suggestions	No.
activity		manual. This document was last reviewed and updated in August 2016. The management team at the SIAS are conscious that this is a live document and there is a task on their QAIP action plan to review and update the audit manual, particularly to reflect the changes made to the way the SIAS operates, job titles, and any issues arising from this review.	date and remains fit for purpose.	
2100 Nature of work	Generally Conforms	The SIAS generally conforms to this standard and the associated parts of the LGAN. There is one observations relating to the SIAS' ability to form an opinion on the ICT governance arrangements for their client authorities. At present, the SIAS does not receive copies of the annual PSN reviews that are carried out on the ICT services of the client authorities. These reviews are performed by external specialists and can be used as a source of evidence to help inform the Chief Audit Executive's annual opinion.	It is suggested the SIAS routinely obtains copies of the PSN reviews for WBC and RBWM, and determines whether the work undertaken for these reviews can contribute to the Chief Audit Executives annual opinion. Recommendation R3 above also relates to this standard.	S6 R3
2200 Engagement planning	Generally Conforms	The SIAS generally conforms to all elements of this standard and the associated parts of the LGAN. Engagement planning is a fundamental part of the internal audit process. In the case of the SIAS, their engagement planning processes are set out clearly in the audit manual, and a review of a sample of audits indicated that they are being used effectively.		
2300 Performing the engagement	Generally Conforms	The SIAS generally conforms to all elements of this standard and the associated parts of the LGAN. The methodologies for performing		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		engagements are set out clearly in the audit manual and followed by the team when conducting reviews.		
2400 Communicating the results	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN with two observations that are set out below.</p> <p>Although the SIAS uses a 'lean' approach to its audit reports, they are nonetheless informative, easy to read and laid out well. The SIAS carries out its audits in conformance with the PSIAS but this is not mentioned in the individual audit reports, as mentioned in standard 1300 above.</p> <p>The second observation relates to the release of audit reports to third parties. Standard 2410.A3 requires audit reports to include a statement regarding the limitations on distribution of the report, and the use of the report contents. Whilst this is a key element for reports that are released to third parties, it is good practice to include such a statement in the audit report template for all audits. The process for releasing reports to third parties should also be added to the audit manual at its next revision.</p>	<p>Add a suitable statement on the distribution and use of the content of internal audit reports to each report.</p> <p>Add a section to the audit manual that sets out the process for releasing audit reports to third parties.</p> <p>Suggestion S4 above also relates to this standard.</p>	R4 R5 S4
2500 Monitoring progress	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN. Management's progress on implementing agreed actions from internal audit reviews is monitored by the SIAS. Should managers fail to implement agreed actions there is an effective escalation process in place at both</p>		

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		authorities.		
2600 Communicating the acceptance of risks	Generally Conforms	<p>The SIAS generally conforms to this standard and the associated parts of the LGAN, with one observation.</p> <p>There are processes in place to report significant issues regarding the acceptance of risks that exceed the respective Council's risk appetites should the need arise, but these are not included in the SIAS' audit manual.</p>	Add a section to the audit manual on the escalation processes to be followed where the Chief Audit Executive believes management is accepting a level of risk that is unnecessarily high.	R6

6. Opportunities to Enhance Services

Senior Management within the Shared Internal Audit Service is keen to develop the way the Service operates and to enhance the quality and range of services that they provide to their existing and potential clients. With this in mind, the following opportunities have been identified, together with some suggested actions for consideration.

No.	Observation	Suggested Action
O1	<p>The SIAS is a shared internal audit and counter fraud service for Wokingham Borough Council and the Royal Borough of Windsor and Maidenhead. The SIAS is hosted by WBC. In addition to the main clients of WBC and RBWM, the service will provide internal audit and counter fraud services to any public sector organisation that requires them. The SIAS currently provides such services to Bracknell Forest Borough Council and Rushmoor Borough Council, and has previously provided services on an ad hoc basis to other local authorities. The SIAS is keen to develop this side of their operations over the coming months and years, to generate revenues for the host authority and contribute to their operating costs.</p> <p>The Chief Audit Executive for the SIAS is the Assistant Director Governance Services at WBC. This officer is also WBC's Monitoring Officer, with direct responsibility for managing the Council's governance, electoral, democratic and risk management functions, and as such has a limited amount of time to devote to managing the SIAS.</p>	<p>It is suggest that the management board for the SIAS considers the operational management and operating model for the SIAS to determine whether the current structure is sustainable for the future growth and development of the SIAS.</p>
O2	<p>As SIAS's primary clients move further towards digitalising the services they deliver, there will be an increased need for auditors with a sound understanding of how to audit digital systems. At present, SIAS' team are able to cover the high-level ICT controls during routine audits, but on the whole the SIAS does not have the detailed knowledge to undertake in depth or technical reviews of ICT applications.</p>	<p>In the short term, the SIAS should look to procure specialist ICT audit skills from an external provider. However, in the longer term the SIAS should consider developing and training members of the existing team in ICT audit skills to a level where they can undertake more in depth and complex ICT audits.</p>

	<p>Whilst it is acknowledged that the SIAS can buy in these skills from external providers, and this is certainly an option to consider, there is an opportunity for the SIAS to develop ICT audit skills amongst its own in-house team and provide the more in depth ICT reviews for the clients.</p>	
O3	<p>The SIAS makes use of technology to extract and analyse data from ICT systems, mainly by using excel and the reporting functionality imbedded in key financial systems. However the SIAS does not currently use dedicated computer assisted audit techniques (CAATs), such as IDEA or ACL, to audit the core financial and HR systems of its clients.</p> <p>The most commonly used CAATs application in the public sector is IDEA, which given the limited financial resources available to the SIAS, is competitively priced and relatively straight forward to use. The suppliers of IDEA also market a supplementary application called SmartAnalyser, which contains sets of pre-defined test scripts that can be run on the key financial and HR systems, without the need for users to have detailed knowledge on how to write test scripts.</p> <p>Using a product such as IDEA with SmartAnalyser would enable the SIAS to audit all of the transactions in the key financial and HR systems of its client Councils on a regular basis, thus giving a greater level of assurance to the respective S151 Officers.</p> <p>In addition, this could become a unique selling point for the SIAS and become a service that they market to other Councils, enabling the SIAS to grow its client base.</p>	<p>Consideration should be given to obtaining a suitable CAATs application and using this to audit the core financial and HR systems at the client councils on a regular basis. Whilst there are a number of applications on the market, IDEA version 10 with the add on supplementary application SmartAnalyser, is likely to be the most cost effective application to consider given the limited financial resources available.</p>
O4	<p>The LGAN suggests that internal audit should coordinate their audits of the key financial systems with the work undertaken by external audit, to avoid the duplication of effort and to enable the external auditors place reliance on the work of internal audit.</p>	<p>Assuming that the SIAS will not be using CAATs to audit the key financial processes in the short term, consideration should be given to putting the well controlled and less risky key financial processes onto a longer frequency than annual, say once every two or three years.</p>

