

Audit Committee

Tuesday, 10 January 2017

18:00

Meeting Room A, Blackburn Town Hall

AGENDA

PART I: ITEMS FOR CONSIDERATION IN PUBLIC

- 1 **Minutes of the meeting held on 20th September 2016**
Minutes of the Audit and Governance Committee Meeting held on 20th September 2016 3 - 7
- 2 **Declarations of Interest in Items on this Agenda**
If a Board Member requires advice on any items involving a possible Declaration of Interest which could affect his/her ability to speak and/or vote he/she is advised to contact Phil Llewellyn at least 24 hours before the meeting
Agenda Item 2 DECLARATIONS OF INTEREST FORM 8 - 8
- 3 **External Audit - Annual Audit Letter**
The Council's External Auditors will provide the Committee with the Annual Audit Letter for 2015/16.
Agenda Item 3 Blackburn with Darwen Annual Audit Letter - Council 2015-16 final KLM reviewed 9 - 22
- 4 **External Audit - Audit Committee Progress Report and Update Year ended 31 March 2017**
The Council's External Auditors will provide the Committee with a progress report on their work.
Agenda Item 4 BwD Audit Committee Update - December 2016 23 - 38
- 5 **Treasury Management Report - September to November 2016**
The Head of Financial Services will provide the Committee with a report on Treasury Management activity.

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6	Audit & Assurance - Progress & Outcomes to November 2016	
	The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance	
	Agenda Item 6 Progress Report 0.2	50 - 56
7	Annual Governance Statement - Progress on 2015/16 Actions and Plan for 2016/17	
	The Head of Audit & Assurance will provide the Committee with a report on the process for producing the 2016/17 Annual Governance Statement and Progress on Actions from 2015/16.	
	Agenda Item 7 Annual Governance Statement Progress and Plan	57 - 62
8	Risk Management - 2016/17 Quarter 2 Review	
	The Head of Audit & Assurance will provide the Committee with a report on Risk Management.	
	Agenda Item 8 Risk Management 2016.17 Review Quarter 2 0.2	63 - 79
9	Audit & Governance Committee – Effectiveness Self-Assessment 2016/17	
	The Head of Audit & Assurance will report upon the 2016/17 Audit Committee self-assessment exercise.	
	Agenda Item 9 Audit Committee Effectiveness Self-assesment 2016	80 - 95
10	Arrangements for the Appointment of External Auditors	
	The Head of Audit & Assurance will provide the Committee with the recommended option for appointing External Auditors from 2018/19.	
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PART 2: ITEMS FOR CONSIDERATION IN PRIVATE

Date Published: Friday, 06 January 2017
Harry Catherall, Chief Executive

AUDIT AND GOVERNANCE COMMITTEE
Tuesday, 20th September 2016

PRESENT – *Councillor Sidat (in the Chair); Casey and Whittle.*

APOLOGIES – *Councillor Foster, Rigby and Kay.*

ALSO PRESENT

Karen Murray	–	District Auditor
Chris Whittingham	–	District Auditor
Zak Francis	–	District Auditor
Denise Park	–	Deputy Chief Executive
Colin Ferguson	–	Head of Audit and Assurance
John Addison	–	Principal Scrutiny Officer

RESOLUTIONS

12 Minutes of the meetings held on 14th June 2016

The minutes of the meeting held on 14th June 2016 were agreed as a correct record.

13 Declarations of interest

There were no declarations of interest.

14 External Audit: Findings Report 2015/16

The Council's External Auditors provided Members with a joint Findings Report for 2015/2016 and Value for Money report. The Findings Report summarised the outcomes from the 2015/16 audit, which was substantially complete. It also included messages arising from the auditing of the Council's financial statements and the results of the work External Audit had undertaken to assess Council arrangements to secure value for money in the use of resources.

It was reported that in terms of value for money, based on External Audits work, and having regard to the guidance on the specified criteria published by the Audit Commission, it was noted that External Audit were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

RESOLVED:

- 1) That That the External Audit joint report on Value for Money for Blackburn with Darwen Borough Council and the Findings Report 2015/2016 be noted.
- 2) That the Director of Finance and the Audit Department be thanked for hard work and support during the external audit process.

15 Statement of Accounts 2015/16

The Deputy Chief Executive gave a presentation on the Statement of Accounts for 2015/16 and submitted a report summarising the main features of the document.

The Statement of Accounts outlined the main features of the Council's financial performance for the year ending 31st March 2016 and provided information relative to the Council's financial position at that date.

It was noted that Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by Members prior to publication by the 30th September following the year to which they relate. This was to enable the Audit and Governance Committee to review and approve the accounts, having considered the issues raised by the auditors in the Audit Findings Report.

Members were reminded that the 2015/16 Draft Statement of Accounts was certified by the Director of Finance on 23rd June 2016, and subsequently published on the Council's website.

RESOLVED:

- 1) That the Committee notes the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2015/16 (Minute number 14).
- 2) That the Committee approves the Statement of Accounts for 2015/16.
- 3) That the Committee approves the draft letter of representation from the Director of Finance & I.T. to the external auditors as shown in the appendix.
- 4) That future changes to the content of the statement of accounts (2016/17) and the timescales for approval and publication (2017/18) be noted.

16 Treasury Management Report – June to August 2016

The Deputy Chief Executive provided the Committee a report on the Treasury Management Quarterly report covering the period June 2016 to August 2016.

Members were reminded that the Council formally adopted CIPFA's revised Code of Practice on Treasury Management in the Public Services when they approved the 2016/17 Treasury Management Strategy at Finance Council on the 29th February 2016. The CIPFA Code, Investment Guidance issued by the Department for Communities and Local Government (CLG) and the Audit & Assurance review of Treasury Management activities, all Members recommend an enhanced role for elected Members in scrutinising the Treasury Management function of the Council.

The report summarised the interest rate environment for three months, borrowing and lending transactions undertaken and the Council's overall debt position. It also reported on the position against the Prudential Indicators established by the Council.

RESOLVED:

That the Committee to note the Treasury Management position over the quarter from June 2016 to August 2016.

17 Draft Treasury Management Annual report 2015/16 and Mid-Year Review 2016/17

The Deputy Chief Executive provided the Committee with the Annual Treasury Management Report for 2015-16 and Mid-Year Treasury Strategy Review for 2016/17.

Members were reminded that as the body responsible for scrutiny of the Treasury Management function, they are asked to consider key issues in the Treasury Management Outturn Report for 2015-16 and Mid-Year Strategy Review for 2016-17, ahead of consideration by full Council.

RESOLVED:

That the Committee approve the draft Treasury Management Outturn for 2015-16 and Mid-Year Strategy Review for 2016-17 and that it be submitted to the Council for approval on 6th October 2016.

18 Audit & Assurance–Progress & Outcomes to 31 August 2016

The Head of Audit & Assurance submitted a report which updated the Committee on progress and outcomes against the Audit & Assurance Plan 2015/16 in terms of outcomes achieved to date for the financial year.

Members were asked to consider and challenge the outcomes achieved to 31 August 2016 against the Audit & Assurance Plan. The report focused on a number of key areas in Audit & Assurance Plan, in particular:

- Information Governance
- Social Work Procedures
- Civic Events and Catering
- HMO Licensing
- CAPITA Review

RESOLVED:

That the Committee note the outcomes achieved to 31 August 2016 against the Audit & Assurance Plan, which was approved by Committee in April 2016.

19 Risk Management – 2016/17 Quarter 1 Review

The Head of Audit & Assurance provided the Committee with a report that detailed risk management activity that had taken place over the first quarter (1 April 2016 to 30 June 2016).

Members were reminded that the Council recognised that risk management was not simply a compliance issue, but rather a way of viewing its operations with a significant impact on long-term viability. It was noted that risk management helped to demonstrate openness, integrity and accountability in all of the Council's activities.

It was highlighted to Members that currently the top corporate risks were:

- Inability to deliver a balanced budget for 2016/2017.
- High profile serious/critical safeguarding incident/case

RESOLVED:

That the Committee note the progress made on the Corporate Risk Register as at the end of Quarter 1 2016/17; and the risk management activity that has occurred during the period.

20 Arrangements for the Appointment of External Auditors

The Head of Audit & Assurance presented to the Committee options for the arrangements for appointing External Auditors from the audit year 2018/19. Due to the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

It was reported that the Council needed to consider the options available and put new arrangements in place, in order to make an appointment by the 31st December 2017 for the audit year 2018/19.

The Committee was asked to consider the following three options for the provision of external audit services from 2018/19, namely:

- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council (Option 1);
- Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities (Option 2); or
- Supporting Public Sector Audit Appointments (PSAA) as the national Sector Led Body (SLB) by indicating our intention to “opt-in” to their collective procurement approach (Option 3).

Members considered each option in turn debating the pros and cons of each. Members were informed that the Council’s preferred option at this time was option 3, with Members supporting this option.

It was reported that to keep all the Council’s options open at this stage the Director of Finance & IT had notified the LGA of the Council’s potential support for the SLB approach on a non-binding basis.

Members agreed that prior to a final report being submitted to Full Council, that Audit and Governance Members be given a briefing on the Council’s preferred option.

RESOLVED:

- 1) That the Audit Committee notes the three options available to the Council, and the Council’s current preferred option being option 3.
- 2) That prior to a final decision being submitted to Full Council, that Audit and Governance Members be given a briefing on the Council’s preferred option.

Signed
Chair of the meeting at which the Minutes were signed
Date

**DECLARATIONS OF INTEREST IN
ITEMS ON THIS AGENDA**

Members attending a Council, Committee, Board or other meeting with a personal interest in a matter on the Agenda must disclose the existence and nature of the interest and, if it is a prejudicial interest, should leave the meeting during discussion and voting on the item.

Members declaring an interest(s) should complete this form and hand it to the Committee Administrator at the commencement of the meeting and declare such an interest at the appropriate point on the agenda.

MEETING: **Audit Committee**

DATE:

AGENDA ITEM NO.:

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

PERSONAL/PREJUDICIAL (delete as appropriate)

SIGNED :

PRINT NAME:

(Paragraphs 8 to 13 of the Code of Conduct for Members of the Council refer)

The Annual Audit Letter for Blackburn with Darwen Council

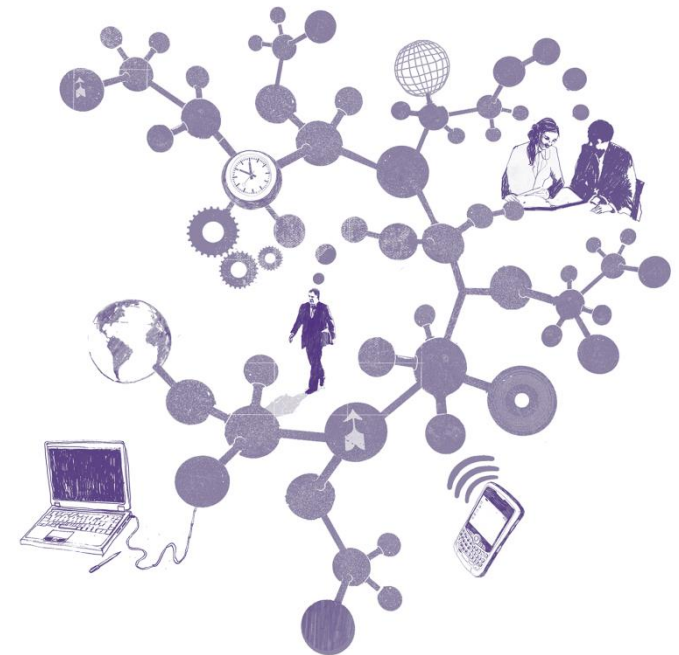
Year ended 31 March 2016

October 2016

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Appendices

A - Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Blackburn with Darwen Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 20 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 23 September 2016. [Page 12 of 107](#)

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 23 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 12 October 2016

Certificate

We certified that we had completed the audit of the accounts of Blackburn with Darwen Council in accordance with the requirements of the Code on 23 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed

Council Finance staff attended a workshop we provided in November 2015 on the early closure of local authority accounts. Council Finance staff also attended a workshop we provided jointly with CIPFA in February 2016 covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £8,878,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

As we reported in our audit plan, we identified the following items where we undertook audit procedures, irrespective of value as these are key figures/disclosures in the accounts that should be correct:

- Officers' remuneration, salary bandings and exit packages
- Members allowances
- Auditor remuneration
- Related Party transactions

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of expenditure and payables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Blackburn with Darwen Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Council, mean that all forms of fraud are seen as unacceptable <p>We also considered the risk for revenue recognition related to occurrence/existence of expenditure and payables and completed the following work:</p> <ul style="list-style-type: none"> • identified and documented the processes and controls in place around expenditure at the Council • tested journal entries, completed control environment review and walkthrough • tested non pay expenditure as set out within 'Operating Expenses' • reviewed unusual significant transactions. <p>We did not identify any issues to report</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed entity controls in relation to journal transactions • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions <p>We did not identify any issues to report</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>These issues represent significant estimates and change in the estimation basis of these balances by management in the financial statements.</p> <p>There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of estimates. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. <p>We identified a weakness in the process in place to revalue assets that have been subject to capital additions during the year. We established that the value of assets affected was not material. We recommended the Council review the dates of completed valuations against the planed programme of capital additions to ensure an accurate position is reported.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.• assessed whether the controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.• undertook procedures to confirm the reasonableness of the actuarial assumptions made.• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 23 September 2016, in advance of the 30 September 2016 national deadline.

The Council committed to preparing the accounts to a much tighter timescale this year, in anticipation of the statutory deadline moving forward from 2017/18. The accounts were available to us on 23 June 2016, which although slightly later than planned, was in advance of the national deadline of 30 June 2016. The draft accounts were prepared to a good standard and supported by working papers. We will continue to work with Finance staff to identify further improvements to the efficiency of the accounts production and audit processes to enable the earlier deadlines for 2017/18 to be met, which will require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively.

The key messages arising from our audit of the Council's financial statements are:

- there were no significant amendments required to the accounts as a result of our audit
- a number of adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit Committee on 20 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We agreed a small number of amendments to the Narrative Report that were corrected ahead of the issue of our audit report.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2015-16 accounts. There were no circumstances that required us to issue a public interest report in respect of our 2015/16 audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Looking Ahead

Overall, the Council has responded positively to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond to 2019/20.

