

Audit Committee

Tuesday 11th April 2017

Please also note, a session has been arranged for Members of the Committee, to start at 6:00pm on 11 April, to review and challenge the Council arrangements to prevent data loss and privacy incidents and identify and manage Cyber Security Risks. The Committee will start at the rise of the training.

**Meeting Room A,
Town Hall, Blackburn**

Membership

Cllr Salim Sidat - Chair

**Cllr Ron Wittle (Vice Chair)
Cllr Jim Casey
Cllr Vicky McGurk**

**Cllr Colin Rigby
Cllr David Foster**

**Harry Catherall
Chief Executive**

**Democratic Services
John Addison. Tel: 01254 585113**

AUDIT & GOVERNANCE COMMITTEE
Tuesday 11th April 2017

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AGENDA

Part 1: Items for consideration in public

1. Minutes of the meetings held on 10th January 2017

2. Declarations of interest

3. External Audit - Update Report

The Council's External Auditors will provide the Committee with an update report on their work.

4. External Audit – Audit Plan 2016/17

The Council's External Auditors will provide the Committee with a report on their audit plan for 2016/17.

5. External Audit – Grant Certification Report 2015/16

The Council's External Auditors will provide the Committee with a report on the audit of grants for 2015/16.

6. Treasury Management Report – December 2016 to February 2017

The Head of Financial Services will provide the Committee with a report on Treasury Management activity.

7. Audit & Assurance – Progress & Outcomes to February 2017

The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance.

8. Audit & Assurance Plan 2017/18

The Head of Audit & Assurance will present the Audit & Assurance Plan 2017/18 for approval.

9. Risk Management – 2016/17 Quarter 3 Review

The Head of Audit & Assurance will provide the Committee with a report on Risk Management.

10. Response to the External Auditors Request for Information

The Director of Finance & IT will provide the Committee with a report on how the Audit & Governance Committee gains assurance from management.

Part 2: The Press and Public may be excluded during consideration of the following items

Harry Catherall
Chief Executive
April 2017

AUDIT AND GOVERNANCE COMMITTEE
Tuesday, 10th January 2017

PRESENT – *Councillor Sidat (in the Chair); Casey, Murray, Kay and Foster.*

ALSO PRESENT

Andy Kay	– Executive Member for Resources
Karen Murray	– Grant Thornton (District Auditor)
Chris Whittingham	– Grant Thornton (District Auditor)
Louise Mattinson	– Director for Financial Services and IT
Colin Ferguson	– Head of Audit, Assurance and Procurement
John Addison	– Democratic Services Manager

RESOLUTIONS

21 Minutes of the meetings held on 20th September 2016

The minutes of the meeting held on 20th September 2016 were agreed as a correct record.

22 Declarations of interest

There were no declarations of interest.

23 External Audit - Annual Audit Letter

The Council's External Auditors presented to the Committee, their Annual Audit letter that summarised the key findings arising from the work that the External Auditor had carried out at Blackburn with Darwen Council for the year ended 31 March 2016.

The key messages reported to Members included:

- No significant issues were identified from the audit of the 2015/16 draft financial statements;
- The accounts were well prepared and presented;
- A number of adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements

It was reported that External Audit had issued an unqualified opinion on the Council's 2015/16 financial statements on 30 September 2016. It was confirmed that the financial statements gave a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

RESOLVED:

That the Annual Audit letter be noted.

24 External Audit - Progress Report

The Council's External Auditors provided the Committee with a report on the current position of their work as of December 2016. The report set out in detail the remaining work that needed to be undertaken and a work timetable for the rest of the year.

The External Auditors report, also provided the Committee with a report on progress in delivering their responsibilities as the Council's external auditors and a summary of emerging national issues and developments that may be relevant to the Council which included a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

RESOLVED:

That the report on External Audit's progress report be noted.

25 Treasury Management Report – September to November 2016

The Director of Finance presented to the Committee a report on the Treasury Management Quarterly report covering the period September to November 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 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 note the Treasury Management position over the quarter from September to November 2016.

26 Audit & Assurance - Progress & Outcomes to November 2016

The Head of Audit, Assurance and Procurement submitted a report which updated the Committee on progress and outcomes against the Audit & Assurance Plan 2016/17 in terms of outcomes achieved to date for the financial year.

The report focused on a number of key areas in Audit & Assurance, in particular:

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

The Head of Audit, Assurance and Procurement requested Members to approve a change to the date of the September 2017 Committee meeting and to move the June meeting to July from 2018. It was reported that in 2018 the statutory deadline for the sign off of the Council's draft 2017/18 Annual Accounts would be 31 May 2018 and the audited accounts would need to be approved by the Audit & Governance Committee and published by 31 July 2018.