	<p>Recent changes to the international auditing standards has meant that external auditors have reverted back to using substantive testing processes for their audits and there are now limited opportunities for them to rely on the work of internal audit. There is now less of an argument for internal audit services carrying out audits of key financial systems on an annual basis, and towards the end of the financial year. On this basis, consideration should be given to the approach used for auditing these processes.</p>	<p>Regardless of the frequency adopted for the audits of the key financial systems, consideration should also be given to moving these internal audits away from the last quarter of the year, when the external auditor is auditing the processes, to a more convenient time for the SIAS and the client, say quarter three or late quarter two. This should also mean that the work would be completed and reported on in time for the external auditor to consider if there are any controls issues that they need to focus on during their substantive testing.</p>
O5	<p>The SIAS does not currently use an audit management system to manage the planned audits, time recording, and store the working papers, TORS, reports etc for the assignments.</p> <p>At present, all of the documents used during an audit are stored on the SIAS' secure shared drive on a WBC computer server. Whilst this approach works well and records can be accessed by all of the team members, the SIAS may wish to consider the use of a specialist audit management system for the future, particularly if their client base expands, as this may enable them to enhance their processes and generate operating efficiencies. Some of the products on the market include action tracking modules and can be linked to performance and risk management applications.</p>	<p>The SIAS should consider evaluating the audit management systems currently available to see if there is a suitable application to adopt when the time is right.</p>
O6	<p>The structure of the SIAS is relatively flat and lean, with very few officers holding management positions and able to carry out file reviews of completed audits. The approach adopted by the SIAS is to use a peer review process that is, overall, efficient and effective. However, from a review of a sample of completed audits it was apparent that not all of the peer reviewers have completed all parts of the file review schedule.</p>	<p>It is suggested that the management team of the SIAS remind the peer reviewers of the importance of completing all sections of the file review sheets, and consider introducing a quality assurance process where they randomly check a sample of completed reviews for compliance with the review process.</p>

7. Action Plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Add the mission statement from the PSIAS to the audit charters for all of the clients.	The Mission Statement is included in the Business Plan, but this can be added to the updated audit charters.	Lead Specialist	31st July 2018
R2	Update the audit charters to ensure they include all of the elements required by the PSIAS, in particular:- <ul style="list-style-type: none"> refer to the core principles of internal audit along with the other mandatory guidance; replace the generic definition of the 'board' currently included in the audit charters with the specific titles of the bodies fulfilling the role of the 'board' at each authority i.e. the Audit Committee for WBC, and the Audit and Performance Review Panel for RBWM. 	Agreed. A refresh of the audit charters to include these references.	Lead Specialist	31st July 2018
R3	Amend the audit charter at WBC, and the audit protocol between the SIAS and WBC, to set out clearly the potential impairment to the Chief Audit Executive's independence and objectivity from directly managing a range of services that the SIAS may review, and how and where the SIAS will report the results of audits carried out in these areas.	Agreed. A refresh of the audit charter and protocol at WBC to reflect this status.	Lead Specialist	31st July 2018
R4	Add a suitable statement on the distribution and use of the content of internal audit reports to each report.	Agreed. Templates to be updated to include a statement.	Lead Specialist	31st July 2018

No	Recommendation	Response	Responsible Person	Action date
R5	Add a section to the audit manual that sets out the process for releasing audit reports to third parties.	Agreed. Audit Manual to be updated.	Lead Specialist	31st August 2018
R6	Add a section to the audit manual on the escalation processes to be followed where the Chief Audit Executive believes management is accepting a level of risk that is unnecessarily high.	Agreed. This process to be clarified in the updated Audit Manual.	Lead Specialist	31st August 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested the Chief Audit Executive coordinates a remit and effectiveness review for the Audit Committee at WBC, and the Audit and Performance Review Panel at RBWM. This will enable the boards to identify areas where they may need to strengthen their knowledge.	Agreed. Senior Specialist and Lead Specialist to assist CAE with such a review of the WBC Audit Committee.	Chief Audit Executive	31st August 2018
S2	It is suggested that the audit protocol between the SIAS and RBWM clarifies which officer from the SIAS actually performs the function of the Chief Audit Executive.	Agreed. CAE arrangements to be clarified in refreshed audit protocol at RBWM.	Lead Specialist	31st July 2018
S3	It is suggested that the SIAS commissions external ICT audit specialists to undertake an ICT audit needs assessment for the primary clients and use this to inform the future internal audit plans.	An audit needs assessment was undertaken for RBWM. For WBC, the CAE submitted the 2018/19 Audit Plan that did not contain any IT Audit resource. This has been approved by Corporate Leadership Team and the Board. Therefore, for WBC, no IT needs assessment required. This was	Chief Audit Executive	N/A

No	Suggestion	Response	Responsible Person	Action date
		also the case for the 2017/18 year.		
S4	The SIAS should consider adding the statement 'conforms with the Public Sector Internal Audit Standards' to the introduction section (paragraph 1.1) of the individual audit reports where the review conforms to the standards. Where it does not conform, a statement of non-conformance should be added instead.	The RBWM and WBC annual reports both make reference to say 'Currently the Internal Audit team generally conforms'. Para 20 in WBC 2017/18 Annual Report and para 23 in RBWM's 2017/18 Annual Report.	Lead Specialist	N/A
S5	It is suggested that the SIAS undertakes a comprehensive review of its audit manual to ensure it is up to date and remains fit for purpose.	Agreed. This will be carried out – links with R5 and R6 above.	Lead Specialist	31st August 2018
S6	It is suggested the SIAS routinely obtains copies of the PSN reviews for WBC and RBWM, and determines whether the work undertaken for these reviews can contribute to the Chief Audit Executives annual opinion.	The decisions were taken at RBWM and WBC not to subscribe to PSN reviews in the light of required savings.	CAE/Lead Specialist	N/A

8. Interviewees

Person	Position	Organisation
Andrew Moulton	Assistant Director Governance Services (Chief Audit Executive)	Wokingham Borough Council
Catherine Hickman	Lead Specialist – Shared Internal Audit Service	Wokingham Borough Council
Julie Barker	Senior Specialist – Shared Internal Audit Service	Wokingham Borough Council
Audit Team	L2 and L1 level auditors and investigators	Wokingham Borough Council
Graham Ebers	Corporate Director and Deputy Chief Executive (Section 151 Officer)	Wokingham Borough Council
Jonathan Ross	Senior Specialist Business Services	Wokingham Borough Council
Manjeet Gill	Interim Chief Executive	Wokingham Borough Council
Anthony Pollock	Chair of the Audit Committee	Wokingham Borough Council
Rob Stubbs	Deputy Director and Head of Finance (Section 151 Officer)	Royal Borough of Windsor and Maidenhead
Alison Alexander	Managing Director (telephone interview)	Royal Borough of Windsor and Maidenhead
Paul Brimacombe	Past Chair of the Audit and Performance Review Panel (telephone interview)	Royal Borough of Windsor and Maidenhead

9. Definitions of Conformance with the Standards

Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Ray Gard, CPFA, FCCA, FCIIA, DMS

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Agenda Item 15.

TITLE	Internal Audit of 21st Century Council Programme
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	(All Wards);
DIRECTOR	Director of Corporate Services - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Assurance on the governance arrangements for the delivery and management of the 21st Century Council Programme.

RECOMMENDATION

To note the internal audit memorandum summarising the conclusions from the audit of the 21st Century Council Programme.

SUMMARY OF REPORT

Internal Audit work has been conducted on various aspects of the 21st Century Council programme including:-

- Governance, including the governance structure, roles and responsibilities, and reporting – a follow-up to the previous review reported to Audit Committee in December 2017.
- Risk Management, including risk identification, risk assessment and mitigation, including responsibilities and timescales.
- Finance, focussed solely on financial savings identified in the 21C Programme Business Case aimed at delivering the vision for the new operating model.
- IT work stream programme management, including the framework and procedures, programme management, phases and stages, project assurance, change control, reporting and monitoring.

This is part of a rolling programme of audit that will continue over the lifetime of the programme.

The overall conclusion is that internal controls are effective. Details can be found on the attached audit memorandum.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

Other financial information relevant to the Recommendation/Decision

None

Cross-Council Implications (how does this decision impact on other Council services, including properties and priorities?)

The 21st Century Council programme represents a major reorganisation of the Council and impacts services and staff across the Council.