Appropriate arrangements are in place to plan finances effectively alongside reliable financial reporting to support the delivery of the Council's strategic priorities. As a result, the Council has successfully delivered the savings required to date. However, the challenges faced going forwards are arguably getting tougher.

The Council recognises that it continues to face significant financial challenges going forward. The 2016/17 quarter 1 (June 2016) revenue monitoring report sets out key assumptions and challenges and provides an early update that a number of specific savings plans will not be achieved in 2016/17. Action plans are now in place to address these shortfalls. A sustained focus on delivering these actions will be required.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial position and future year savings</p> <p>The Council's medium term financial strategy (MTFS) has now been updated and developed to cover the period 2016– 2020. This MTFS sets out clearly the challenging financial position the Council faces with an anticipated funding gap of £47.8 million over the four years of the plan.</p> <p>As part of the budget setting process for 2016/17, the Council reviewed the delivery of the 2015/16 savings plans. This review resulted in revision of the anticipated level of savings required up from £12.7m this time last year to £26.6m by March 2017. Plans and identified savings are in place setting out how the required financial position will be achieved.</p> <p>Progress in delivery will be monitored through existing arrangements that the Council have recently strengthened. The Executive Finance Steering Group has been established, chaired by the Chief Executive, to oversee delivery of the savings targets.</p> <p>The delivery of the required savings and the establishment of revised financial governance arrangements represent a significant challenge to the Council.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to the Executive Board and Council We reviewed the financial governance arrangements established by the Council and considered how the Council is managing and monitoring these key financial risks. 	<p>The Council continues to have appropriate arrangements in place to manage and report the delivery of the revenue budget. The Council has a detailed Medium Term Financial Strategy (MTFS) 2016/17 – 2019/20 in place that is updated on a rolling basis. The 2016/17 revenue budget and the MTFS were reviewed and updated ahead of presentation to the Council Forum on 29 February 2016. The MTFS sets out a need to secure savings of £47.8m by 2019/20.</p> <p>A balanced budget has been set for 2016/17 with the budget report to Members setting out details of the £26.6m savings requirement. The budget includes the planned use of £3.2m of reserves to support the savings programme in 16/17 with the MTFS setting out a further £200k contribution from reserves required in 17/18. The 18/19 and 19/20 budgets currently do not include the planned the use of reserves.</p> <p>Annually, the Director of Finance and IT (DoF & IT) reports to Members on the adequacy of the proposed level of financial reserves. In the 2016/17 risk assessment the DoF & IT concluded that there is a requirement to maintain a £4.0 million “unallocated reserve” to provide financial resilience in the event of unexpected spending pressures. The General Fund (unallocated reserve) decreased to £5.067m at 31 March 2016 although it remains above the minimum level recommended by the DoF & IT.</p> <p>The Council overspent by £6.564m on the original 2015/16 portfolio budgets with the majority of the overspend attributable to Adult Social Care. The Council has been working with an external partner to identify and deliver efficiency savings in this area. However, increasing demand and the increased complexity of service user need, continue to present a significant pressure resulting in an on-going overspend. As a consequence a full review of the Adult Social Care budget was undertaken during the year and the budget has been rebased with an increase of approximately £4m for 2016/17 and beyond.</p> <p>For much of 2015/16, financial monitoring information for the overall Council position and individual portfolios was considered by the Executive Finance Steering Group on a monthly basis. This group included the Chief Executive, Executive Directors, the Director of Finance and IT and the two Heads of Service in Finance (People and Corporate/PLACE). The group also provided additional scrutiny and challenge around Adult Social Care (ASC) in respect of monitoring the financial position and operational activity with the ASC Director and ASC Head of Service on a regular basis. Following restructure of the Executive Management Team, revised arrangements were established toward the end of the year and remain in place for 2016/17.</p>

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Value for Money

Table 2: Value for money risks

Risk identified	Findings and conclusions
Financial position and future year savings - continued	<p>Policy Development Sessions (PDS) are held monthly with each Executive Member and are attended by the Chief Executive and the Deputy Chief Executive. At these meetings detailed reviews of the financial position and savings plans are considered. Progress against the delivery of savings plans form a key part of the discussion.</p> <p>The Council's detailed savings programme is assigned to Directors, working with their Management Teams to oversee delivery. Progress is monitored at a Directorate level and at each fortnightly Senior Management Team meeting an update is provided and a review of the budget is a standing item.</p> <p>Each department has a RAG rated Savings Plan in place alongside a monitoring return. Regular monitoring of these returns is undertaken and they are updated to show progress made, slippage and areas for concern. For Adult Social Care, detailed monitoring is undertaken within their Senior Leadership Team and separate meetings are held with key operational managers, particularly around high risk areas such as Commissioning budgets.</p> <p>We concluded that the Council has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities. Overall, the Council has responded appropriately to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond.</p>

Working with the Council in 2016/17

We will continue to work closely with you during 2016/17 with a particular focus on important accounting developments, with timely feedback on any emerging issues.

Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have met with the Council to consider the accounting, financial reporting and audit assurance implications arising from these changes. We have shared Client Briefings with Officers. This significant accounting development is likely to be a significant risk for our 2016/17 and we will continue to meet with Officers and issue further briefings during the coming year to update the Council on key developments and emerging issues.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year through our focus on:

- **An efficient audit** – continuing to deliver an efficient audit
- **Improved financial** processes – we will focus our work on the actions and measures you put in place to achieve the required savings.
- **Understanding your operational health** – we will continue to focus our value for money conclusion work on the on going financial challenges that the Council faces and monitoring the plans that the Council has in place to deliver the required savings.
- **Audit Updates** – we will continue to provide regular Audit Committee updates covering best practice and emerging issues in the sector

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	102,839	102,839	137,119
Housing Benefit Grant Certification	15,413	15,413	23,712
Total fees (excluding VAT)	118,252	118,252	160,831

The 2014/15 grant certification fee reflected work required to certify your 2013/14 Local Transport Grant. The 2015/16 certification fee only relates to the certification of your Housing Benefit Return.

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers' Pension Return – 2014/15	4,200
• Local Transport Plan Major Projects – 2014/15	4,100
Non-audit services	nil

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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Blackburn with Darwen Council Audit Committee Progress Report and Update Year ended 31 March 2017

December 2016

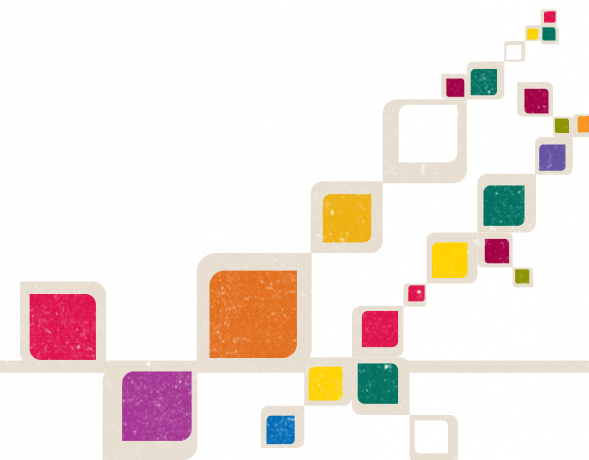
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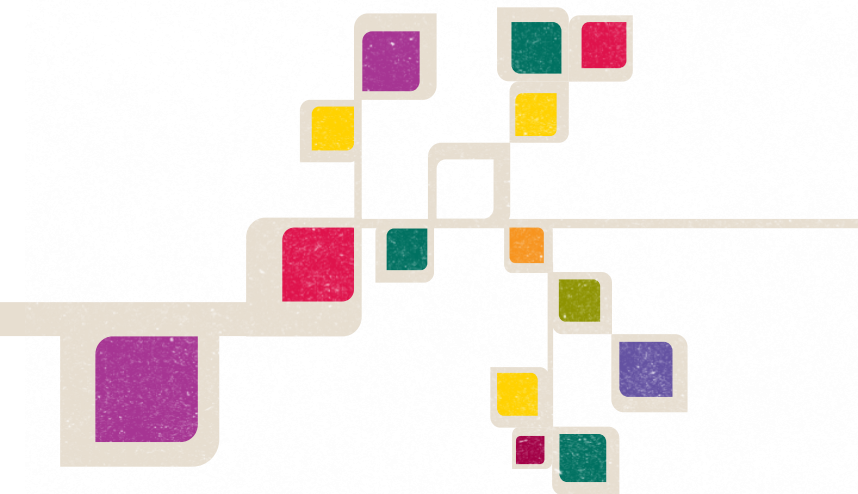
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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Sector issues	8
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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

You can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Your Generation: Making decentralised energy happen
<http://www.grantthornton.co.uk/en/insights/making-decentralised-energy-happen/>
- Culture of Place: A copy of the report and a collection of short videos can be found on our website at: <http://www.grantthornton.co.uk/en/insights/culture-of-place/>

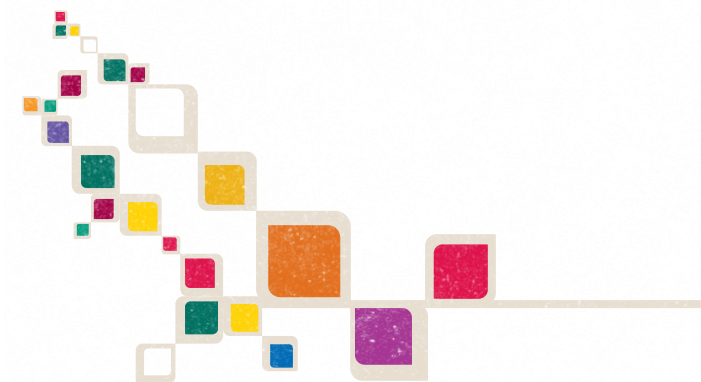
Members and officers may also be interested in our recent webinars:

Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government.

<http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime

<http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>



Progress at December 2016



 **Progress against plan**
Completed

 **Opinion and VfM conclusion**
Issued 23 September 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

2015/16 work

Planned Date	Complete?	Comments
--------------	-----------	----------

2015/16 Programme of work

- Fee letter issued in April 2015
- Audit plan issued in March 2016
- Interim audit visit completed February to April 2016
- Final Accounts audit completed September 2016
- Value for Money conclusion completed September 2016
- Annual Audit Letter issued October 2016

October 2016 Yes

Our programme of work for 2015/16 is now complete.

Our Annual Audit Letter for 2015/16 is included on the agenda of the Audit Committee for 10 January 2017. The Letter summarises the key findings arising from the work that we have carried out at the Council for the year ended 31 March 2016. The Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public.

Progress at December 2016



Progress against plan

On track



Opinion and VfM conclusion

On-going

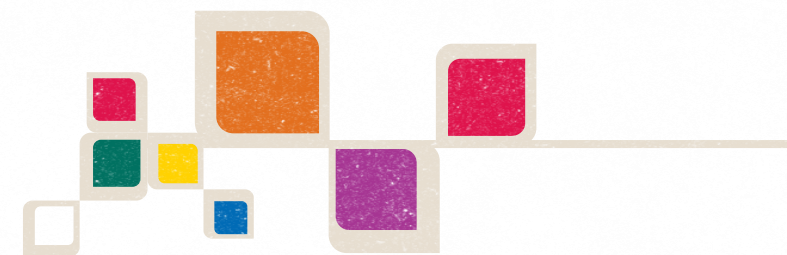


Outputs delivered

Fee letter, Audit Committee progress reports delivered to plan

2016/17 work	Expected Date of Completion	Comments
<p>Fee Letter We issued the 'Planned fee letter for 2016/17 in April 2016.</p>	April 2016	We have also issued the fee letter for 2016/17.
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	April 2017	This will be presented to the Audit Committee in April 2017.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • Updating our review of the Council's control environment • Updating our understanding of financial systems • Review of Internal Audit reports on core financial systems • Early work on emerging accounting issues • Early substantive testing 	January - March 2017	

Progress at December 2016



2016/17 work	Expected Date of Completion	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • Audit of the 2016/17 financial statements • Proposed opinion on the Council's accounts 	Fieldwork to be completed by August 2017	On track
<p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	Feb - August 2017	On track

Grant Thornton Sector Issues



Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

Grant Thornton Technical update





Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton Publications and events



Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>



Culture of Place

Our towns, counties and cities have distinct and varied cultures

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

From conversations with local authority CEOs, leaders and others, we have collated a selection of stories that invite us all to think about how the sector can disrupt fixed thinking, open up cultures and energise our places. They go beyond what's immediately obvious, voice what is sometimes unsaid and work with the strengths of their place.

Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- The place leader is the story teller – leaders need to be more deliberate in their storytelling, helping communities make sense of a complex world, the past, present and possible futures
- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

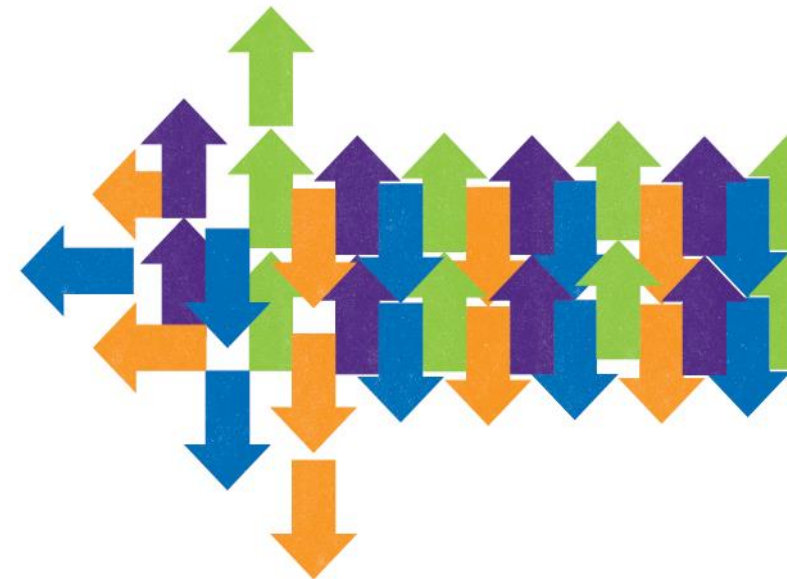
A copy of the report and a collection of short videos can be found on our website at:

<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

Grant Thornton reports

Challenge question:

Is the Council familiar with this publication?