It was reported that to prepare for the change the Council was aiming to produce the draft 2016/17 accounts by the end of May 2017 which would enable the External Auditor to complete their work by the end of August 2017. Therefore it was proposed to bring forward the date of the September 2017 Committee meeting forward by one week to 12 September. This would 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 was proposed to move the June meeting of the Committee to July from 2018 going forward, with the 2018 meeting provisionally scheduled for 24 July.

RESOLVED:

- 1) That the Committee note the outcomes achieved to 30th November 2016 against the Audit & Assurance Plan, which was approved by the Audit Committee in April 2016.
- 2) That the Committee 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) That the Committee noted the proposed revision to the Audit and Assurance plan.

27 Annual Governance Statement - Progress on 2015/16 Actions and Plan for 2016/17

The Head of Audit, Assurance and Procurement provided the Committee with a report that outlined the intended process for producing the Council's Annual Governance Statement (AGS) for 2015/2016 and progress on actions from 2016/2017.

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

Members were reminded that the AGS was a statutory document, published each year with the Year-end Accounting Statements. It sets out what the Council's governance arrangements are and identifies areas where issues that the Council considers to be of sufficient significance must be reported.

RESOLVED

That the Committee note the progress made on implementing the agreed AGS actions for 2015/16 and the approach/timetable for producing the AGS for 2016/17.

28 Risk Management – 2016/17 Quarter 2 Review

The Head of Audit, Assurance and Procurement provided the Committee with a report that detailed risk management activity that had taken place over the second quarter (1 July 2015 to 30 September 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 that is known to Council services.

The Committee considered the Risk Register and agreed to look in depth at two areas, risk 13 - Failure to prevent data loss and privacy incidents (Information Governance) and risk 17 - Cyber Risk - Risk of financial/Data loss, disruption or damage to the reputation of an organisation from compromise of its IT systems.

RESOLVED:

That the Audit Committee considered and approved;

1. Progress made on the Corporate Risk Register at the end of Quarter 2 2016/17;
2. Note the Risk Management activity during the period;
3. Members will look in depth at risks 13 and 17 on the Council's Risk Register.

29 Audit & Governance Committee – Effectiveness Self-Assessment 2016/17

The Head of Audit & Assurance reported upon the 2016/17 Audit Committee self-assessment exercise.

The report presented to Members 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 were set out in appendices 1, 2 and 3 to the Committee report.

RESOLVED:

That the Committee:

1. Approve the Audit & Governance Committee's position when compared to the CIPFA's good practice checklist (Appendix 1);
2. Approve 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,
3. Approve 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).

30 Arrangements for the Appointment of External Auditors

At this point in the meeting the Council's external Auditors chose to leave the meeting, to allow Members to consider this item,

The Head of Audit & Assurance then provided the Committee with the recommended option for appointing External Auditors from 2018/19. Members were reminded that 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. It was noted that the auditors were 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.

It was reported that the Council would need to put new arrangements in place to make a first appointment by 31 December 2017 for the audit year 2018/19.

RESOLVED:

That the Committee note the preferred option for the provision of external audit services from 2018/19 and propose it for approval by Finance Council, namely:

- That 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.

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)

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

April 2017

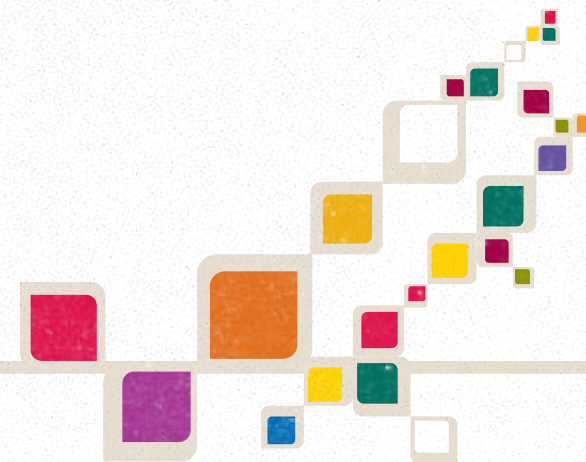
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



Introduction

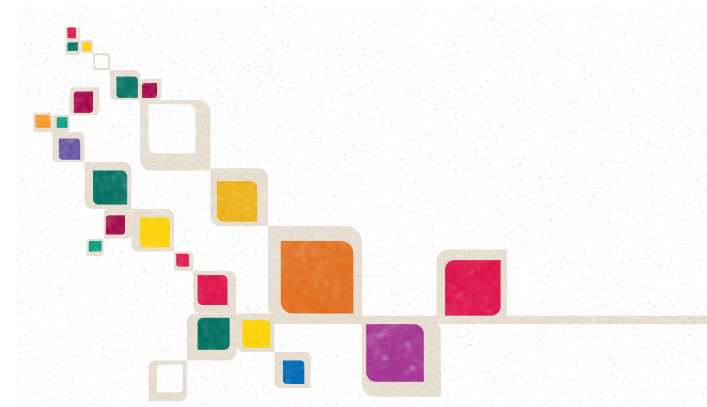
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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