Reasons for considering the report in Part 2

Not applicable

List of Background Papers

Internal Audit memorandum dated 24 May 2018

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk

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Shared Audit & Investigation Service

Emerging Findings Memorandum

To: Heather Thwaites, Director Localities & Customer Service, 21C Programme Director
Matthew Pope, 21C Programme Manager
Manjeet Gill, Chief Executive
Paul Senior, Director People Services
Graham Ebers, Director Corporate Services
Josie Wragg, Interim Director Environment
Andrew Moulton, Assistant Director Governance
Sally Watkins, Head of IT and Business Analysis

From: Catherine Hickman, Lead Specialist – Audit and Investigation

Date: 24 May 2018

Re: 21st Century Council Programme - Internal Audit Review 2018/19

1. INTRODUCTION

- 1.1 This rolling internal audit review has been undertaken in accordance with the 2018/19 Annual Internal Audit Plan, following agreement by the Corporate Leadership Team and the Audit Committee to report on developments as the 21st Century Council (21C) Programme progresses. Ongoing internal audit reviews of the 21C Programme have been included in the internal audit plan up to 2020 (to post implementation review stage).
- 1.2 The principal objective of this audit is to determine whether the controls over the operation of the 21C Programme, as stated in the Business Case (September 2016), are effective and efficient.
- 1.3 The key areas we have reviewed are:
- Governance, including the governance structure, roles and responsibilities, and reporting – a follow-up to the previous review reported to Audit Committee in December 2017.
 - Risk Management, including risk identification, risk assessment and mitigation, including responsibilities and timescales.
 - Finance, focussed solely on financial savings identified in the 21C Programme Business Case aimed at delivering the vision for the new operating model.
 - IT work stream programme management, including the framework and procedures, programme management, phases and stages, project assurance, change control, reporting and monitoring.



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2. EXECUTIVE SUMMARY & AUDIT OPINION

- 2.1 Overall, Internal Audit are satisfied that controls over risk management, programme management (IT framework and financial reporting) and governance are operating effectively.
- 2.2 Effective risk management arrangements are in place both at a strategic and operational level. To enhance arrangements further, the programme may benefit from:
- Increased representation at Programme Board;
 - Additional information to include action owners and timescales on the programme risk register;
 - A risk identification exercise to ensure emerging risks, such as third party risk, have been identified as the programme evolves.
- 2.3 The management and co-ordination of IT projects under the 21C Programme was found to be highly effective and consistently applied across the sample we reviewed. A transparent approach has been taken to project planning and reporting, with all project documentation accessible to the Programme Management Team and IT Board. A Forecast Sheet is maintained for the IT investment aspect of projects within the 21C Programme, with specific controls in place for approving Purchase Orders and expenditure (authorisation is required by the 21C Programme Manager). Savings are achieved through efficiencies in this area of the Programme, rather than financial savings target specified.
- 2.4 The programme governance arrangements were found to have remained robust, since the previous internal audit review, with comprehensive reporting and presentations made to the key governance groups at regular intervals. Governance arrangements may be further enhanced by maintaining supporting information quantifying the outcomes and benefits achieved.
- 2.5 The 21C Programme is stated as being on track to break even by the end of the four year period to 2019/20. Detailed financial reports are submitted to the key governance bodies - information for audit testing to substantiate financial data was awaited at the time of the review (as at 18th May 2018).
- 2.6 Throughout the Summary of Findings, we have raised observations that we consider could benefit the Programme if implemented, to further strengthen current practices. The implementation of any agreed observations will be reviewed as part of the next internal audit update (anticipated December 2018).

AUDIT OPINION

Based upon our review of the controls in place within the 21C Programme, we have concluded that controls are:



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Substantially Complete and Generally Effective

- Most key Treatment Measures are in place and these operate effectively.
- The majority of residual risks have been reduced to an acceptable level.
- There are some possible financial implications arising.
- The majority of concerns are of a predominantly moderate impact/likelihood.

(Risk management processes are good and controls are adequate although only partially effective).

3. SUMMARY OF FINDINGS

Risk Management

- 3.1 We established that the programme has been identified as a corporate risk, with ongoing mitigating actions implemented. An up to date programme risk register is in place to manage risks at a strategic level and an additional process has been developed to manage operational project risks.
- 3.2 Whilst there is a process in place for identifying programme risks, the risk management process would benefit from recurring presentation at Programme Board meetings. The identification and prevention of emerging risks could be missed if risk management is not a regular feature on the Programme Board agenda (observation 1).
- 3.3 Lead officers have been assigned to each programme risk, but risk reduction actions have not been assigned to individuals and no timescale has been set for implementing each action (observation 2).
- 3.4 The programme risk register does not currently include any risks relating to third party involvement within the programme. In addition, the risk matrix on the front page of the register needs updating so that it accurately reflects the programme risk scores (observation 3).
- 3.5 A review of updated programme risk registers, spanning the period Oct 2016 to May 2018, showed evidence that risks are subject to review, with some risks and their mitigations amended. The programme should benefit, however from ongoing risk identification exercises to ensure emerging strategic risks are captured and mitigated as the programme evolves (observation 4).
- 3.6 Risk reporting arrangements were found to be effective and inclusive of both senior management and members. The corporate risk register sets out the appetite for the programme as low; the programme risk register indicates there is currently one very high risk and three high risks. Current levels of senior management oversight concerning high priority risks should continue.

Programme Management



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- 3.7 There is an effective plan in place that shows all IT projects under the 21C Programme against a clear timescale. There is an additional register in place to co-ordinate all of the 21C projects and a Project Management Offer has been engaged to clearly set out how the projects will be managed, ensuring a consistent and transparent approach across the high number of 21C projects.
- 3.8 Internal Audit tested a sample of three major IT projects (Information@Work, Income Manager and Customer Access–Revenues) and found that a project plan and project initiation document had been developed in all cases we reviewed. Approval of the projects could not be located, but it was clear from weekly highlight reports that the IT board has full oversight and that reporting arrangements are robust.
- 3.9 Highlight reports provide a snapshot of the projects' achievements and objectives for the period and also raise any issues or blockers, however they do not currently include reporting on budgetary achievements or savings. This could increase the risk of the project losing track of its budget position (observation 5).
- 3.10 A SWOT analysis process is in place to enhance decision-making around product selection, providing the IT Board with information about costs, capabilities, benefits, resources required and options. Effective reporting arrangements were identified and change control processes were found to be robust.

Governance Arrangements

- 3.11 The governance framework is considered to have remained robust, since the previous report to the Audit Committee in December 2017.
- 3.12 There is evidence to confirm that comprehensive reporting and presentations have been made to the key governance groups at regular expected intervals, primarily:
- Joint Working Group (Members/Officers) receives detailed documented presentations setting out progress, benefits, issues, potential issues and outcomes. These are made available and updated throughout the year (approximately monthly since the December 2017 audit review).
 - Executive receives detailed reports on a quarterly basis setting out the project history and progress, providing highlight reports and impact assessments. Executive are also the key recipient of financial reporting for the project and associated savings. A Financial Implications section, including a table covering the four-year period is updated quarterly. This sets out the savings targets identified in the Business Case (September 2016) compared with the actuals and forecasts for each year, plus any variances. The Strategic Finance Group (SFG) was included in the original governance framework for the project, but has not applied in practice given that Executive are the public scrutiny body.



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- Overview and Scrutiny (O&S) Management Committee receive reports on 21C Programme issues on an exceptions basis, as agreed. A detailed report, including a specific report against the Key Lines of Enquiry, was most recently presented 27th March 2018. This meeting was attended by Internal Audit and it was noted that the contents of the report were fully examined and challenged by Members.
- The Programme Board comprises the Corporate Leadership Team (CLT) which meets weekly. It was agreed at the previous audit review (December 2017) that an appropriate level of recording/key decisions should be in place for the 21C Programme through this forum.