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further detail, including:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports





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BRIEFING PAPER

REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance and IT

DATE: 10th January 2017

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2016/17

Based on monitoring information for the quarter 1st September – 30th November 2016

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's latest Code of Practice on Treasury Management in the Public Services and associated guidance notes. The Treasury Management Strategy for 2016/17, approved at Finance Council on 29th February 2016, complies with both the CIPFA Code and with current Department for Communities and Local Government (CLG) guidance on investments (issued March 2010). The CIPFA Code, Investment Guidance issued by CLG and Audit & Assurance reviews of Treasury Management activities all recommend an enhanced role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the three month period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against the Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES

4.1 Interest Rates

Since the Bank of England Bank Rate was reduced to 0.25% in August 2016, market interest rates, including the cost of government borrowing, have fluctuated, in reaction to political events and announcements. From a broader perspective, rates have remained at very low levels.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movements in totals available for investment, both actuals to date and projections for the rest of the year (which allow for some further borrowing).

Investments made were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on such investments were low, with MMF rates continuing on a downward track, from around 0.35% to around 0.25% (and still falling), and the bank accounts yielding 0.10 to 0.15%.

For limited periods, funds were also placed with the Government’s Debt Management Office (at 0.15%). The only other fixed term investment made was:

Start Date	End Date	Counterparty	Amount £	Rate
17-Oct-16	24-Jan-17	National Counties Building Society	1,000,000	0.35%

Appendix 2 shows the breakdown of the £18.9 million invested at the end of the period.

The Council’s average return over the 3 months was around 0.25% (compared to 0.40% the last quarter), and this will fall further over the next few months.

For comparison, benchmark LIBID (London Interbank Bid) rates were also low. Average rates over the period for 1 month’s lending were below 0.15%, and for 3 month’s lending around 0.27%.

4.3 Borrowing Rates

The cost of long term borrowing through the PWLB (Public Works Loan Board) is linked to Central Government’s own borrowing costs. PWLB rates fell in anticipation of, and following, the Bank Rate cut and hit new historically low levels, before moving up recently after the US election results.

Average PWLB borrowing rates are historically low. Based on the cost of new “maturity” loan to the Council, 5 year loans averaged around 1.3% (generally between 1% and 1.5%), while loans in the 20 to 50 year range averaged around 2.6% (generally between 2% and 3%).

Short term borrowing rates - based on loans from other councils – were also low, as alternative options for lenders (investment rates) were low. There was some upward movement towards the end of November, suggesting some tightening in availability of such funds. By the end of the period, 3 month loans were typically costing at least 0.30%, and 6 month and 1 year loans were between 0.40% and 0.50%.

4.4 Borrowing and Lending in the 3 month period

The Council’s CFR (Capital Financing Requirement) is the key measure of the Council’s borrowing **need** in the long term. It is

- (a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)
less
- (b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -
less
- (c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council’s **actual** long term debt was [Page 4 of 175](#) £175M below the CFR at the start of 2016/17, and this gap is widening (as CFR increases and long term debt is repaid). The Council has taken

no new long term borrowing for several years, and is repaying existing debt at maturity, including a £6M PWLB loan (at an “expensive” 9.375%) repaid at the end of September 2016.

We are effectively using “internal borrowing” from available revenue cash balances to part cover this gap. Two benefits of this are:

- (a) a net saving on interest (as long term borrowing costs more than investments would earn), and
- (b) fewer funds held, so a lower risk of funds invested being lost.

The rest of the gap is covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and in anticipating future borrowing needs.

Over the period, there was an increase in short term borrowing of £12.5M, as loans of £10.5M of were repaid and **£23M of new loans** (listed below) were taken.

Start Date	End Date	Counterparty	Amount £	Rate
06/09/2016	06/03/2017	Basildon District Council	2,000,000	0.33%
13/09/2016	18/07/2017	West Yorks Combined Authority	5,000,000	0.40%
15/09/2016	15/03/2017	Basildon District Council	1,000,000	0.33%
19/09/2016	20/03/2017	Kent Police & Crime Commissioner	5,000,000	0.32%
29/09/2016	29/03/2017	Basildon District Council	2,000,000	0.35%
30/09/2016	31/07/2017	South Lakeland District Council	2,000,000	0.35%
05/10/2016	31/03/2017	Gwent Police Authority	1,000,000	0.25%
28/10/2016	31/03/2017	West Yorks Combined Authority	5,000,000	0.30%

4.5 Analysis of debt outstanding -

	1st September 2016		30th November 2016	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	3,000		0	
<u>Greater than 3 months (full duration)</u>	<u>21,500</u>		<u>37,000</u>	
		24,500		37,000
LONGER TERM DEBT				
Bonds	21,503		21,503	
Mortgages	17		17	
PWLB	112,906		106,125	
<u>Stock & Annuities</u>	<u>258</u>		<u>258</u>	
		134,684		127,903
Lancs County Council transferred debt		16,658		16,325
<u>Recognition of Debt re PFI Arrangements</u>		<u>69,452</u>		<u>69,195</u>
TOTAL DEBT		245,294		250,423
Less: Temporary Lending - fixed term		(3,000)		(1,000)
- instant access		(15,326)		(17,911)
NET DEBT		227,058		231,512

The key elements of long term borrowing included above are:

- (a) £21.5M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The overall average interest rate paid on this debt is now around 5%, with individual deals ranging from 4.35% to 7.625%
- (b) £106M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, while EIP (Equal Instalment of Principal) loans range from 1.94% to 3.77%.
- (c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year – charged provisionally at 2%.
- (d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use those new school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over and use of these assets is thereby shown “on balance sheet”, with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax payer as these are incurred through the payments made from the PFI contractor (and are largely offset by PFI grant funding from the Government).

4.6 Issues to note in the period

Over the period as a whole net borrowing increased and cash balances built up (as overall net spending was lower than forecast). The Council will most likely continue to take short term loans over the rest of the year, to meet its liquidity needs. If it appears likely that the short run cost of carrying long term borrowing would be outweighed by future interest rate increases, some longer term borrowing may be taken.

Investments will continue to be kept short term, and mainly in liquid deposits.

The Government’s consultation on the future of the PWLB has concluded and it appears likely that the PWLB – the Board and its Commissioners – will be abolished and their functions be transferred to the Treasury. It is not expected that there will be any material changes in borrowing arrangements as a result of this change.

4.7 Performance against prudential and treasury indicators

Appendix 3 shows the current position against the Prudential Indicators set by the Council for the current year. None of the key indicators have been breached.

Our total borrowing position at 30th November 2016 was £250.4M against our Authorised and Operational Borrowing Limits (£328.8M and £318.6M respectively) – this is the most significant Prudential Indicator.

This total debt includes the impact on the balance sheet of the recognition of assets brought into use that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the “indebtedness” arising from financing the cost of them. They do not add to the “bottom line” cost met by the Council Tax payer.

Movements in this Indicator across the year are shown as the first graph in Appendix 4.

4.8 Interest risk exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at around + £33M and remained, across the period, within the limit set at +£43M for 2016/17.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

- (a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which are then offset by
 (b) any lending (up to 364 days).

The high level of short term, variable borrowing now being taken increases the risk that the Council will breach this limit, particularly at the end of this financial year. If there were a breach, this should be taken as a warning flag, rather than a serious concern.

Our **Fixed Interest Rate Exposure** fell, with the debt repaid at the end of September, from £123M at the start of 2016/17, to around £116M, against the 2016/17 limit of £223M. This indicator is effectively the mirror image of the previous indicator, tracking the Council’s position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent years have led the Council to hold most of its debt in this way.

This limit was set to allow for the possibility of higher levels of new long term, fixed rate borrowing, which have not been taken.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council’s Constitution.

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

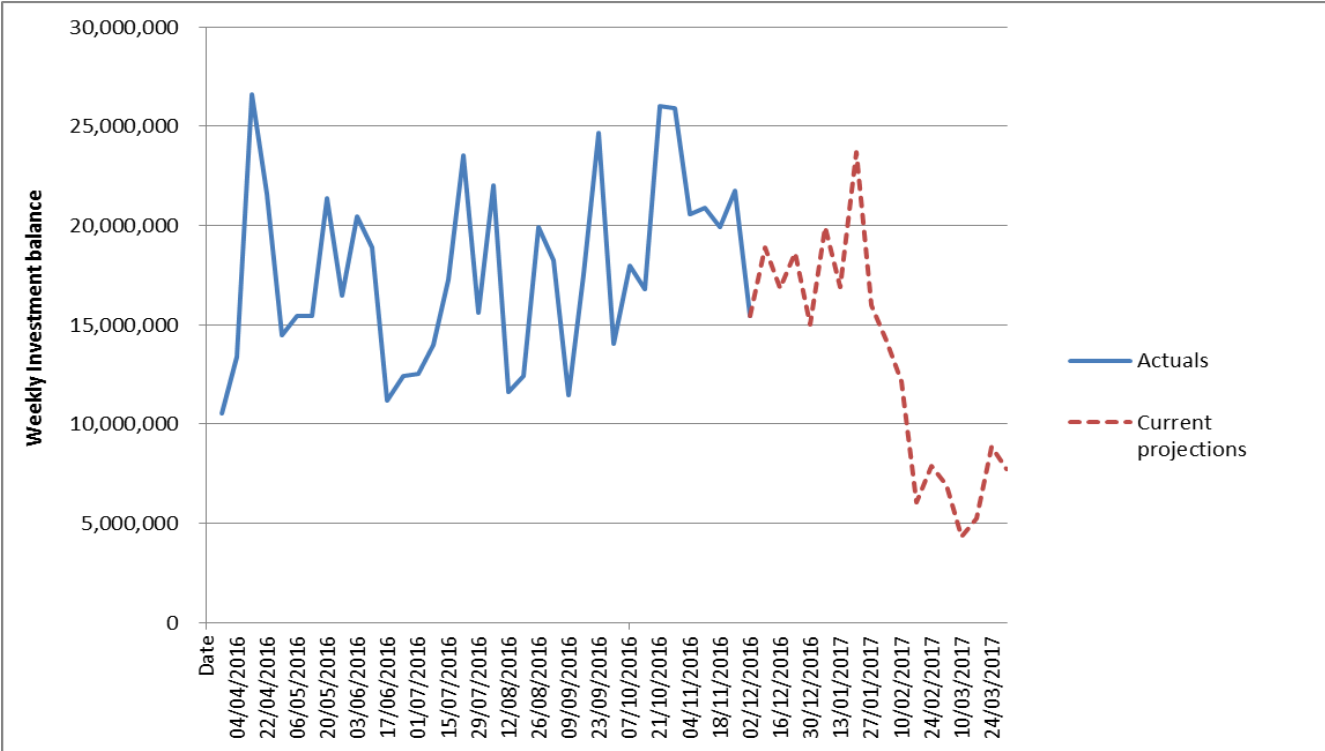
10. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council’s Code of Corporate Governance.

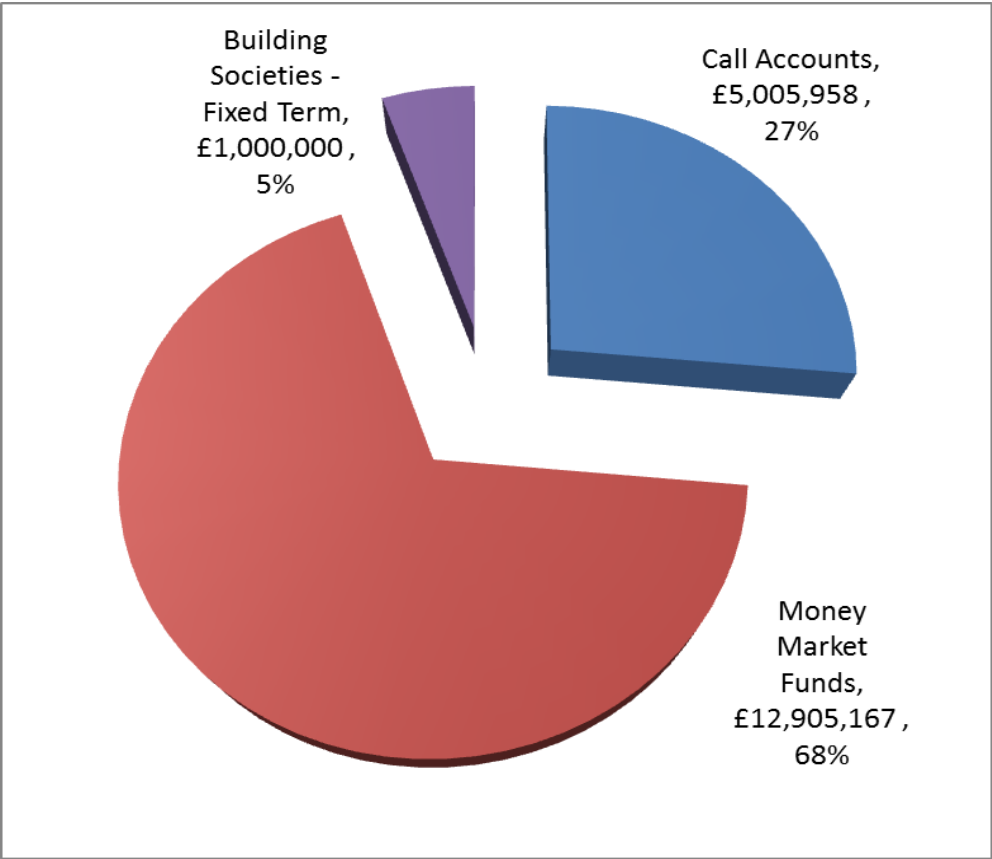
VERSION: 0.01

CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager	extn 5303
	Louise Mattinson - Director of Finance and IT	extn 5600
DATE:	8 th December 2016	
BACKGROUND PAPER:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 29 th Feb 2016	

