

READING BOROUGH COUNCIL

REPORT BY INTERIM DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 th April 2017	AGENDA ITEM:	7
TITLE:	INTERNAL AUDIT PLAN 2017-18		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	79390695
JOB TITLE:	Chief Auditor	E-MAIL:	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2017/2018. The annual audit plan is designed to implement the internal audit strategy.
- 1.2 It is internal audit's responsibility to form opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. In the context of the Public Sector Internal Audit Standards¹, 'opinion' does not simply mean 'view', 'comment' or 'observation'; it means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the Council's activities that we have examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work). The attached audit plan will allow for the effective discharge of this responsibility.
- 1.3 The following document is attached to this report:
- Internal audit plan 2017/2018 (appendix 1)

2. RECOMMENDED ACTION

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

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

3. INTERNAL AUDIT PLAN

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

4. CONTRIBUTION TO STRATEGIC AIMS

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

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6. LEGAL IMPLICATIONS

- 6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.
- 6.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.
- 6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

7. FINANCIAL IMPLICATIONS

- 7.1 N/A

8. BACKGROUND PAPERS

- 8.1 N/A

Appendix 1

Internal Audit Plan

(2017/2018)



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Internal Audit Plan

1. Background

- 1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*
- 1.2 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.
- 1.3 Internal audit also supports the Director of Finance in discharging her statutory duties. The following are two key pieces of legislation that internal audit supports the Interim Director of Finance to comply with:
 - i. Section 151 of the Local Government Act 1972. The Director of Finance, as the council’s Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority’s financial affairs. The work of internal audit is an important source of information for the Director of in exercising his responsibility for financial administration.
 - ii. The Accounts and Audit Regulations 2015. The regulations state that ‘A relevant authority must undertake an effective internal audit¹ to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. The work of internal audit provides a substantial element of this requirement.
- 1.4 ‘Effective internal audit’ is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note for the PSIAS.
- 1.5 The PSIAS came into force on 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within the Council, the Audit & Governance Committee fulfils the key duties of the Board laid out in the PSIAS. This document sets out the proposed plan for 2017-18.

2. The Planning Process

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

3. The Internal Audit Plan

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

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

4. Resources

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

5. Individual Audits

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

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

6. Follow up Reviews

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

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

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

8. Annual Assurance Report

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

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

INDICATIVE INTERNAL AUDIT PLAN 2017-2018

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

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

Keeping the town clean, safe, green and active

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

Providing homes for those in most need

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

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

Remaining financially sustainable to deliver these service priorities

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

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

Providing infrastructure to support the economy

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

Governance

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

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

Grant Sign offs

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

Audits in reserve

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