- 3.13 The governance reporting structure evidently includes details of outcomes and benefits of the 21C Programme to key stakeholders. The information reported is regularly updated as the implementation of the project progresses. It can be difficult, however, to quantify some of these benefits and to substantiate the less tangible outcomes - for example greater efficiency of working practices, improvements to customer experience and perceptions – such benefits may take a longer period to measure and quantify.

A Benefits Map has been set up by the 21C Programme Manager which was demonstrated during this review. This aims to illustrate the benefits achieved as the Programme is implemented and develops. We therefore recommend that this is maintained to support the outcomes and benefits reported, especially for the more subjective aspects, as it may only be possible to fully review and quantify these after implementation. This approach should serve to meet any challenges arising (observation 6).

- 3.14 The Programme Status has been reported as Amber to date (as at April 2018). An audit opinion category 2 – Substantially Complete and Generally Effective (2nd highest out of 4 Audit Opinions), has been assigned as a result of this audit review. This is considered to be in line with the current Programme Status.

Financial Reporting

- 3.15 As stated in the Governance Arrangements section above, regular financial reports are submitted to Executive as the primary body and to O & S Management Committee. The presentations to the Joint Working Group also set out summary financial data and implications.
- 3.16 The 21C Programme is stated as being on track to break even by the end of the four year period to 2019/20. Savings of £2.75 million were also reported as on target for 2018/19.
- 3.17 Details of actuals, forecasts and variances against the Business Case savings targets identified between 2016 and 2020 are set out at Financial Implications tables in the reports to Executive and O & S (Management) Committee.
- 3.18 In addition to the above, “savings at risk” are highlighted where these are not expected to be realised for specific reasons. These currently relate to People Services, representing



Shared Audit & Investigation Service

savings at risk of £0.75 million in the current year 2018/19 and £1.1 million for 2019/20, with explanations set out in the relevant reports (primarily due to delays with implementing the Programme in this service area, leading to an expected underachievement in planned savings during the year).

- 3.19 Evidence to support the audit trails to verify actual savings and savings at risk figures quoted was supplied as this review concluded (as at 23 May 2018), i.e. a summary of Financial Benefits for the 21C Programme, set out by Phase and Tranche. This illustrates the Funding Projections position in more detail to support high level reporting.

Additional audit work will be carried out as the Programme progresses to verify the audit trails supporting the Financial Benefits summary, i.e. “drill down” through totals recorded, review of accounting records to support actuals as stages are complete, etc.

It is recommended that a clear audit trail to support and substantiate actuals against budgeted savings be maintained throughout the project. This evidence should ideally be held in a suitable format to meet any challenges to the figures quoted, should this arise (observation 7).

Please do not hesitate to contact us if you have any queries about this review, or any other matter.

We would like to thank all of you for all of your assistance during the course of this Audit.

Catherine Hickman
Lead Specialist – Audit and Investigation Service
Issued on delegated authority of the Chief Audit Executive

Auditors:

Kelly Knapman, Level 2 Specialist – Audit and Investigation Service

Julie Barker, Senior Specialist – Audit and Investigation Service

Agenda Item 16.

TITLE	Corporate Risk Register Refresh
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	None Specific;
DIRECTOR	Chief Executive - Interim Manjeet Gill

OUTCOME / BENEFITS TO THE COMMUNITY

Enterprise Risk Management (ERM) provides for robust and transparent decision-making. Effective ERM is therefore an integral part of the council's control environment and helps demonstrate the effective use of resources and sound governance. The council's Corporate Risk Register (CRR) demonstrates that the council is pro-actively identifying and managing its significant business risks.

RECOMMENDATION

The Audit Committee is asked to consider and note the risks and mitigating actions of the Council's corporate risks as detailed in the attached CRR.

SUMMARY OF REPORT

The report shows the latest Council Corporate Risk Register (CRR) following review by officers. The details of the CRR are attached to this report (Appendix A).

Background

The roles and responsibilities of Members and Officers with respect to Risk Management are detailed in the Council's Enterprise Risk Management Policy (ERMP) which was approved by the Audit Committee. The ERMP states that the Corporate Leadership Team (CLT) is responsible for identifying and managing the Council's risks and opportunities, and for setting an example to staff. CLT is also responsible for identifying, analysing and profiling high-level strategic and cross-cutting risks on a regular basis.

The Audit Committee is required to seek confirmation that the Council's strategic risks are being proactively managed. Strategic risks are essentially those risks that might occur and could prevent the Council from achieving its objectives as detailed in its Vision, Priorities and Corporate Plan.

Analysis of Issues

There have been one significant changes to the risk register as part of this update since the CRR was presented to the Audit Committee in February this year. This concerns risk 28 (Leadership) which has been escalated due to uncertainties around the timescales of the Chief Executive recruitment process.

Other updates to register surround risks 7, 8 and 27 where further risk mitigation has been undertaken.

No new risks have been added since the register was last considered by the Committee.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

Other financial information relevant to the Recommendation/Decision

There are no financial implications to be noted as a result of this refresh. However there are risks within the register that should they materialise, would have a significant financial impact on the authority.

Cross-Council Implications

A risk is an unexpected event or action that can adversely affect the Council's ability to achieve its objectives and successfully execute its strategies. Risk Management is

about managing opportunities and threats to objectives. Therefore good risk management will assist the Council in delivering its services and achieving its priorities.

Reasons for considering the report in Part 2

Not applicable

List of Background Papers

Previous Corporate Risk Register papers to Audit Committee
Enterprise Risk Management Strategy and Policy

Contact Andrew Moulton

Telephone No Tel: 07747 777298

Service Governance

Email

andrew.moulton@wokingham.gov.uk

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Corporate Risk Register
 Summary Page
 Updated 24/5/18

APPENDIX A

Key

Current
Score:

VH = Very High

H = High

M = Medium

L = Low

Risk Matrix

LIKELIHOOD	6				
	5				
	4				
	3		28	27	7,8,14
	2			18, 20	23
	1			2	
			2	4	6
		<u>IMPACT</u>			

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
2	<p>Risk of inability to match supply and demand for school places</p> <p>Factors behind rising primary rolls include migration into the borough reflecting the active housing market and associated high rates of house building on both SDL and other sites. This is despite a reducing birth rate from 2012 to 2015 (the last reported statistics). Secondary place sufficiency is not considered a risk at least in the short term because of the opening of new schools in Wokingham (Bohunt) and Reading (Maiden Erlegh in Reading).</p> <p>Migration means that families with children move into the borough and require school places. This makes it challenging to predict and meet demand and leads to geographically localised pressure (Earley and Shinfield) and pressure in particular year groups (Years 2 and 4).</p>	<ul style="list-style-type: none"> • Insufficient places • Reputation damage • Quality of education affected • Resources lost to council due to development of free schools /academies • Impact on family stress if children not educated locally/split siblings. • Impact on road congestion • Infrastructure affected • Perceived as less attractive place • Increased demand for transport and associated cost pressures 	<ul style="list-style-type: none"> • Schools subject to conditions survey / annual survey of sufficiency vs projected need • Local Core Strategy approved by Executive • Annual capital programme • Secondary school provision strategy implemented • Primary school provision strategy 2015 to 2018 agreed • Refreshed Secondary School Strategy approved by Executive in July 2017 	<p>Review/refresh Primary School Strategy Due to go to Executive on 28 June 2018 with “go live” date of Sept 2018.</p>	PS	PHS	6	1	L	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	<p>Thereafter, there are three significant risks:</p> <ul style="list-style-type: none"> • That meeting the revenue start-up costs of new schools will result in cuts in school and central services provision to the detriment of standards. • That rising capital costs will lead to resources being diverted to school projects to the detriment of other WBC capital projects. • That new sites will not be available in a timely fashion to meet local need. 									
7	<p>Risk of serious or significant harm to a vulnerable child or young person with whom the council is working</p>	<ul style="list-style-type: none"> • Avoidable harm to a vulnerable child • Damage to reputation • Litigation • Low staff morale – loss of staff, unstable workforce – poor outcome for future children, impact on budget. • Impact of being judged inadequate by Ofsted could lead to statutory/government intervention. 	<ul style="list-style-type: none"> • Policies and Procedures - refresh programme in place • Staff appraisal. Supervision, training • Practice Framework implementation • Quality Assurance System and framework • Recruitment and retention strategy embedded • Strategic review and development of MASH in train 2017/18. • Systematic case file risk assessment and frequent supervision of case workers and leadership and management oversight of cases 	<p>Robust implementation of recently developed quality assurance framework to ensure clear lines of sight and accountability from Director to front line case workers.</p> <p>Robust implementation of recently developed risk escalation framework for vulnerable cases.</p> <p>SE ADCS regional group led peer review of local children’s social care systems and processes commissioned to provide external scrutiny and assurance pertaining to system impact and quality of practice.</p>	PS	PHS	8	3	H	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
8	<p>Risk of avoidable serious harm or death of a vulnerable adult for whom the council has a responsibility.</p> <p>WBC has a statutory duty to meet the care needs of, and safeguard the most vulnerable adults in the Borough. It is vital to ensure continued focus on Safeguarding systems and procedures.</p> <p>The ongoing public sector finance constraints when set against continued demographic pressures requires careful judgement to ensure essential services remain sustainable - continued pressure to hold fees may result in workforce recruitment problems and/or provider failure.</p> <p>There is a risk of failure to safeguard vulnerable adults, either through systemic failure, or an individual failure, leading to the serious harm or death of a vulnerable adult.</p>	<ul style="list-style-type: none"> • Damage to reputation and public confidence in services • Possible external intervention from statutory agencies such as DH, CQC or Police) • Disruption of service provision • Litigation • Impact on staff morale • Recruitment and retention problems • Removal and replacement of senior managers 	<ul style="list-style-type: none"> • Policies and Procedures (multi-agency) in place • Referral system and assessment processes • Management and supervision of staff • Staff Training and awareness • Berkshire West Safeguarding Board operating effectively • Optalis contract as emergency provider in case of external provider failure • Care Governance Quality Assurance system for providers • Market Failure Protocol in place • Appointment of Principal Social Worker to provide additional tier of scrutiny and oversight to lead to improved quality of safeguarding policy and practice. 	<p>Robust implementation of recently developed quality assurance framework to ensure clear lines of sight and accountability from Director to front line case workers.</p> <p>Robust implementation of recently developed risk escalation framework for vulnerable cases.</p> <p>LGA led peer review of local adult social care systems and processes commissioned to provide external scrutiny and assurance pertaining to system impact and quality of practice.</p>	PS	RD	8	3	H	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
14	Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning		<ul style="list-style-type: none"> Reduce capital programme in line with delay in receipts Increase borrowing Closer monitoring of on-site schemes Quarterly refresh of capital programme Refreshed corporate asset management plan Annual capital bidding system and capital programme in place Programme Board for Town Centre Regeneration Project Forward Funding Asset Review Programme Meeting the Council's strategic capital requirement, incorporating Strategic Development Locations (SDL) in the medium term financial plan. Resource planning for Strategic Development Locations (SDL) infrastructure needs. 	<p>The Council has initiated a Capital Review Group (CRG) with senior representatives from all services areas. A robust project appraisal framework and ranking criteria have been established. A fully funded 3-year capital programme has been presented to and agreed by the Corporate Leadership Team.</p> <p>The CRG meets on a quarterly basis -- to ensure effective ongoing management of the overall programme.</p> <p>Review date</p>	GE	JMS	8	2	M	H
	<p>The Council has significant investment aspirations including Strategic Development Locations (SDL's), Town Centre Regeneration, school rebuilds and housing provision. This is in the context of limited resources and a complex funding source. The Council needs to ensure it guards against any unmet critical needs and prioritise its aspirations over the long term.</p> <p>Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning.</p>	<ul style="list-style-type: none"> Insufficient school places Financial shortfall Negative PR Loss of rental income Scheme slippage / downsizing 								
18	Risk of a significant fine and reputational damage due to loss of confidential/ sensitive data		<ul style="list-style-type: none"> Information Security Management System - governance for this area including SIRO & IGG roles Encrypted IT equipment Secure storage/ lockers at council offices Robust policies in this area Mandatory refresher programme recently undertaken 	<p>Continuing IGG programme of work & quarterly updates to CLT. Compliance checks carried out by the IGG members who monitor areas and note any potential issues or concerns, and advise staff if they have any questions.</p> <p>Improved management of the Council's retention schedule and implementing</p>	GE	JMS	6	2	M	L
	<p>The Council holds information of a confidential and sensitive nature. There have been past breaches of information security and it is an area under intensive scrutiny from the</p>	<ul style="list-style-type: none"> Imposition of a substantial fine Reputational damage/ bad media coverage Breach of contract and payment of damages Loss of future business 								

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating				
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target	
	<p>Information Commissioner. The primary risk is likely to concern paper based documents.</p> <p>Loss of confidential or sensitive data, leading to a significant fine and reputational damage for the council, with a potentially damaging impact on the resident/ customer to which the information relates.</p>	<ul style="list-style-type: none"> Increased number of complaints Loss of trust from partner organisations/contractors. 	<ul style="list-style-type: none"> Archiving of physical records Training for staff on document / information handling and basic information security practice Secure e-mail solution Document marking scheme 	<p>retention codes to systems so that we do not hold data longer than necessary. Automatic deletion once retention periods are met rather than manual deletion. The physical records going to archive also now must have a retention period catalogued.</p> <p>Information Asset Registers in place and under constant review by nominated Information Asset Owners to ensure we know what information is held and where. Links in with retention.</p> <p>Reviewing and overseeing our partners/contractors where a shared service exists (or ALMO) to ensure that they meet sufficient training, security and handling of data as stated in the contract or ISA, especially in cases where WBC remains the Data Controller. Publicising <i>all</i> ISAs on the Councils website, so that citizens know how their data may be shared. Also allows staff to know which organisation information can be shared with safely.</p> <p>Consideration for more 'opportunistic TLS' connections with partner organisations to ensure emails go securely and efficiently. Consideration for restricting how GCSx/Secure emails are sent to prevent unsecure emails being sent.</p> <p>Updating and reviewing process, training material, policies, privacy notices, website,</p>							