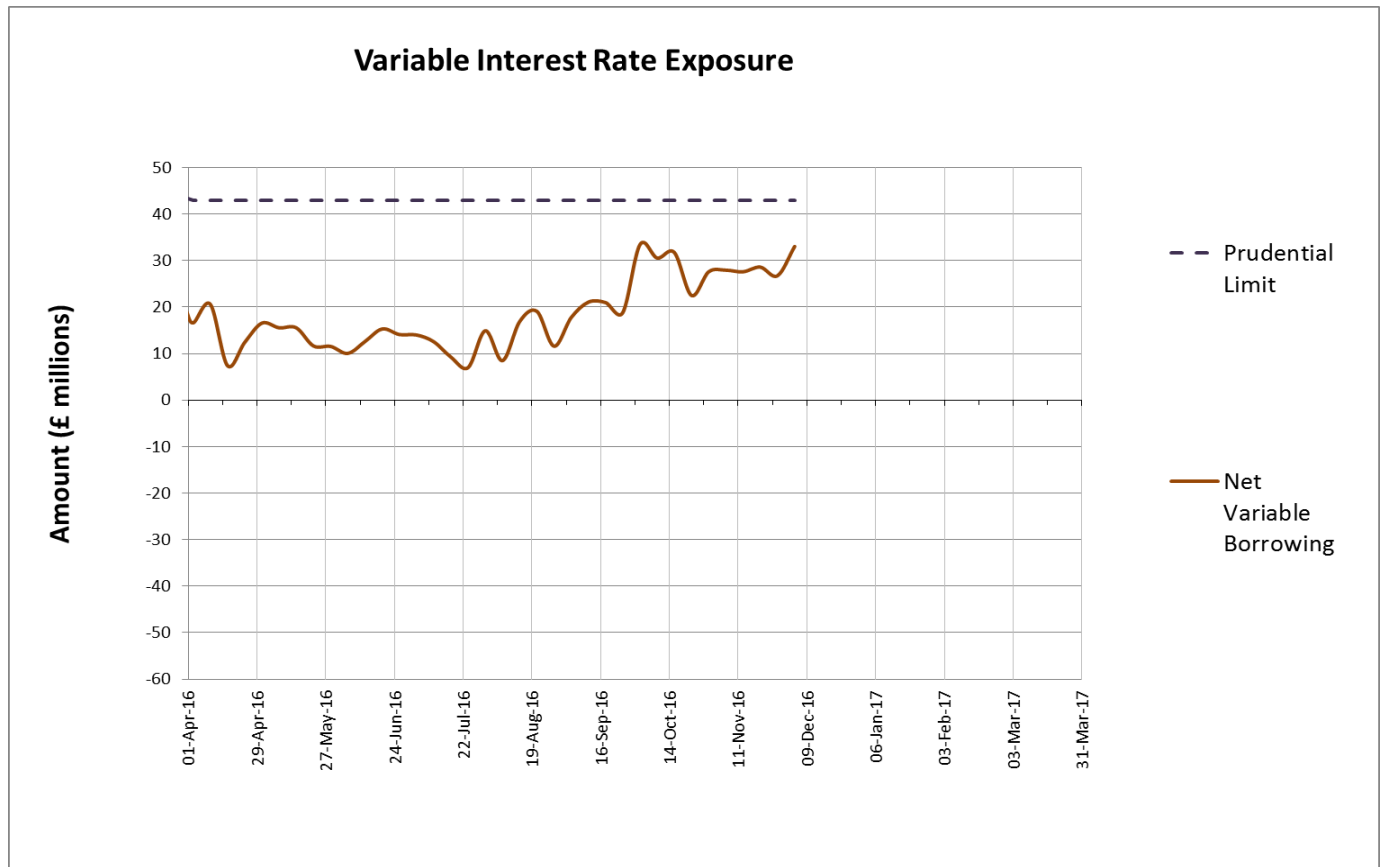
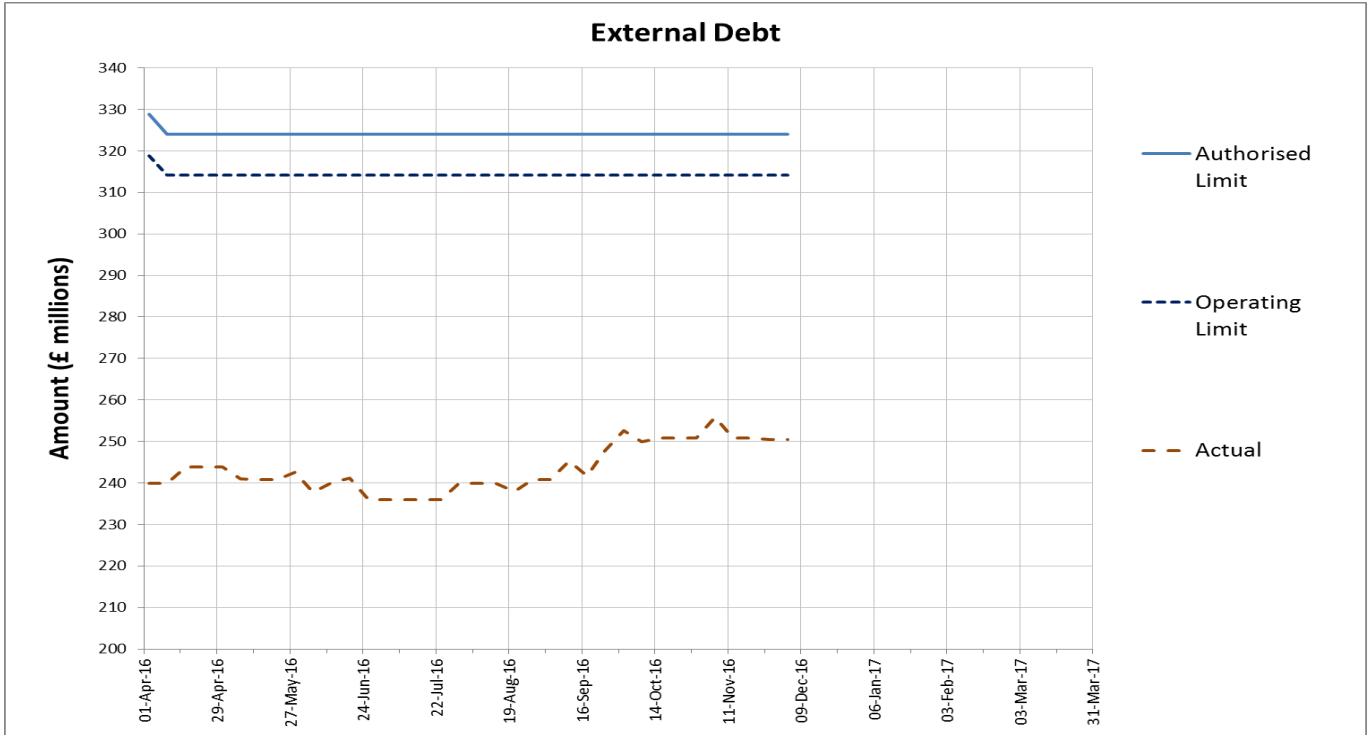
Weekly Investment balances



current projections include assumed additional borrowing in February and March



	Indicator 2016/17	As approved Feb 16	Current Monitoring	Commentary																										
	Local Authority has adopted CIPFA 1 Treasury Management Code of Practice	Latest edition of CIPFA TM Code of Practice adopted March 2012																												
PRUDENTIAL INDICATORS	2 Estimated Capital Expenditure	£29.1 Million	£36.7M																											
	3 Estimated total Capital Financing Requirement at end of year	£308 Million (incl projections re LCC debt £16M and accumulated PFI / Lease debt £68.6M)																												
	4 Estimated incremental impact of capital investment decisions on Council Tax	£0 (Zero after revenue savings allowed for)																												
	5 Estimated ratio of financing costs to net revenue stream	17.74% (Main Programme Capital Spend)																												
	6 Outturn External Debt prudential Indicators	LCC Debt	16.0M	<table border="1"> <thead> <tr> <th>Borrowing to date</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>LCC Debt</td> <td>16.3</td> </tr> <tr> <td>PFI Elements</td> <td>69.2</td> </tr> <tr> <td>BwD</td> <td>164.9</td> </tr> <tr> <td>Total</td> <td>250.4</td> </tr> </tbody> </table>	Borrowing to date	£M	LCC Debt	16.3	PFI Elements	69.2	BwD	164.9	Total	250.4	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made															
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Remaining elements	229.6M																													
Operational Borrowing Limit	314.1M																													
Authorised Borrowing Limit	324.1M																													
TREASURY	7 Variable Interest Rate Exposure	£43 Million	Exposure to date	£33.0 M	Limit not breached during the year																									
	8 Fixed Interest Rate Exposure	£223 Million	Exposure to date	£116.4 M	Limit not breached during the year																									
	9 Prudential limits for maturity structure of borrowing			<table border="1"> <thead> <tr> <th colspan="3">Actual maturity structure to date</th> </tr> <tr> <th>Period (Years)</th> <th>£M</th> <th>%</th> </tr> </thead> <tbody> <tr> <td><1</td> <td>37.8</td> <td>22.9</td> </tr> <tr> <td>1-2</td> <td>2.6</td> <td>1.6</td> </tr> <tr> <td>2-5</td> <td>7.2</td> <td>4.4</td> </tr> <tr> <td>5-10</td> <td>15.8</td> <td>9.6</td> </tr> <tr> <td>>10</td> <td>101.5</td> <td>61.6</td> </tr> <tr> <td>Total</td> <td>164.9</td> <td>100.0</td> </tr> </tbody> </table>		Actual maturity structure to date			Period (Years)	£M	%	<1	37.8	22.9	1-2	2.6	1.6	2-5	7.2	4.4	5-10	15.8	9.6	>10	101.5	61.6	Total	164.9	100.0	Limit not breached during the year
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25%	95%	>10																												
10	Total investments for longer than 364 days	£7 Million	<p style="text-align: center;">Page 47 of 107</p> <p style="text-align: center;">NO LONG TERM INVESTMENTS MADE</p>																											



GLOSSARY OF TERMS

Investment Rates

The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

Borrowing Rates

To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).

The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

PWLB Loans - Fixed rate loans are repayable by one of three methods:

- (a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.
- (b) **Annuity**: fixed half-yearly payments to include principal and interest or
- (c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

Certainty Rates - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

LOBO - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.

This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

PFI - The private finance initiative is a way of creating "public-private partnerships" (PPPs) by funding public infrastructure projects with private capital.

BSF - Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

Prudential Indicators

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

Money market fund – type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds "ring-fenced", kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts)



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 10 January 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 30 November 2016

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 September to 30 November 2016.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 November 2016 against the Audit & Assurance Plan, which was approved by Committee on 12 April 2016;
- approve the proposed revisions to the Audit & Assurance Plan; and
- approve the proposed change to the date of the September 2017 Committee meeting and the timing of the meeting to approve the annual accounts from 2018 going forward.

3. BACKGROUND

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that have been identified during the year.

4. RATIONALE

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal audit standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- at the year end, an objective and independent opinion can be provided that meets the statutory governance requirements;
- it also demonstrates the effectiveness of the internal audit function; and

- throughout the year, support is provided to Members, Directors and managers in their particular areas of responsibility.

5. KEY ISSUES

Outcomes achieved in the year thus far:

Risk and Corporate Governance

Director Exception/Dashboard Report and Assurance Statement Half-Year Update

The table below lists the eleven “red” priority areas of concern across the departments, by key themes, identified in the summary that Director Exception/Dashboard Report and Assurance Statements for the Half-Year of 2016/17. In summary, six areas of concern previously identified as “red” have been downgraded this period to “amber” or “green” rating. Five new “red” priority areas have been identified where these appeared for the first time or were escalated from amber or green ratings.

			2016/17	2015/16
Themes	No	Description	Quarter 2	Quarter 4
Demand Management		Demand for Children in our Care Placements/ High Risk & Challenging Teenagers (Children’s)	Green ₁	Red
	1.	Deprivation of Liberty Safeguards (DOLs) and Children’s Service Care Orders (COP) & Public Law Outline (PLO) (HR, Legal & Corporate)	Red	Red
	2.	Service Users Classified as Not in Education, Employment or Training (NEET) (Education)	Red	Red
		Admissions to Residential and Nursing Home Care (Adults)	Green ₂	Red
		Crime Performance Figures (Localities & Prevention)	Green ₃	Red
	3.	Social Worker Workloads (Children’s)	Red	Red
	4.	Failure to Complete Education, Health & Care Plans within Statutory Timescales (Education)	Red	Green ₁
IT Resilience		Information Security/Data Loss Incidents (Finance & IT)	Amber ₄	Red
		New HR & Payroll System (HR, Legal & Corporate)	Amber ₅	Red
Budgets & Finance	5.	Budget Pressures 15/16 (Adults)	Red	Red
	6.	Family Court Decisions Placing Increased Financial Burden On Permanence Planning (Children’s)	Red	Green ₂
Staffing/HR	7.	Sickness Absence (Adults & HR, Legal & Corporate)	Red	Red

			2016/17	2015/16
Themes	No	Description	Quarter 2	Quarter 4
	8.	Maintain Number of Approved Adopters (Children's)	Red	Green ₃
	9.	Failure to Implement Transforming Lives Prevention Work Following Workforce Review (Localities & Prevention)	Red	Green ₄
Capital Works	10.	Pennine Reach Programme (Growth & Prosperity)	Red	Red
Government Reform		Special Educational Needs & Disability Inspection Framework (Education)	Amber ₆	Red
Governance & Compliance	11.	Failure To Develop, Monitor & Implement Public Health Contracts & Quality Framework (Public Health)	Red	Green ₅

Internal Audit

A summary of the 8 audits completed and finalised since the last report to Committee are detailed below.

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations
	Environment	Compliance	Agreed
Equality & Diversity	Adequate	Substantial	3
Health & Wellbeing	Adequate	Adequate	4
Planning Performance	Adequate	Adequate	6
Service Desk	Adequate	Adequate	7
Longshaw Nursery	Adequate	Adequate	17
HR Information Accuracy	Adequate	Adequate	6
LTP Grant Certification	N/A	Adequate	0
Davyfield H & S	Substantial	Adequate	4

Audit & Assurance has provided support to the Workforce Review Programme. In addition to the Head of Audit & Assurance providing governance assurance to the Reviews Board, audit & assurance colleagues have been providing programme assurance to the following reviews: - (i) Business Support; (ii) Commissioning & Procurement; (iii) Neighbourhoods & Localities; (iv) Corporate Services; and (v) Organisational Training.