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
				<p>grapevine/replacement as part of the 21st CC to comply with the EU GDPR that came into effect 25 May 2018 so that staff understand new legislation/regulations, or who to speak to, to get advice and guidance.</p> <p>Documenting of Privacy Impact Assessments (PIA) at the beginning of major projects containing sensitive/personal data.</p> <p>Review Date</p>						
20	<p>Risk that the council, embarking on a major change programme, the 21 Century Council, fails to maintain service delivery standards, to manage information security, to deliver associated savings, or to effect the change, in structures and behaviours, to deliver the vision for the new Council's operating model</p> <p>There needs to be clarity and understanding, among officers and politicians, about the new model and its implementation. Buy-in and commitment from staff will be necessary as ways of working change. Effective leadership, management, engagement and training will be critical factors.</p> <p>Risk that the council does not deliver its vision and</p>	<ul style="list-style-type: none"> • Service delivery failure • Organisational dissonance within the organisation • Confusion or discontent within the organisation • Lack of clarity • Non-compliance with legislation 	<ul style="list-style-type: none"> • C21 Council Business Case and Implementation Plan • Joint Board • C21C Member-Officer Working Group • Council Plan • Programme and project management • Performance management framework • ECLT & CLT ownership and leadership • Monthly highlight report on Joint Board progress • Programme Board Risk Register and risk management • Departmental 21st Century Council Risk Registers 	<p>Lessons Learned from Phase 1 incorporated into the plan and approach for Phase 2.</p> <p>Governance arrangements examined by Audit Committee.</p> <p>Overall programme considered by Overview & Scrutiny management committee.</p> <p>Regular update reports considered and approved by Executive.</p>	MG	CHT	6	2	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	priorities as a result of service failure.									
23	<p>Risk of Health and Safety Failure Leading to Death or Serious Injury</p> <p>If the council fails to protect the health and safety of its employees and other persons who come into contact with the services provided by the authority there is a risk of serious injury or death.</p> <p>There is a risk that a health and safety failing could result in an intervention by a relevant enforcement agency and potential enforcement action or conviction.</p>	<ul style="list-style-type: none"> Enforcement notices and HSE fines for intervention Unlimited fine Custodial Sentence Publicity Order (Corporate Manslaughter only) Remedial Order (Corporate Manslaughter and HSWA) Publicity Order (Corporate Manslaughter only) Removal of key staff Reputational damage Service delivery loss due to depleted resources Damage to individuals wellbeing An avoidable death or injury 	<ul style="list-style-type: none"> Risk profile - Awareness of high risk areas Ongoing compliance with statute policies and procedures Seeking Assurance programme Compliance with Health and Safety policies and procedures Management and Member performance monitoring reporting from Health and Safety staff Contracts with third parties include a Health and Safety clause, setting out what the Council expects from the contractor in relation to Health and Safety obligations Incident reporting, following Health and Safety process should death or serious injury occur Training of managers and staff - Health and Safety training Annual historical benchmarking review of all Corporate Manslaughter and relevant Health and Safety cases in order to identify the key risk area Review across the Council of the arrangements in place to protect staff against violence at work 	<p>Health and Safety training to be included in the Management Induction Programme for all new managers.</p> <p>Training for managers and staff who procure and manage contracts to ensure that the Council as a client discharges its H&S duties.</p> <p>To set up a Lone Working and Work-related Violence Task & Finish Group with representatives from all services to develop a short term and long term improvement plan.</p> <p>Latest statutory Health & Safety report for 2016/17 refers to current plans.</p> <p>Internal Audit of Health & Safety reported April 2018 giving a category 2 "good" level of assurance.</p>	MG	CHT	8	2	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
27	<p>Sustainable Transformation Partnerships (STPs) align effectively with Borough governance</p> <p>Degree and scale of change to the health and social care system combined with financial pressure on health and adult social care budgets in the face of increasing pressures on services from demographic pressures and new Care Act duties will destabilise or cause wholesale system failure.</p> <p>Health and social care provision requires significant and sometimes complex pathways, accountabilities and funding. There are significant co-dependencies with other health and support services. Pressure on Health Services may result in a shift to meeting unfunded higher levels of need through social care provision which the service is unable to meet. Equally failure of social care services to meet care needs in the community may significantly impact on local health services.</p>	<ul style="list-style-type: none"> • Vulnerable residents receive inadequate or unsafe responses and services. • Risk to health and wellbeing of vulnerable people • Negative impact on health of local population. • More costly unplanned or acute interventions required. • Failure to meet legal responsibilities. • Reputational damage. • Unfunded service/contract liabilities. 	<ul style="list-style-type: none"> • Local multi-agency project board steering integration projects • Oversight by Health and Well-Being board • Healthwatch scrutiny • Berkshire West Integration Board coordinating wider health and social care system • Regular and direct Senior Management scrutiny of service pressures and provision • Close working between the Council and Health Partners at all levels • Ongoing collaboration and joint working with health service partners • Sustainability and Transformation Plans being developed for the Berkshire, Oxfordshire and Buckinghamshire STP region. • Better Care Fund • Enhanced section 75 working 	<ul style="list-style-type: none"> • DETOC Peer review has informed improvement plans. Awayday by Berkshire West Chief Exec partners has agreed priorities for further improvement. • Health and Wellbeing Board reviewed and represents key partners. • Opportunities for joint commissioning by new CCG and three local authorities to be developed including enhanced Section 75. <p>Review date January 2019.</p>	MG	RD	4	4	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
28	Leadership. Risk of business continuity, performance dips and not securing value for money through the use of interims in senior management positions for an extended period of time.		<ul style="list-style-type: none"> Clear strategy for the use of interims e.g. through transition period during 21CC implementation. 	<ul style="list-style-type: none"> Senior management interims at AD level replaced with permanent recruitment. Personnel Board prioritising immediate risks in Chief Officer recruitment in recruiting permanent DCS & DASS. Chief Executive recruitment process underway and to include better focus on Council priorities with regard to role profile. 	MG	CHT	4	3	M	L

Agenda Item 17.

TITLE	Annual Report 2017/18 - Shared Audit & Investigation Services
FOR CONSIDERATION BY	Audit Committee on 6 June 2018
WARD	None Specific
DIRECTOR	Director of Corporate Services - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Through the internal audit opinion, provides assurance on the overall adequacy and effectiveness of the Council's internal control environment. This also supports the 2017/18 Annual Governance Statement (AGS).

RECOMMENDATION

To note the 2017/18 Shared Audit and Investigation Service Annual Report.

SUMMARY OF REPORT

The report at Appendix A provides the Assistant Director Governance (and Chief Audit Executive) opinion on the council's governance, risk management and internal control. It draws on the work of internal audit, investigations and other assurance providers. The internal audit opinion is unqualified and provides reasonable assurance over the internal control environment in operation.

The report also details the work of the Shared Audit and Investigation Service during 2017/18.

Background

The purpose of this report is to meet the annual reporting requirements set out in the Accounts and Audit Regulations 2015 to include an opinion on the overall adequacy and effectiveness of the Council's system of internal control.

The Regulations state that a written report should be provided to those charged with governance timed to support the Annual Governance Statement which can be found elsewhere on the Audit Committee's agenda.

The detailed report is provided at Annex A.

Analysis of Issues

The Shared Audit and Investigation Service Annual Report provides assurance to those charged with governance (Corporate Leadership Team, Executive and the Audit Committee) and enables them to review, and where appropriate, approve the Annual Governance Statement.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

Other financial information relevant to the Recommendation/Decision

Not applicable

Cross-Council Implications (how does this decision impact on other Council services, including properties and priorities?)

The Shared Audit and Investigation Service Annual Report impacts on all Council's services as it provides assurance on the processes and systems that support governance, risk management and internal control in the Council.

Reasons for considering the report in Part 2

Not applicable

List of Background Papers

External assessment of compliance against Public Sector Internal Audit Standards Annual Governance Statement 2017-18

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk

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2017/18 SHARED AUDIT AND INVESTIGATION SERVICE ANNUAL REPORT
Assistant Director, Governance (and Chief Audit Executive)

Introduction

1. The 2017/18 Internal Audit and Investigation Plan was approved by the Audit Committee on 8th February 2017. The emphasis on developing the Internal Audit part of the plan was based on mandatory and legislative requirements, with the risks set out in the Corporate Risk Register (CRR) and targeted at assisting the Council in achieving its key objectives.
2. This report has been prepared to meet the requirements of the updated 2016 CIPFA / IIA Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive (Assistant Director, Governance) to deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Annual Report is required to incorporate:-
 - the opinion;
 - a summary of the work that supports the opinion;
 - a statement on conformance with the PSIAS;
 - the results of the quality assurance and improvement programme; and
 - if there have been any restrictions imposed on the scope of the work of the Internal Audit function of the Shared Audit and Investigation Service.
3. The body of this report complements the 2017/18 Quarterly Progress Reports and includes a summary of the performance of the Corporate Investigation Team.