Current internal audit reviews

In addition to the above completed audits, the following reviews are ongoing:

- Efficiency Partner
- Strategic Funding
- Care Act Implementation

- Partnerships
- Highways
- Performance Indicators
- Old Town Hall Stonework
- Payroll VFM
- CCTV
- Debtors
- Housing Growth
- Capital Schemes Management
- School Visits

Internal Audit Performance

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

Performance Measure	Target	Q2 2016/17	Q1 2016/17
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	75%	62%
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	93%
5. Recommendations Implemented	90%	70%	83%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measures where performance (Q1, 2016/17) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

2 of 9 audits (22%) were completed over budget: Longshaw Nursery School (9 days over) and Equality & Diversity (5 days over). The audit of Longshaw Nursery School was rescheduled several times at the request of the client and the audit was undertaken by two auditors (rather than the normal 1) to overcome any potential client difficulties. The Equality & Diversity audit was delivered by the assistant auditor (who has now left the Council) who required additional time to meet the required audit standards.

4. Follow Ups Undertaken within Deadline

We have received responses to the 7 audits (100%) requiring follow up by 30 November (including 1 brought forward from the September Audit Committee).

5. Recommendations Implemented

Of the 7 follow up requests we were able to identify that of the 23 recommendations due for implementation on or before 30 November 2016 16 (70%) had been implemented as agreed.

Health & Safety – 8 recommendations (including 2 must recommendations); 7 done, 1 “should” not done.

Fleet Management - 6 recommendations (including 2 must recommendations); 4 done 2 not done including 1 “must”.

Traded Services – 4 recommendations (including 0 must recommendations); 1 done and 3 not done.

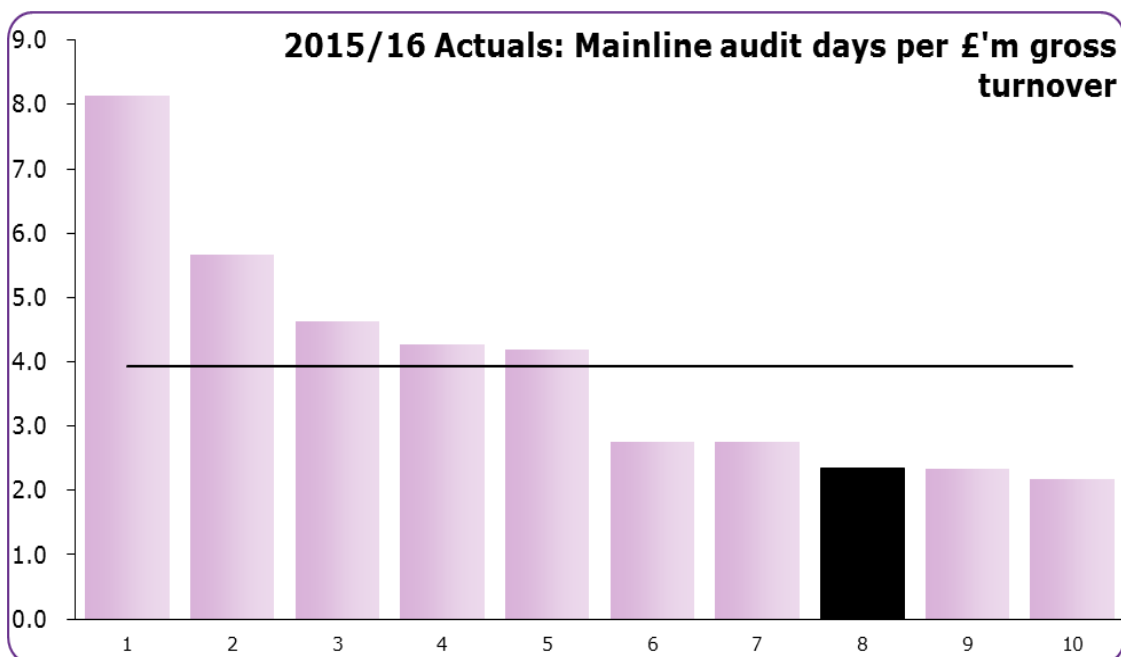
NNDR – 2 recommendations (including 0 must recommendations), 1 done and 1 not done.

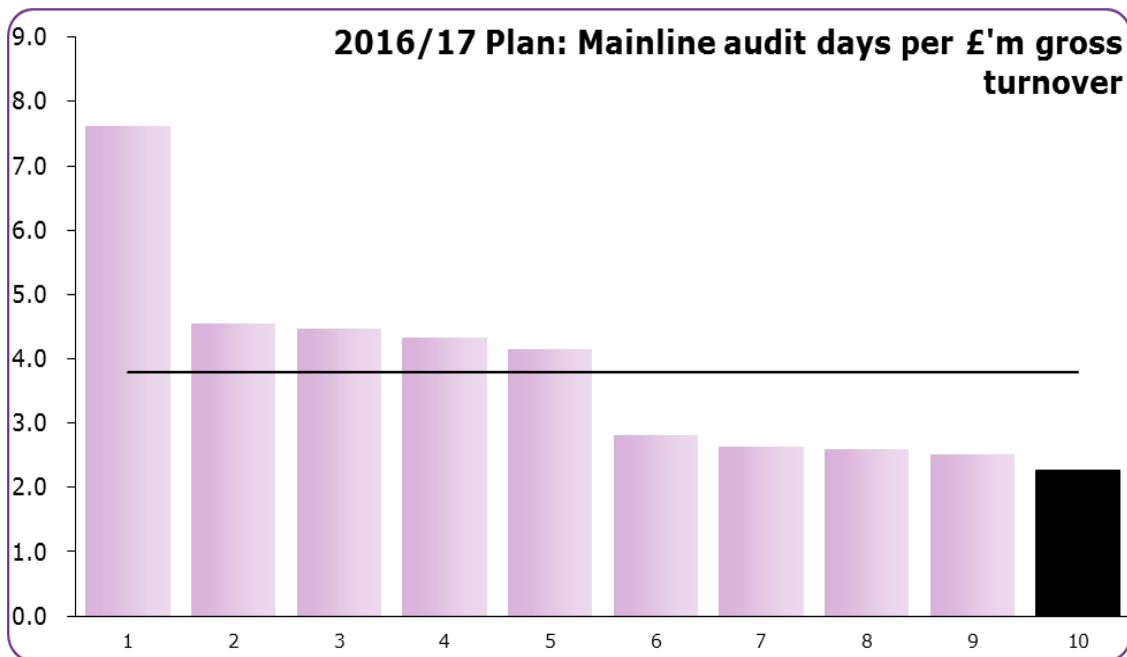
The 7 recommendations which were not evidenced as implemented included 1 “must” recommendation, namely:

Fleet Management: “All drivers who are allowed to use Council vehicles for personal commuting purposes must sign a copy of a User Agreement contained within the Driving at Work Policy (when implemented), to confirm they have read and understood the terms and conditions of use” was not implemented by the implementation date of 31 May because the Driving at Work Policy was only agreed by the Policy Working Group in September. This recommendation will be implemented before March 2017.

8. CIPFA Internal Audit Benchmarking 2016

The Annual Internal Audit Opinion Report 2015/16 (presented to this Committee on 17 June) explained that the results of the CIPFA Benchmarking would be presented to a future Audit Committee meeting. The service has participated in the 2016 CIPFA benchmarking exercise and the results have now been received. The Council’s internal audit service (shown on the bar charts as the “black bar”) has been compared with 9 other near-comparators (based upon Council gross revenue turnover (GRT), service structure and internal audit delivery arrangements). The key benchmark of “mainline audit days per £million of gross turnover” has identified the following for 2015/16 (2.4 days compared to an average of 3.9 days) and 2016/17 (2.3 days compared to an average of 3.8 days):





It should be noted that the figures for 2016/17 were prepared on the basis of the planned audit days deliverable per the Audit & Assurance Plan approved on 12 April 2016. For the reasons detailed in the following section the total days for internal audit activity is now expected to be 682 days, which equates to 1.9 days (682/361m) per £m of gross revenue turnover. This is significantly lower than the average identified for the Council's near neighbour comparators of 3.8 days per £m of gross revenue turnover.

Audit & Assurance Plan 2016/17 – In Year Review

As reported to this Committee changes to the Audit & Assurance Plan will be submitted to Members for consideration when they become necessary. Changes to the Plan are now required because of the following emerging issues:

Resources – it was anticipated that Audit & Assurance would have staff resources amounting to 1,082 days for the delivery of the Audit & Assurance Plan. This comprised 817 days for internal audit, 135 days for risk/governance and 130 days for fraud. However, the following issues have emerged:

- the deletion of a Principal Audit & Assurance Officer post, which effectively became vacant in April (180 days).
- the deletion of an Assistant Audit & Assurance Officer post, which became vacant in September (100 days).

Audit & Assurance will now only be able to deliver 802 days (682 days for internal audit, 65 days for risk/governance and 55 days for fraud). Audit & Assurance has proposed revisions to the Audit & Assurance Plan, which will allow it to provide an opinion on the Council's framework of governance, risk management and internal control. This revision will ensure that the highest priority (priority 1) audits will be completed in 2016/17. The lowest priority audits will be deferred and considered for inclusion in the Audit & Assurance Plan 2017/18 and will cover all departments/areas of the Council.

Changes to Future Audit & Governance Committee Meeting Dates

The Committee is asked to approve a change to the date of the September 2017 meeting and to move the June meeting to July from 2018. In 2018 the statutory

deadline for the sign off of the Council's draft 2017/18 Annual Accounts will be 31 May 2018 and the audited accounts will need to be approved by the Audit & Governance Committee and published by 31 July 2018.

To prepare for this change the Council is aiming to produce the draft 2016/17 accounts by the end of May 2017 which will enable the External Auditor to complete their work by the end of August 2017. Therefore it is proposed to bring forward the date of the September 2017 Committee meeting forward by one week to 12 September. This will help the External Auditor to focus resources in preparation for the shorter timescales in the following year. In order to comply with the shorter statutory publication deadlines from 2017/18 it is proposed to move the June meeting of the Committee to July from 2018 going forward, with the 2018 meeting provisionally scheduled for 24 July.

6. POLICY IMPLICATIONS

This delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising as a result of this report.

9. RESOURCE IMPLICATIONS

There are no resource implications arising as a result of this report.

10. EQUALITY & HEALTH IMPLICATIONS

There are no equality and health implications arising as a result of this report.

11. CONSULTATIONS

Directors

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630
Date: 30 December 2016
Background Papers: Audit & Assurance Plan 2016/17, approved by Audit Committee on 12 April 2016.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 10 January 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Annual Governance Statement (AGS) – 2015/16 Actions and 2016/17 Approach/Timetable

1. PURPOSE

To inform Members of the actions taken to address the significant governance issues identified in the 2015/16 AGS and the approach/timetable for producing the 2016/17 AGS.

2. RECOMMENDATIONS

The Committee is asked to:

- review progress made on the agreed AGS actions from 2015/16; and
- note the approach/timetable for producing the AGS for 2016/17.

3. BACKGROUND

The Accounts & Audit Regulations require that the Council must publish an AGS on an annual basis in accordance with proper practice. The Audit & Governance Committee is also required to review and provide independent assurance on the Council's governance framework.

4. RATIONALE

The AGS is a product of the Council's own review of its framework of governance. The governance framework comprises the systems and processes, the culture and values, by which the organisation is directed and controlled, and its activities through which it accounts to, engages with and leads the community. The framework itself is based on guidance issued by CIPFA/SOLACE. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

5. KEY ISSUES

The AGS is a statutory document, which is published each year to accompany the Council's Statement of Accounts. It outlines the arrangements that are in place to direct and control the Council's activities (the governance framework). It also includes an annual assessment of the effectiveness of the governance framework. Any significant governance issues must be reported.

Actions from 2015/16

In 2015/16 five significant issues were reported:

- Procurement (brought forward from 2013/14);
- Payroll (brought forward from 2013/14);
- Partnership Arrangements(brought forward from 2014/15);
- Adults Services Financial Position (brought forward from 2014/15); and
- Growth Programme.

Details of progress are shown in Appendix 1. There are still actions to be undertaken but all are in progress and they are largely in accordance with expected targets.

Approach for 2016/17

The Management Accountabilities Framework (MAF) provides ongoing assurance on the effectiveness of the Council's governance framework. Through their completion of the half-yearly "Directors Exception/Dashboard Report and Assurance Statement" directors provide updates with regard to their operational plan priorities, general management and their performance, finance and governance arrangements. These reports, combined with the Executive Director's Programme Area Meetings (PAM), provide appropriate challenge to the process with significant "red" issues being reported to the Management Board and Audit Committee.

There is a year-end process (currently led by Audit & Assurance), which provides further assurance on the Council's governance framework. This includes the receipt of signed statements of assurance from each director and the deputy chief executive. This statement requires that they each provide an assessment of their governance arrangements and systems of internal control with an action plan for any identified areas of weakness. The year-end process also involves the collection and assessment of evidence to determine the Council's compliance with the core principles of good governance. This evidence includes examples of systems, processes, documentation and other evidence (including self-assessment tools and sources of further guidance) as recommended in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government: Guidance Note for English Authorities 2016 edition".

Timetable for 2016/17

Deadline	Action
15/3/17	Circulation of director statement of assurance templates
31/3/17	Completion of Second Half-Year MAF Directors reports
15/4/17	Second Half-Year MAF PAM challenges
30/4/17	Second Half-Year MAF significant "red" issues reported to Management Board
30/4/17	Receipt of signed director statements of assurance Receipt and collation of annual governance core principle evidence
15/5/17	AGS evidence and statements considered by Primary Assurance Group (PAG)
31/5/17	Production of draft AGS by PAG for consideration by Executive Team
13/6/17	Second Half-Year MAF significant "red" issues reported to Audit & Governance Committee

	Approval of AGS by Audit & Governance Committee
30/6/17	AGS signed by Chief Executive and Leader of the Council
31/7/17	AGS published

6. POLICY IMPLICATIONS

The Code of Corporate Governance sets out the core principles for good governance. These guide the Council's policy making.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the AGS process.