Internal Audit Opinion

4. During the year, the Internal Audit Team has undertaken audits of key financial systems (in order to complement the work of External Audit), as well as focusing on the Council's key risks, as identified in the CRR.
5. The overall audit opinion, which is largely a reflection of the system and procedural controls against the identified risks and mitigating treatment measures, is that they are "Substantially Complete and Generally Effective but with some improvements required". Based on audits completed during the year and taking into account other sources of assurance, including External Audit and through the Corporate Governance exercise, most key controls are in place and are operating effectively. The majority of residual risks are being reduced to an acceptable level with reported concerns aimed by management to be reduced to a predominately moderate impact level. A small number of exceptions were identified and these have been summarised in the body of this report.
6. There have been no restrictions imposed on the scope of the work of the Internal Audit function of the Shared Audit and Investigation Service.

PERFORMANCE SUMMARY

7. Key progress of the Shared Audit and Investigation Service during 2017/18 was:-
- Assurance given to management on the Council's key risks and further strengthening of the CRR through independent verification of risks and treatment measures.
 - Additional management requests for work to be undertaken using audit contingency demonstrating confidence in the work of Internal Audit.
 - Skills transfers taking place in relation to Business World On and Schools audits. There has been the ability to undertake direct comparisons between systems and identify existing best practices.
 - The audit process has continued to be refined using Lean practices through sprint workshops in line with the 21st Century Council Initiative.
 - On request of management and in specific audit areas, knowledge on common areas is being shared.
 - Increased Audit and Investigation work has been undertaken for Bracknell Forest Council and Rushmoor Borough Council, resulting in income for the Service.

8. 73% of the approved Internal Audit Plan was achieved with the reviews at draft report stage or completed. 7% of audit reviews with fieldwork in progress will be completed to draft report stage in early 2018/19. The remaining 20% of audits have been postponed by agreement/are to be completed during 2018/19. Additional consultancy work requested by management has been completed (see details at Appendix A (I)).

Progress against the plan has been affected by one officer being seconded to the 21st Century Council Programme, plus another resulting vacancy from the end of quarter 1 (this equated to a loss of around 15% against the WBC Internal Audit Plan). It should be noted that time was spent on the 21st Century Council programme by all the team in respect of training courses, workshops, corporate and team meetings, recruitment and selection, particularly throughout the first half of the year.

The revised Internal Audit Plan was approved in June 2017, with significantly reduced days for both audit and investigations at WBC in the light of 21st Century Council adjustments. A total of 563 days compared with an original 1,272 total days was approved, with investigation days reduced from 450 to 130.

With respect to the remaining audits that were not started, provision has been set within the 2018/19 Internal Audit Plan for those reviews that are still relevant in light of the 21st Century Council initiative. The review work supporting the 21st Century Council programme around governance, financial reporting, risk management and the IT framework is also ongoing into 2018/19.

Given the requirement to close the accounts earlier this year (end May 2018), it was agreed with Finance to postpone 3 of the key financial systems reviews until quarter 2 of 2018/19.

9. Appendix A (I) presents the progress made against the 2017/18 Internal Audit Plan and Audit Opinions. It shows audits completed or at draft stage as at 31 March 2018 (10 audits were at draft report stage).
10. For the reviews completed, where an audit opinion was appropriate the following breakdown of classification is below. In addition to the 27 audits with an opinion, there were 6 audits where an opinion was not applicable.

Overall Audit Opinion	Summary of Audit Opinion	No of Audits (2017/18)	No of Audits (2016/17)
1	Complete and Effective	8	2
2	Substantially Complete and Generally Effective	14	17
3	Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	5	4
4	There is no effective Risk Management process in place	0	0
Total		27	23

11. There are 2 audit reviews receiving the third category of audit opinion (Range of Risk Mitigation Controls is incomplete and risks are not effectively Mitigated) completed to Draft Report stage that were completed in quarter 4 and the main points arising are summarised below. Management Action Plans are being agreed for these reviews:

Debtors – improvements evident concerning account reviews, write-offs and suspense accounts since 2016/17; some concerns remain surrounding management reporting of the true debt position and resources available in this area.

Housing Rents – progress has been made towards the countermeasures/actions agreed in the 2016/17 audit, however, the total level of former and current tenant arrears remains high.

12. Audit reports are presented using lean terminology, using the concern, finding, management action and management are given the opportunity to treat, tolerate, terminate or transfer the concerns and associated risks. Management Action Plans have been put in place to address issues identified during audit work and audit follow up verification will confirm whether agreed countermeasures for Very High and High concerns have been actioned within agreed timescales.
13. Where concerns are classified as being Very High or High that have been tolerated by management, these are highlighted to the Audit Committee. A Management Action Plan for Shared Building Services is subject to agreement, as initial responses show that 2 high concerns are to be tolerated by management. A follow-up audit to the 2016/17 review was carried out with a draft report issued in quarter 4 of this year.

Additional Work Requested by Members / Management

14. Contingency days have been used to respond to the following Management requests in respect of:
- Corporate Transport Unit
 - Children’s Disabilities – Direct Payments and Personal Budgets
 - Lambs Lane Primary School
 - School Admissions

Corporate Investigations

15. The Investigations element of the Service for 2017/18 was subject to a reduction from 450 planned days down to 130 planned days, as agreed in the revised WBC plan approved in June 2017. Savings of £753 were achieved in relation to CTRS, plus £90,000 of notional savings relating to Housing, representing the value placed on the fraud by the "Fighting Fraud and Corruption Locally" publication issued by the CIPFA Counter Fraud Centre.

* The amounts are debited from the relevant accounts and then collected in accordance with council tax recovery legislation. Some have been fully paid and others by arrangement.

16. In addition, there have been two Monitoring Officer investigations during 2017/18 which were resolved during the year.

Other areas

Regulation of Investigatory Powers Act

18. On 17th January 2017 the council received an Office of Surveillance Commissioner's inspection of the arrangements made by the council to secure compliance with the statutory provisions which govern the use of covert surveillance. Two recommendations were made within the report. These included updating the council's policy and procedures and arranging refresher training for appropriate officers across the council. Both recommendations were completed by the end of December 2017.
19. No new investigations have been undertaken during 2017/18 that has required Regulation of Investigatory Powers Act surveillance approval to be requested.

Audit and Investigation - Other Work Areas

Audit

IIA External Review Against the Public Sector Internal Audit Standards

20. A self-assessment has been completed annually for compliance with the Public Sector Internal Audit Standards by the Shared Audit and Investigation Service.

Self-assessments commenced at the end of 2013/2014, following publication of the Standards by CIPFA (in collaboration with the Institute of Internal Auditors), first published in April 2013. The self-assessments and Quality Assurance Improvement Plans (QAIP) were reported to the Audit Committee for each of the four years to 2016/2017.

Internal Audit service providers are required to have an independent external assessment every five years. As such, a consultant representing CIPFA was engaged to complete this external assessment during quarter 4 of this year.

A report was received in April confirming a positive outcome, with the service achieving the highest category of assessment, i.e. "Generally Confirms" with the Standards (i.e. out of 3 possible categories).

A small number of recommendations were made to ensure full compliance with the Standards, plus a number of advisory points raised to assist the development of the Shared Service and the achievement of best practice going ahead. The recommendations related

primarily to amendments to the Audit Charter to include a Mission Statement and the engagement of specialists to carry out technical IT audit reviews.