8. LEGAL IMPLICATIONS

The Council's preparation and publication of an annual AGS, that accords with the CIPFA/SOLACE Framework, is necessary to meet the statutory responsibility (set out in Regulation 6 (2) of the Accounts & Audit Regulations 2015) This responsibility requires that an AGS is prepared in accordance with proper practices and accompanies the statement of accounts.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this AGS process.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or health implications arising from this AGS process.

11. CONSULTATIONS

Deputy Chief Executive (as Chair of the Primary Assurance Group); Director of Finance & IT and Director of HR, Legal & Corporate Services.

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630
Date: 30 December 2016
Background Papers: 2015/16 AGS approved by Audit & Governance Committee on 14 June 2016

Annual Governance Statement: Progress on 2015/16 Actions

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update
<p>1. Procurement (Brought forward from 2013-14)</p>	<p><i>The Work Force Review of Commissioning, Procurement and Contracts is underway. Upon its completion procurement processes will be strengthened and also address the absence of a low value construction framework.</i></p>	<p><i>Director of Finance and IT</i></p>	<p>The workforce review has been completed and a centralised Commissioning and Procurement Service (CAPS) has now been established, effective from 1st October 2016. A full review of processes, current contracts and systems will be conducted in the coming months, driven also by the need to implement the new Civica Financials P2P (purchase to pay) system which will be rolled out across the organisation on 1st April 2017. Work is also being undertaken in conjunction with Capita to develop a joint business case around future procurement and contracting with the objective of delivering multi-million pound savings over the next 3 to 5 years.</p>
<p>2. Payroll (Brought forward from 2013-14)</p>	<p><i>Following the implementation of the new HR & Payroll system to further strengthen processes to ensure that it delivers the efficiency savings and associated control improvements in 2016/17.</i></p>	<p><i>Director of HR, Legal and Corporate Services</i></p>	<p>The core HR & Payroll system is now fully operational and we are in the process of completing the final stages of implementing full manager and employee self-service. This will realise further efficiencies both within the HR service but also for managers and employees due to the automation of leave & time management. There is a robust action plan in place responding to annual audit reviews and service</p>

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update
			improvements continue to be introduced to enhance the required controls for the Council and external customers.
<p>3. Partnership Arrangements (Brought forward from 2014-15)</p>	<p><i>Further development of alternative partnership arrangements (as required by central government) including the implementation and delivery of the new five-year contact with the Council's technical services partner in 2016/17.</i></p>	<p><i>Deputy Chief Executive</i></p>	<p>Procurement of a new technical services partner concluded successfully in the spring and the new place based partnership with Capita commenced on 1st July 2016 for an initial 5 years. New governance arrangements have been established and a number of partnership boards are now meeting regularly to review performance, oversee the partnership and jointly develop business cases for change where appropriate.</p> <p>A number of services provided by Capita under the previous partnership were also successfully transferred back to the Council during the first half of 2016.</p>
<p>4. Adult Services Financial Position (Brought forward from 2014-15)</p>	<p><i>The implementation of provisions within the Care Act 2014 has placed greater demands for services (which have been recognised nationally) together with the growing complexity of service user needs and delays in the delivery of efficiency programmes has resulted in a budget overspend of over £2m. The challenge of managing the budget within these pressures, whilst developing effective</i></p>	<p><i>Director of Adult Services</i></p>	<p>Financial and resource pressures continue during 2016/17 due to ongoing increasing demand and demographic pressures.</p> <p>Pressures on the budget are considered routinely within the Senior Leadership Team and with Members through the Senior Policy Team and decisions taken accordingly.</p> <p>Demand Management strategies are being applied and commissioning spend</p>

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update
	<i>partnerships with the NHS will continue in 2016/17.</i>		is scrutinised via a Virtual Panel. The department is implementing efficiency programmes across the service and managers are tightly managing budget lines.
5. Growth Programme	<i>The delivery of the Pennine Reach programme (bus station element) did not progress in accordance with expectations. Careful management of the Growth Programme will be required to ensure that expectations, particularly in relation to the Council's medium term financial strategy are met.</i>	Director of Planning & Prosperity	Further to a comprehensive review, the growth programme is now comprised of 80 sites (13 town centre, 19 employment and 48 housing). 14 sites are in delivery during 16/17 with delivery forecast to commence on a further 30 in 17/18. The latest overall additionality benefits projections from the sites to 2025/26 (based on the realistic profile of 75%) are: Housing completions 6269 Council Tax £41.6m NNDR £32.4m New Homes Bonus £3.4m TOTAL £77.4m



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 10 January 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2016/17 Quarter 2 Review

1. PURPOSE

To provide Members with details of the risk management activity that has taken place in the period from 1 July 2016 to 30 September 2016.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 2 2016/17;
- Note the risk management activity that has occurred during the period; and
- Select a key Corporate Risk to undertake a review of its assessment, control and monitoring at its next meeting.

3. BACKGROUND

The Council recognises that risk management is not simply a compliance issue, but rather it is a process to help ensure the successful delivery of the corporate objectives. Effective risk management arrangements should be inherent in the Council's culture and decision making processes as well as the operational and financial management arrangements operating within the Council. Risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities.

4. RATIONALE

The Audit & Governance Committee terms of reference require it to review progress on risk management at least annually and to promote risk management throughout the Council. The Corporate Risk Management Strategy & Framework requires that the Audit & Governance Committee will receive regular reports setting out progress against corporate risk management action plans. This report meets both of these requirements.

5. KEY ISSUES AND RISKS

The Corporate Risk Register currently contains a total of 17 risks, the same as previous quarter as reported to this Committee on 20 September. A summary of the risks is attached at Appendix 1 of this report. The report shows any

movements in the residual risk scores between quarters to enable changes to be tracked. There has been no significant movement in the residual risk scores from the previous quarter.

The top corporate risks remain the same as the previous quarter, namely:

Risk No.	Risk Description	Risk Owner
1	Inability to deliver a balanced budget for 2016/17.	Louise Mattinson (S151 Officer)
14	High profile serious/critical safeguarding incident/case that is known to Council services.	Steve Tingle (DASS)/Linda Clegg (DCS)

As part of the Council's Risk Management process corporate risks are reviewed and monitored on a regular basis to ensure that they are appropriate, and properly assessed going forward. The Corporate Risk and Resilience Forum (CRRF) carries out this role and the results are reported to Management Board. This includes a challenge of the sources, implications and mitigations of specific risks on a rolling basis. The CRRF review of the corporate risks in September recommended some amendments to the corporate risk for consideration by Management Board for quarter 3. These will be reported to Audit Committee at its next meeting.

The Council's current long term insurance agreement ends on 31 March 2017. The re-tendering exercise has been completed and the results will be reported to Executive Board for consideration and approval in February in order to have the new arrangements in place from 1 April 2017.

We continue to use the risk management support available from Zurich Municipal as part of the current long term insurance agreement. An Information Governance Health Check was undertaken by Zurich Municipal during August to assess the Council's information risk management practices against seven enabling categories. The final assessment report was received in November. This highlighted the Council was 'an organisation with strong leadership and the building blocks of a fully effective information governance programme. In all areas the fundamental aspects of an effective information management programme have been established.' Whilst the Council scored at level 2 – In Development in three of the categories the report noted that the actions required to improve are relatively easy to attain in the sections. Key areas for further improvement identified were:

- (i) identification and quantification of information assets throughout the organisation;
- (ii) robust implementation of Clear Desk Policy;
- (iii) periodic site visit audits to monitor compliance with governance and security policies; and
- (iv) improved knowledge of third party compliance with information security standards.

An action plan setting out the recommendations from the report is attached at Appendix 2 to this report. One of the recommendations made was for this Committee to periodically select a key select a key Corporate Risk and

undertake a deep dive into its assessment, control and monitoring, inviting a key officer for the subject area to attend the meeting. This would provide a level of challenge regarding the suitability and adequacy of the controls identified and improve the Committee's oversight and understanding of the key corporate risks.

Plans are also being made to use the support available to assist the Civil Contingencies Team to run a corporate business continuity exercise later in the year. We are also in liaison with colleagues to identify other areas of support

The Road Risk Management Group continues to meet quarterly to consider the risk management arrangements in place for the Council's motor fleet and drivers and staff use of private vehicles for Council business. The Group also reviews management reports to monitor trends in fleet damage and insurance claims to identify training needs. At the latest Group meeting in September it was identified that most Council fleet drivers had been issued with the revised Drivers Handbook and the first drivers' newsletter had been published.

6. POLICY IMPLICATIONS

There are no policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality implications arising from this report.

11. CONSULTATIONS

The Corporate Risk Register has been reviewed and updated by the Corporate Risk & Resilience Forum and agreed by Management Board.

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630
Date: 30 December 2016
Background Papers: Annual Risk Management Report (including 2015/16
Quarter 4 Review)
Corporate Risk Management Strategy 2015/2020



Summary Risk Register

Directorate: _____

Department: Corporate Risk Register

Service: _____

Quarter and Year: Quarter 2 - 2016/17 Date of last review: 30-Jun-16

Date: 30-Sep-16 Date of next review: 31-Dec-16

Risk No.	Risk Description	Date Raised	Strength of Existing Controls	Inherent			Residual			Target			Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	Previous Residual			Change in Score
				L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating					L	I	Risk Rating	
1	Inability to deliver a balanced budget for 2016/17	26-Jan-15	Fair	5	5	HIGH	4	4	HIGH	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	26-May-16	4	4	HIGH	-
2	Failure of the assets or failure to manage these in a proactive and co-ordinated way (Assets include Buildings, Infrastructure)	25-May-11	Fair	3	5	HIGH	2	4	MEDIUM	2	2	LOW	Denise Park	Brian Bailey, Andrew Bond, Martin Eden, Shane Agnew	Open	15-Jul-16	2	4	MEDIUM	-
3	IT Infrastructure (Resilience) - OTH	20-Aug-13	Good	4	3	MEDIUM	3	3	MEDIUM	3	1	LOW	Louise Mattinson	Shane Agnew	Open	15-Nov-16	3	3	MEDIUM	-
4	The Council is not able effectively influence and shape new partnership structures to respond to changes occurring in the public sector. The arrangements in place may not be appropriate, properly initiated and controlled or may not respond effectively to deliver key priorities or corporate objectives.	07-Feb-12	Good	3	3	MEDIUM	2	3	LOW	2	2	LOW	Executive Team	Alison Schmid	Open	05-Oct-16	2	3	LOW	-
5	There is a risk that governance and decision making arrangements fail	25-May-11	Good	2	4	MEDIUM	2	2	LOW	1	1	LOW	Harry Catherall	Denise Park, David Fairclough.	Open	28-Oct-16	2	2	LOW	-
6	Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget.	17-Oct-16	Good	4	4	HIGH	1	3	LOW	1	2	LOW	Management Board	David Fairclough	Open	17-Oct-16	1	3	LOW	-
7	Ensure that the Council delivers its statutory function Civil Contingencies by Emergency Preparedness, Planning, Response, Recovery and Business Continuity Promotion in order to protect the Community and enhance the resilience of the Council, mitigate reputational and financial damage. Corporate Objectives at risk - 1,2,5,6.	25-May-11	Good	4	5	HIGH	1	5	LOW	1	5	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	14.09.16	1	5	LOW	-
8	Failure to contribute effectively to economic growth within Blackburn with Darwen	25-May-11	Good	3	5	HIGH	3	4	MEDIUM	2	2	LOW	Denise Park	Brian Bailey	Open	19-May-16	3	4	MEDIUM	-
9	Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.	25-May-11	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Dominic Harrison	Gifford Kerr	Open	05-Oct-16	2	4	MEDIUM	-
10	Breakdown of community relations and deterioration of community cohesion	07-Feb-12	Good	4	5	HIGH	2	5	MEDIUM	1	5	LOW	Sayyed Osman	Imran Akujji/Mark Aspin	Open	11-Nov-16	2	5	MEDIUM	-
11	Failure to improve the education and skills for our young people	20-Aug-13	Good	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Linda Clegg	Jessica Byrne	Open	22-Sep-16	3	3	MEDIUM	-
12	The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax	20-Aug-13	Good	4	4	HIGH	3	3	MEDIUM	2	2	LOW	Brian Bailey	David Proctor	Open	28-Aug-15	3	3	MEDIUM	-
13	Failure to prevent data loss and privacy incidents (Information Governance)	26-Sep-14	Good	5	4	HIGH	4	2	MEDIUM	3	2	LOW	Louise Mattinson	Shane Agnew, Sarah Slater	Open	15-Jul-16	4	2	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services.	20-Aug-13	Good	5	5	HIGH	3	5	HIGH	3	5	HIGH	Steve Tingle (DAS) / Linda Clegg (DCS)	Paul Lee	Open	11-Oct-16	3	5	HIGH	-
15	Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users.	19-Mar-15	Fair	4	4	HIGH	2	3	LOW	2	3	LOW	David Fairclough / Brian Bailey	Lorraine Nicholls	Open	16-May-16	2	3	LOW	-
16	Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services.	01-Dec-15	Good	5	5	HIGH	2	3	LOW	2	2	LOW	Denise Park	Louise Mattinson	Open	05-Feb-16	2	3	LOW	-
17	Cyber Risk - Risk of financial/Data loss, disruption or damage to the reputation of an organisation from compromise of its IT systems.	15-Mar-16	Good	5	5	HIGH	3	4	MEDIUM	2	4	MEDIUM	Louise Mattinson	Shane Agnew	Open	15-Jul-16	3	4	MEDIUM	-

Zurich Information Governance Health Check - Management Action Plan

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
Leadership & Management	1	Develop a corporate communications strategy around information governance which is recognised and supported at a local level.	Corporate Comms Strategy for information governance to be defined within Q4 2016/2017 and issued to SIRO for review before being issued for roll out in the next financial year	Q1/2 2017/2018	Sarah Slater SIRO	
	2	Review Corporate Risks 3, 13, 17 in the context of information incident response, disaster recovery and business continuity procedures delivering mitigation controls and capture on the risk register.	Corporate risks are reviewed on a Quarterly basis. The departmental risks for IG held within the Finance and IT directorate are reviewed monthly and feed into the Corporate register.	Completed	Sarah Slater Shane Agnew	SS and SA will continue to review the risks on a regular basis.

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	3	Provide clarity to Heads of Service regarding the recording of information governance risks on Departmental Risk Registers.	Intention for SIRO to introduce IAO training in Q1/2 of 2017/2018. This will incorporate the inclusion of IG risks on departmental registers	Q2 2017/2018	Sarah Slater SIRO	Issue will also be addressed at CRRF.
	4	The Council should review the opportunities from exploiting data as part of its annual review and planning cycle in the next 24 months.	Once the IAR has undergone a full review, the output from that register will drive out any assets that may contain opportunities for exploitation.	TBC	Sarah Slater	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
Strategy & Policy	5	Set target dates should be set for the completion of the Asset Registers. Monitor and report on progress to the SIRO/CRRF. Asset Owners should ensure both electronic and physical assets are considered. Asset Owners need to identify suitable review periods but must ensure a minimum annual review.	Review of IAR scheduled for Q4 2016/2017, with support from SIRO to encourage IAO and IAA to review and update their own areas. Updated SharePoint site will be published towards the end of Q1 2017/18.	Q1 2017/2018	Sarah Slater SIRO/IAO's	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	6	The Acceptable Use Policy should be reviewed to ensure it remains relevant and fit for purpose against a backdrop of new ways of working and technology developments.	AUP has been reviewed. Intention is to issue this to Policy Working Group and the Unions for approval in Q4 2016/2017.	Q4 2016/2017	Sarah Slater	Roll out via MetaCompliance in Q4 2016/2017 with assistance from Comms.
People & Training	7	Create enhanced focus on information governance objectives by making explicit reference to individual responsibilities and performance within the annual appraisal process.	Work with HR to add this to HoS/Managers appraisal template	Q4 2016/2017	Sarah Slater	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	8	Review training needs for staff with records management responsibilities (Business Support Managers) and consider Level 2 Protecting Information as mandatory for this group.	Reviewed RM responsibility across the high volume personal data areas. All Line managers with RM responsibility and all IAO's will be advised to complete Responsible for Information-IAO (Old Level 2) from next Financial year.	Q1 2017/2018	Sarah Slater	
	9	Design and implement an information security awareness program to enhance the security.	Information Security On-line training programme added to the courses on Me Learning in Q3 2016/2017. Approval from Deputy Chief Exec to instruct Mandatory from 2017/2018	Q1 2017/2018	Sarah Slater	Comms to be pushed out that Info Sec is mandatory at the same time as appraisal notifications.

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
Technology & Infrastructure	10	Robustly and consistently implement the Clear Desk Policy and monitor performance through line management activities and audit processes.	Clear Desk Policy to be issued to Policy Working Group in Q4 2016/2017 with a view to a Comms MetaCompliance push in Q1 2017/2018	Q1 2017/2018	Sarah Slater/Comms	
	11	Developing and implement a data classification policy.	Classification Policy reviewed in line with Government Policy.	Q4 2016/2017	Sarah Slater	Policy will be uploaded to the IG pages of the Intranet. IAO will be issued with supporting documentation for cascade
	12	Improve understanding and application of document retention requirements for both physical and electronic records.	Retention schedule is refreshed on a quarterly basis with updated legislation. Look to implementing online guidance and training for retention within 2017/2018.	Q4 2017/2018	Sarah Slater	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	13	Information assets held on network shares need to be identified and suitable controls to manage access at the required level implemented.	All Core System Data Assets held on network shares are managed by permissioned access control following a period of user training. Other ad-hoc systems held on network shares will be reviewed as part of the IAR Review which begins in Q4 2016/2017. Once the Asset Register has been defined, data access controls and data flows will be added.	Q1 2017/2018	Sarah Slater	
	14	Consider developing a campaign aimed at challenging the need to print and encouraging a "think before you print" culture.	Comms (Business Analyst team in IT) to pick this up as part of the revamped CADS process.	TBC	Alison Smith	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
Supply Chain	15	The Council needs to further develop procedures, guidance and awareness to ensure Contract Managers and Commissioners are obtaining sufficient assurance that third parties are meeting their information governance and business continuity contractual obligations.	Review of Corporate 3 rd party contracts as part of GDPR implementation includes redraft of Data Processor Agreements and Information Sharing Agreements. Once this documentation reflects the requirements of best practice and GDPR implementation, this will be cascaded to relevant staff members	Q2/3 2017/2018	Sarah Slater IAOs SIRO Legal Services	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	16	Develop a consistent approach to obtaining informed consent from Service Users to ensure data can be suitably shared across BwD and, where relevant, its partners, to support delivery of improved outcomes.	The new GDPR includes specific definition of consent that was lacking in the DPA. Implementation of GDPR and best practice of this will filter through to the revision of data collection forms that will be required in order to comply.	2017/2018	Sarah Slater	This will be an ongoing process to firstly identify all the Councils data collection processes before revising to reflect the requirements of the GDPR which need to be implemented by 2018.
Incident Management	17	Undertake a business continuity exercise around a Cyber / Information Risk scenario to test existing arrangements. This will highlight any potential weaknesses and allow mitigation or developments of the plans to take place.	This will be happening in February 2017 at the managers meeting, the next corporate theme exercise will be bases around cyber risk.	Q4 2016/2017	Civil Contingencies	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	18	Services Managers should ensure reporting arrangements within their Teams respond adequately to "out of hours" incidents.	Data Security and breach handling procedures have been published to the IG Intranet page. Cascade will be issued to IAO in CRRF, with instructions to inform relevant staff members.	Q4 2016/2017	Sarah Slater	CF to add to next CRRF Agenda.
	19	Service Managers should be provided with guidelines to support them in responding to an initial data breach incident ensuring that key information is collected and suitable actions are taken to mitigate the loss.	As above	Q4 2016/2017	Sarah Slater	CF to add to next CRRF Agenda.

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
Audit and Compliance	20	To improve oversight, Audit Committee should be encouraged to periodically select a key Corporate Risk and undertake a deep dive into its assessment, control and monitoring. A key Officer for the subject area should be invited to attend the meeting.	The Audit & Governance Committee will be asked to select a corporate risk for consideration at each meeting. The Risk Owner or Key Contact will be invited to attend the Committee meeting for the Committee to discuss the details recorded in the risk entry including the risk assessment, controls identified and monitoring arrangements.	April 2017	Colin Ferguson	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	21	Consider developing a framework facilitating a proportionate and risk based approach designed to provide assurance to BwD on the management of information risk in suppliers of services to the Council.	The GDPR proposes 'Privacy by design'. This will incorporate risk assessments for Information assets at the beginning of every procurement process as part of the mandatory Privacy Impact Assessment process. Steps already in place to ensure this mandatory process is in place before 2018.	2017/2018	Sarah Slater	

Area	No	Recommendation	Management Response	Implementation Date	Responsible Officer	Notes
	22	Consideration should be given to implementing a planned programme of site audits to assess the strength of information security practice. The process, as well as driving improvement, would also provide a further source of control assurance.	Consideration will be given to this requirement following review of resource requirements within the IG team in 2017/2018	2017/2018	Sarah Slater	



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 10 January 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Governance Committee – Effectiveness Self-Assessment

1. PURPOSE

1.1 This report presents the results of an assessment of compliance of the Audit & Governance Committee against recognised best practise as well as a review of the effectiveness of the Committee by the Chair of the Committee and a summary of Committee members' self-assessments. The results of the assessments are set out in appendices 1, 2 and 3 to this report.

2. RECOMMENDATIONS

2.1 Committee members are asked to review and approve the following, as a means of confirming their effectiveness as an Audit & Governance Committee:

- the Audit & Governance Committee's position when compared to the CIPFA's good practice checklist (Appendix 1);
- the Evaluation of Effectiveness of the Audit & Governance Committee, produced by the Chair of the Committee in consultation with the Head of Audit & Assurance (Appendix 2); and,
- the summary results from the individual member self-assessments as a means of baselining the overall effectiveness of the Committee for future comparison (Appendix 3).

3. BACKGROUND

3.1 Audit Committees in local authorities are necessary to satisfy the wider requirements for sound financial management, which are set out in the Local Government Act 1972 and the Accounts & Audit Regulations 2015. The Chief Financial Officer (CFO) is responsible for discharging this sound financial management requirement. To be truly effective the CFO also requires an effective Audit Committee to provide appropriate support and challenge.

- 3.2 In 2013 CIPFA published its document, 'Practical Guidance for Local Authority Audit Committees 2013'. The guidance includes the two checklists included at appendices 1 and 2 to this report. These checklists provide members of the Committee with an opportunity to assess the performance and effectiveness of the Committee and to identify any areas where development is needed.
- 3.3 The guidance also includes CIPFA's 2013 position statement: 'Audit Committees in Local Authorities and Police'. The statement sets out CIPFA's view of the role and functions of an audit committee and local authorities are recommended to review their arrangements against the position statement; this is a recommendation and not a mandatory requirement.
- 3.4 The checklist provided in Appendix 3 is based on a questionnaire used by Audit Committees in a neighbouring authority and provides an alternative basis for assessing the Committee's effectiveness. The questions asked are aimed at exploring other avenues of assessing the Committee effectiveness to those identified by CIPFA. It is planned to use the questionnaire again next year and compare the results to better inform the self-assessment process in future.
- 3.5 The questionnaire at appendix 3 provides a summary of the responses received from the Councillors who have been members of the Committee since the start of the Municipal Year and will be used as a baseline measure. The results reflect the fact that a significant majority of members are new to the Committee and some areas are therefore difficult to score at this stage. However overall the results indicate that there is a belief by the Committee members of the Committee at this stage that the Committee is operating effectively, whilst acknowledging that there remains scope for further improvement.

4. RATIONALE

- 4.1 An Audit Committee is a key component of a Council's governance framework. An Audit Committee that fulfils its recommended role and function can effectively review the Council's corporate governance framework. The recommended guidance on the role and functions of an Audit Committee is provided by CIPFA.

5. KEY ISSUES AND RISKS

- 5.1 Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) sets out CIPFA's view of the Audit Committee in relation to governance, risk management and internal control. CIPFA's Good Practice Checklist, which was appended to the Guidance, was previously completed by the former Committee Vice-Chair with the assistance of Audit & Assurance. This document was presented to the Committee in January 2015 and January 2016. Audit & Assurance has now updated the Checklist (see Appendix 1). This shows that the Council's Audit & Governance Committee arrangements are largely compliant with the recommended guidance. The only areas where full compliance cannot yet be provided are:

- Question 2: Unapproved Audit & Governance Committee minutes are currently tabled at the Executive Board not Full Council;
- Question 8: The Audit & Governance Committee Annual Report lists the reports received in order to meet its terms of reference but no evaluation of their effectiveness is undertaken;
- Question 15: The exercise to review the knowledge and skills framework contained within the CIPFA guidance is being undertaken by the new Audit & Governance Committee members;
- Question 14: A programme of training and support will be devised once the above exercise has been completed;
- Question 18: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work; and
- Questions 19 & 20: The Audit & Governance Committee completed an evaluation of its effectiveness in 2015/16. This has been further reviewed and updated for the period 2016/17 with actions noted to improve areas of weakness.

5.2 The evaluation of effectiveness document (Appendix 2) was completed by the Chair of the Audit & Governance Committee with the assistance of the Head of Audit & Assurance. It was originally appended to the Audit & Governance Committee's annual report and presented to this Committee on 14 June 2016.

5.3 Across eight areas the evaluation score was 4 out of 5 demonstrating: "clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area". For the remaining one area of the evaluation - supporting the quality of the internal audit activity, particularly by underpinning its organisational independence – the assessment score was 5 demonstrating: "clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable".

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2015 state that the Council must ensure that it has a sound system of internal control that:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk. The Audit & Governance Committee has been designated as the committee charged with ensuring the on-going effectiveness of the Council's overall governance arrangements.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality implications arising from this report.

11. CONSULTATIONS

Deputy Chief Executive, Director of Finance & IT, and Director of HR, Legal & Corporate Services

Contact Officer: Paul Hankinson, Audit & Assurance Manager – Ext: 5630

Date: 30 December 2016

Background Papers: Audit Committee – Self-Assessment & Action Plan Update, reported to Audit Committee on 12 January 2016.

Audit Committee – Annual Report, reported to Audit Committee on 14 June 2016.

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
<i>Audit Committee purpose and governance</i>					
1	Does the authority have a dedicated audit committee?	√			
2	Does the audit committee report directly to full council?			√	Unapproved Audit & Governance Committee Minutes tabled at Executive Board not Full Council. The Committee's terms of reference have been updated and approved at Council Forum in July 2016. The Committee will report to full Council annually on its performance and effectiveness.
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	√			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	√			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	√			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
<i>Functions of the committee</i>					
7	<p>Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <ul style="list-style-type: none"> ▪ good governance ▪ assurance framework ▪ internal audit ▪ external audit ▪ financial reporting ▪ risk management ▪ value for money or best value ▪ counter-fraud and corruption 	√			
8	<p>Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>		√		<p>Audit & Governance Committee Annual Report lists but does not provide an evaluation of reports received in order to fulfil the terms of reference.</p> <p>Action: This will be included as part of the 2016 Annual Committee Report.</p>
9	<p>Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?</p>	√			
10	<p>Where coverage of core areas has been found to be limited, are plans in place to address this?</p>	√			
11	<p>Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?</p>	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
Membership and support					
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ▪ separation from the executive ▪ an appropriate mix of knowledge and skills among the membership ▪ a size of committee that is not unwieldy ▪ where independent non-elected members are used, that they have been appointed using an appropriate process 	√			
13	Does the chair of the committee have appropriate knowledge and skills	√			
14	Are arrangements in place to support the committee with briefings and training?	√			<p>A programme of support for Committee members has been established to include induction training</p> <p>Action: A formal training programme will be developed once the member skills and knowledge self -assessment have been completed.</p>
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		√		<p>All current members should review the knowledge and skills framework contained within the CIPFA guidance as part of a self-assessment process designed to identify any training needs.</p>
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	√			
17	Is adequate secretariat and administrative support to the committee provided?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
<i>Effectiveness of the committee</i>					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			√	
19	Has the committee evaluated whether and how it is adding value to the organisation?	√			Exercise undertaken in June 2016 for the year 2015/16 and updated for 2016/17. (see Appendix 2)
20	Does the committee have an action plan to improve any areas of weakness?	√			Appropriate actions have been identified above and from the annual self-assessment process.