A separate report covering the external PSIAS assessment is to be submitted to the Audit Committee.

Corporate Investigations

21. Other work areas included:-

- Annual review of the WBC Fraud Policies (Sanctions and Prosecutions, Whistleblowing, Anti Bribery, Anti Money Laundering etc.) to reflect structural changes in terms of the Shared Service.
- Preparation of RIPA Procedures and Guidance for officers who potentially may undertake surveillance activity.
- Training for RIPA Authorising Officers
- Collation of Transparency Information on investigations to publish on the WBC Website.
- Refresher training by an external consultant for managing investigations attended by all SAIS team.
- Monitoring of the Whistleblowing hotline and follow-up of issues raised.
- GDPR training completed by all of the SAIS team.

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**2017/18 Wokingham Borough Council Internal Audit Plan Status
(as at 31 March 2018)**

AUDIT TITLE	DIRECTORATE	STATUS	DRAFT AUDIT REPORT OPINION	FINAL AUDIT REPORT OPINION
<u>2016/17 Audits Carried Forward</u>				
<u>Key Financial Systems</u>				
Budgetary Control and Reporting	Finance & Resources	FINAL	2	2
Cash and Bank Reconciliation	Finance & Resources	FINAL	1	1
Cashiers	Finance & Resources	FINAL	2	2
Debtors	Finance & Resources	FINAL	3	3
Housing Benefit/CTRS	Finance & Resources	FINAL	1	1
Housing Rents	Finance & Resources	FINAL	3	3
Payroll	Finance & Resources	FINAL	2	2
<u>Operational Risks</u>				
Contract Management (Part II)	Cross Cutting	FINAL	3	2
<u>2017/18 Audits</u>				
<u>Key Financial Systems</u>				
Cash and Bank Reconciliation	Corporate Services	FINAL	2	2
Capital Programme, Accounting and Expenditure	Corporate Services	DRAFT	1	
Housing Benefit and Council Tax Reduction Scheme	Corporate Services	DRAFT	1	
Bacs, CHAPS and cheques	Corporate Services	WIP		
Budgetary Control and Reporting	Corporate Services	DRAFT	2	
Cashiers	Corporate Services	2018/19 Q2		
Council Tax and NNDR	Corporate Services	WIP		
Creditors	Corporate Services	DRAFT	2	
Debtors	Corporate Services	DRAFT	3	
Fixed Asset Register	Corporate Services	2018/19 Q2		
General Ledger	Corporate Services	DRAFT	2	
Payroll	Corporate Services	WIP		
Treasury Management	Corporate Services	2018/19 Q2		
Housing Rents (follow up audit)	Corporate Services	DRAFT	3	
<u>Operational Risks</u>				
Procurement Cards	Corporate Services	FINAL	2	2
Shared Property/Building Services (follow up audit)	Corporate Services	DRAFT	Tbc	
<u>Servicing the Business</u>				
Beechwood Primary School	Corporate Services	FINAL	2	2
Loddon Primary School	Corporate Services	FINAL	2	1
Rivermead Primary School	Corporate Services	FINAL	1	1
Shinfield Infant and Nursery School	Corporate Services	FINAL	2	1
St Crispin's Secondary School	Corporate Services	FINAL	1	1

21 st Century Council - Governance	Corporate Services	FINAL	2	2
Colleton Primary School	Corporate Services	FINAL	2	2
Corporate Health and Safety	Corporate Services	DRAFT	2	
Health and Safety (Customer and Locality Services)	Customer and Locality Services	DRAFT	2	
Troubled Families Grant	Corporate Services			C
Bus Subsidy Operators Grant	Corporate Services			C
Disabled Facilities Grant	People			C
Integrated Transport Grant	Place			C
<u>Consultancy/Contingency</u>				
Corporate Transport Unit		Report for management action	N/A	
Children's Disabilities Direct Payments and Personal Budgets		FINAL	3	3
Lambs Lane Primary School		Report for management action	N/A	
School Admissions		Report for management action	N/A	

Audit Opinion – Legend	
1. Complete and Effective	<ul style="list-style-type: none"> ♦ All necessary Treatment Measures are in place and are operating effectively. ♦ Residual risks have been reduced to an acceptable level ♦ There are no unacceptable financial implications. ♦ Concerns reported are minor. <p>(Risk management processes are strong and controls are adequate and effective).</p>
2. Substantially Complete and Generally Effective	<ul style="list-style-type: none"> ♦ Most key Treatment Measures are in place and these operate effectively. ♦ The majority of residual risks have been reduced to an acceptable level. ♦ There are some unacceptable financial implications. ♦ The majority of concerns are of a predominately moderate impact/likelihood. <p>(Risk management processes are good and controls are adequate although only partially effective).</p>
3. Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	<ul style="list-style-type: none"> ♦ Not all key Treatment Measures are in place and / or do not operate effectively ♦ Residual risks have not all been reduced to an acceptable level ♦ There are some unacceptable financial implications associated with more than one risk mitigation control or because of a lack of risk mitigation control. ♦ There are a number of concerns that are predominantly of a major impact/likelihood. <p>(Risk management processes and controls are adequate but not effective in mitigating the identified risks).</p>
4. There is no effective Risk Management process in place	<ul style="list-style-type: none"> ♦ There are no appropriate Treatment Measures in place. ♦ Residual risks remain at an unacceptable level ♦ Reported concerns are predominantly of a catastrophic or major impact/likelihood. <p>(Risk management processes and controls are weak).</p>
C	Certification
E	Exempt from classification

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**WOKINGHAM BOROUGH COUNCIL'S AUDIT COMMITTEE FORWARD PROGRAMME –
2018/19 MUNICIPAL YEAR**

DATE OF MEETING	ITEM No.	ITEM DESCRIPTION	RESPONSIBLE OFFICER
Wednesday 25 July 2018	1.	External Audit – Audit Results Report 2017/18	Ernst & Young
	2.	Financial Statements 2017/18	Graham Ebers, Director Corporate Services
	3.	Corporate Risk Register Update	Graham Ebers, Director Corporate Services
	4.	Internal Audit and Investigations Q1 Progress Report 2018/19	Shared Audit and Investigation Service

DATE OF MEETING	ITEM No.	ITEM DESCRIPTION	RESPONSIBLE OFFICER
Wednesday 7 November 2018	1.	External Audit Progress Report	Ernst & Young
	2.	2018/19 Audit Plan	Ernst & Young
	3.	Treasury Management Mid-Year Report 2018/19	Graham Ebers, Director Corporate Services
	4.	Internal Audit and Investigation Q2 Progress Report 2018/19	Shared Audit and Investigation Service
	5.	Corporate Risk Register Update	Graham Ebers, Director Corporate Services
	6.	Update on Town Centre regeneration	Bernie Pich, Regeneration
	7.	Update on 21st century Council governance arrangements	Andrew Moulton, Assistant Director Governance

**WOKINGHAM BOROUGH COUNCIL'S AUDIT COMMITTEE FORWARD PROGRAMME –
2018/19 MUNICIPAL YEAR**

DATE OF MEETING	ITEM No.	ITEM DESCRIPTION	RESPONSIBLE OFFICER
Wednesday 6 February 2019	1.	Certification of Claims and Returns – Annual Report 2017/18	Ernst & Young
	2.	Certification of Claims and Returns – Claims and Returns Organised by Local Authorities.	Graham Ebers, Director Corporate Services
	3.	Treasury Management Strategy 2018/19	Graham Ebers, Director Corporate Services
	4.	Corporate Risk Register Update	Graham Ebers, Director of Corporate Services
	5.	Internal Audit and Investigation Q3 Progress Report 2018/19	Shared Audit and Investigation Service