Evaluating the Effectiveness of the Audit Committee

Assessment key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this

Blackburn with Darwen Borough Council Audit & Governance Committee Effectiveness Assessment

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making.	<p>Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it.</p> <p>Working with key members to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews/audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships.</p>	<p>The Committee reviews the draft AGS prior to approval. Also reviews the Risk Management Annual Report and annual opinions from Internal Audit (IA) and External Audit which support the AGS.</p> <p>Committee approves the IA annual audit plan, which classifies audit reviews by assurance area to ensure adequate coverage of risk, governance and control frameworks. Committee receives key findings and opinions from individual reviews supporting the overall opinion.</p> <p>Partnership arrangements are not covered by the current terms of reference. However the Committee does receive a report on the Council's Significant Partnerships Register.</p> <p>The Chair the Committee is a member of the Primary</p>	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
		<p>Assurance Group, which reviews the AGS and related assurance reports.</p> <p>Actions: Committee training to be arranged on the new CIPFA/SOLACE Good Governance Framework 2016, Annual Governance Statement and the Council Code of Corporate Governance.</p>	
Contributing to the development of an effective control environment.	<p>Monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Raising significant concerns over controls with appropriate senior managers.</p>	<p>Regular Internal Audit Progress Report presented to Committee includes percentage of recommendations implemented and commentary re outstanding 'must' level recommendations.</p> <p>The Committee reviews the summary of MAF red priority areas of concern.</p> <p>The Committee requests Directors or senior managers to attend meetings, as and when appropriate, to provide explanations and updates on significant audit concerns.</p> <p>The Committee is also authorised by the Council to investigate any activity within its terms of reference and to seek any information it requires from any employee, including those of partner organisations, and all employees are directed to co-operate with any request made by the Committee.</p>	4
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</p> <p>Monitoring improvements.</p> <p>Holding risk owners to account for major/strategic risks.</p>	<p>The Committee receives the annual risk management report which includes key events and achievements for the previous year and key developments for the next 12 months.</p> <p>The corporate risk register summary identifies risk owners at Director/senior officer level and tracks changes to risk scores. Regular reports are presented to Committee on the corporate risk register and risk</p>	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
		management support activity. Audit Committee members attended January 2016 risk management refresher workshop.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Regular reporting of planned and actual coverage by Internal and External Audit. Committee challenge opportunities for reliance on IA work by External Auditors and receives Internal and External Audit and Risk Management progress reports. The IA report includes audits in progress and in-year review of resources and achievement of plan. IA have reviewed and provided assurance on risk management arrangements in 2015/16.	4
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	The Head of Audit & Assurance has right of access to and regular briefings for the Chair of Audit Committee. The Committee receives and approves the IA Charter and annual strategic statement, including reporting and monitoring arrangements, supporting the IA annual plan. Annual External Auditors Audit Findings Report includes commentary re IA as part of assessment of financial control arrangements. Audit Committee reviewed Internal Audit Quality Assurance Improvement Plan. The annual Head of Audit Opinion Report includes an assessment of IA performance and quality assurance. Committee approved Peer review approach for external assessment of IA compliance with Public Service Internal Audit Standards and received the overall opinion and a	5

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
		summary of the findings and themes from the Peer review action plan at its April meeting.	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	<p>Work on this area is included in Internal and External Audit plans on a risk assessment basis. IA reviews are classified under one of the three headings in the plan and the annual report. Plans include reviews of key capital and revenue projects. Additional ad hoc work is carried out during the year on request by Directors.</p> <p>Internal audit progress report includes a summary of MAF red priority areas of concern.</p> <p>Performance management is not specifically identified in the Committee Terms of Reference. There are other processes in place within the Council's governance structure which provide scrutiny and challenge for this area, as part of the Corporate Plan Scorecard monitoring arrangements, to hold Chief Officers and managers to account on a regular basis, such as Management Board and the PAM reporting process as well as Members through PDS, SPT and Executive Board reporting.</p> <p>Internal audit consider performance arrangements as part of any relevant audit and would report on them as part of our progress reporting arrangements.</p> <p>The IA plan also includes specific KPI audits.</p>	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract & Procurement Procedure Rules are in place as part of the control framework to ensure that value for money is considered in procurement activity. Regular Creditors audits consider on compliance with these requirements. Audit Committee receives the External Audit Combined External Audit Value for Money and Audit Findings Report.	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and members.	A Counter Fraud Policy and Strategy is in place (which was reviewed and updated in 2015/16 in accordance with latest CIPFA guidance) supported by Counter Fraud Policy Framework which includes Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees' Codes of Conduct. Internal Audit progress report includes oversight of counter fraud activity and results. Audit Committee consider and approve the annual fraud risk assessment as part of the External Auditor's enquiries of those charged with governance and have approved the Counter Fraud Plan as part of Internal Audit annual plan 2016/17. Actions: <ul style="list-style-type: none"> • An Annual Fraud Report to be prepared and presented to the Audit & Governance Committee for consideration and approval. • Provide the Committee members with training on the Counter Fraud arrangements and key fraud risks. 	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
<p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</p>	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p>	<p>Audit Committee meetings are held in public with minimal Part 2 items. Agendas and reports are published on Council internet website.</p> <p>Council Committee agendas, reports and minutes are also available on the internet via the Council website along with Executive Members' and Officer decisions. Consideration of Partnership arrangements is not currently included in the Committee's terms of reference. However a corporate Partnership Governance Framework is in place, which includes a Governance Checklist and the Committee receives a report on the Council's Significant Partnerships Register.</p>	<p>4</p>

Assessment scores:						
1-Hardly ever/Poor/Definitely disagree	2- Occasionally/Inadequately/Partly disagree					
3 - Most of the time/Satisfactory/Partly agree	4 - All of the time/Good/Definitely agree		N/A - Not applicable		Number of Responses	
	N/A	1	2	3	4	Average Score
CORE AREAS OF KNOWLEDGE						
1 Members with appropriate skills and experience						
The Audit Committee should comprise members with an appropriate mix of skills and experience, including some relevant financial experience.						
				2	2	3.5
2 Clear terms of reference						
There are clear, up to date terms of reference, with clarity as to the committee's role in relation to the council and other committees						
			3	1		3.25
3 Structured and appropriate annual agenda						
There is a structured annual agenda of matters to be covered, with focus on the right areas.						
			1	3		3.75
4 Sufficient number of meetings and access to resources						
The number and length of meetings and access to resources is sufficient to allow the committee fully to discharge its duties.						
			1	2	1	3
5 Concise, relevant and timely information						
Audit Committee papers are concise, relevant and permit timely resolution of the issues raised						
			2	1	1	2.75
6 The right people are invited to attend and present at meetings						
Senior officers and others are asked to present on issues as appropriate.						
		1	1	1	1	2.5
7 Attendance and contribution to meetings						
All Audit Committee members attend and actively contribute at meetings						
		1	2	1		2
8 Sufficient time and commitment to undertake responsibilities						
As an Audit Committee member I have sufficient time and commitment to fulfil my responsibilities						
				2	2	3.5
9 On-going personal development						
Audit Committee members have access to on-going development activities to update their skills and knowledge.						
				1	3	3.75
10 Understanding the Council's business						
The Audit Committee has a good understanding of the different risks inherent in the council's business activities.						
				3	1	3.25
11 Focus on appropriate areas						
The Audit Committee focuses on the right questions and is effective in avoiding minutia						
				4		3
12 Understanding of how assurance is gained						
The Audit Committee understands the relationship between the various sources of assurance available to it.						
				3	1	3.25
13 Quality of interaction with external audit						
The Audit Committee actively engages with the external auditors regarding the scope of their work and audit findings.						
		1	1	2		2.25
14 Quality of interaction with internal audit						
The Audit Committee demonstrates an appropriate degree of involvement in the work of internal audit and its findings.						
				3	1	3.25

15 Frank, open working relationship with senior officers						
Audit Committee members have a frank and open relationship with senior officers, whilst avoiding the temptation to act as officers.				1	3	3.75
16 Open channels of communication						
The Audit Committee has open channels of communication with officers and other members to keep it aware of topical/regulatory issues.				2	2	3.5
17 Rigour of debate						
Audit Committee meetings encourage a high quality of debate with robust and probing discussions.				3	1	3.25
18 Reaction to bad news						
The Audit Committee responds positively and constructively to bad news to encourage future transparency.		2		1	1	2.25
19 Perceived to have a positive impact						
There is an appropriate balance between the monitoring role and the Committee acting as an "influencer for good".			1	3		2.75
20 Quality of chairmanship						
The Chair promotes effective and efficient meetings, with an appropriate level of involvement outside the formal meetings.				1	3	3.75
21 How do we know that we are being effective in achieving our terms of reference and adding value to the corporate governance of the Authority?						
<i>The Committee members are informed of progress via the reports presented and seems to follow the Audit Journey but need understand better how they add value to the corporate governance of the Authority</i>						
22 How do we know what impact we are having?						
<i>The Committee is informed of progress and possible changes. However the majority of Councillors have not been Committee members long enough to be able to comment on the Committee's impact and review previous issues to ensure good performance.</i>						
<i>The impact can be assessed from consulting with Councillors, listening to their concerns and then improving.</i>						
23 What do we do well as a committee?						
<i>There is good communications between Members and Officers, and members are comfortable asking questions to improve and develop their understanding of more complex issues and act accordingly.</i>						
24 What could we do differently or better as a Committee?						
<i>Time and consistency of membership will allow growth of knowledge and Member confidence.</i>						



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 10 January 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Arrangements for the Appointment of External Auditors

1. PURPOSE

- 1.1 To set out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond following the end of the transitional arrangements at the conclusion of the 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 1.2 The Council will need to put new arrangements in place to make a first appointment by 31 December 2017 for the audit year 2018/19.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to note the preferred option for the provision of external audit services from 2018/19 and propose it for approval by Finance Council, namely:
- The Council accepts the PSAA invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

3. BACKGROUND

- 3.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. The options under the Act are to establish our own independent audit panel to make a stand-alone appointment or join with other authorities to establish a joint

appointment. Alternatively, Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

- 3.3 In July 2016 PSAA were specified by the Secretary of State as an appointing person under Regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA
- 3.4 PSAA is inviting the Council to opt in, along with all other authorities, so that it can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council auditor.
- 3.5 The principal benefits from such an approach are as follows:
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
 - The overall procurement costs would be lower than an individual smaller scale local procurement;
 - The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
 - There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
 - The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
 - A sustainable market for audit provision in the sector will be easier to ensure for the future.
- 3.6 Apart from two district councils all the other Lancashire councils are planning to take this option.
- 3.7 The Council's current external auditor is Grant Thornton, this appointment having been made under at a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and

savings from closure of the Audit Commission. The Council current external audit fees are £102,839 per annum.

- 3.8 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.
- 3.9 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.10 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these firms have a national presence. This means that a local procurement exercise, as described immediately below, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.
- 3.11 Earlier this year the Council notified the LGA of its potential support for the sector led body approach. PSAA has now formally invited the Council to opt in to the sector led scheme. Details of the invitation are provided at Appendix 1 to this report. In summary the national opt-in scheme provides the following:
- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
 - Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
 - Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
 - Minimising the scheme management costs and returning any surpluses to scheme members;
 - Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
 - Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
 - Ongoing contract and performance management of the contracts once these have been let.

Other Options

- 3.12 If the Council does not opt in it will need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority

input to assessing bids and choosing which audit firm to award a contract for the Council external audit. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.

- 3.13 Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. However further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 3.14 Neither of these options is recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.
- 3.15 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.
- 3.16 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

4. RATIONALE

- 4.1 The Audit & Governance Committee, in its role of providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards, is required to oversee external audit, helping to ensure efficient and effective assurance arrangements are in place.
- 4.2 The work of external audit forms a key element of the Council's overall system of internal control. Effective external audit arrangements promote best practice and improvements in the management of risks and value for money. A key requirement for the Audit & Governance Committee, in order for the Committee to meet its Terms of Reference, is to assess the adequacy of the external audit provision.

5. KEY ISSUES AND RISKS

- 5.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

- 5.2 A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:
- The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
 - Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
 - PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council; and
 - Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.
- 5.3 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, it needs to take the decision at the Council Forum in January or Finance Council in February to enable it to accept the invitation by early March 2017.

6. POLICY IMPLICATIONS

- 6.1 To meet its terms of reference the Audit & Governance Committee needs to assess the adequacy of the external audit provision.

7. FINANCIAL IMPLICATIONS

- 7.1 There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 7.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 7.3 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

8. LEGAL IMPLICATIONS

- 8.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under

those arrangements.

- 8.2 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 8.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

9. RESOURCE IMPLICATIONS

There are no resource implications to opting in to the national scheme. If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement.

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

Director of Finance & IT, Chief Executive, Deputy Chief Executive

Contact Officer: Colin Ferguson, Head of Audit & Assurance – Ext: 5326

Date: 30 December 2016

Background Papers: New Arrangements for External Audit, noted at the Audit Committee meeting of 20 September 2011.

DCLG: Government response to the Future of Local Audit

DCLG: Future of local public audit – consultation: summary of responses

Local Audit and Accountability Act 2014 (the Act).

27 October 2016

Email: appointingperson@psaa.co.uk

Harry Catherall
Blackburn with Darwen Borough Council
Town Hall
King William Street Blackburn
BB1 7DY

Copied to: Louise Mattinson, Director Of Finance, Blackburn with Darwen Borough Council
Sian Roxborough, Head of Legal Services Blackburn with Darwen Borough Council, Blackburn with Darwen Borough Council

Dear Mr Catherall

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.