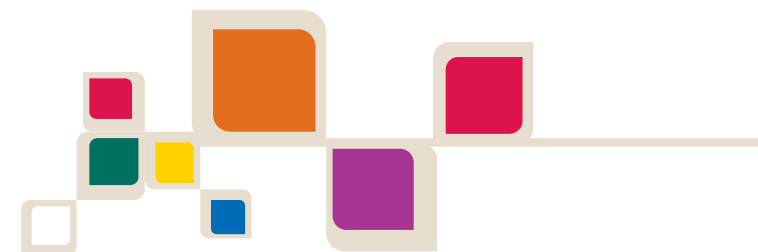
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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.

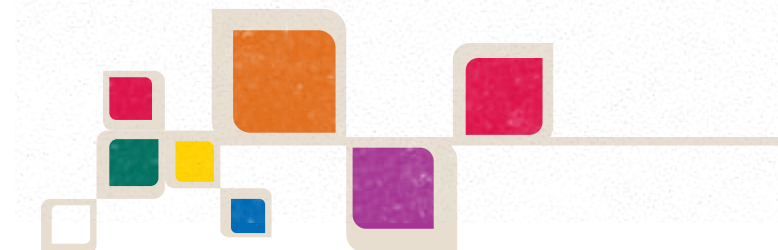


Progress at 28 March 2017



2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	Yes	We issued the fee letter in line with the national deadline of 30 April 2016.
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.	March 207	Yes	The Audit Plan is included as a separate item on the agenda for today's meeting.
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	February – April 2017	Yes	Our programme of interim work is underway. We have agreed a programme of early substantive testing with the finance team so that we can bring forward testing to minimise the work to be undertaken after the year-end.

Progress at 28 March 2017



2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 			
	June – July 2017	No	Management have agreed to bring forward their internal deadline for preparing the draft accounts to 31 May 2017. We have agreed with management that we will put in place a delivery plan that ensures the majority of our audit fieldwork will be completed by 31 July 2017.
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 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: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 			
	April – July 2017	No	The outcome of our initial risk assessment is set out as part of the Audit Plan which is included as a separate item on the agenda for today's meeting. We have organised discussions with relevant officers so that we can complete planned procedures in sufficient time for our findings to be shared with management in July 2017.
Other areas of work Place Analytics and Chief Finance Officer (CFO) Insights			
	April 2017	No	The Council recently purchased access to Grant Thornton's Place Analytics and CFO Insights website. The website provides access to a range of financial and non-financial datasets to enable members and officers the opportunity to compare the Authority's performance with similar organisations.

Technical Matters

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

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

- Confirmation of the postponement of the measurement requirements for the Highways Network Asset and that all references to this in the 2016/17 Code shall not apply.
- Updates regarding the disclosure requirements for notes to the Housing Revenue Account Statements. There are a number of changes to the disclosure requirements as a result of the issue of the Housing Revenue Account (Accounting Practices) Directions 2016.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Public finances in practice

ICAEW publications

Public finances are under strain in many European countries and this has an impact on the ability of Governments to deliver shared goals of stable and sustainable growth.

The Institute Of Chartered Accountants In England and Wales (ICAEW) has recently published a report '*public finances in practice*' which captures the insights of senior finance professionals in ten different EU states.

Although the report is focussed on national governments, the findings are relevant for any public sector organisation.

The report recognises that better public financial management is a key enabler of a sustainable economic future. It notes that the improvement of public financial management cannot be achieved through improved standards alone and that organisations need to take some action themselves across three broad themes:

Structure

- There is a need to clearly define roles and responsibilities within finance teams. This enables the setting and review of objectives, reduces inefficiencies and improves accountability.
- Clarity of roles also helps to create a strong culture of responsibility and ownership, which helps to foster a wider organisational culture of good financial management.
- Effective financial management requires effective scrutiny, via robust internal control systems and independent external audit.
- To maintain effective scrutiny, proper questioning of the annual budget and review of performance against budget should occur.

- Transparency can be improved by providing the right sort of data in an understandable way, organisations should explore innovative ways to present information in a more intelligible way to improve transparency.

Processes and Systems

- Access to high quality financial information is key. Data should be timely, well controlled and IT systems should be utilised to gather it effectively.
- Data should be used in a way that it can show the real-time financial position of the organisation.
- Such information should be used to its full potential, and gathered so it can be presented in a user-friendly way. The way information is presented is more important than the quantity of data.

People

- Recruitment and retention of high quality finance professionals is a key challenge. Organisations should consider altering recruitment processes, offering flexible working arrangements and providing clear direction on career progression to assist with this challenge.
- Whilst senior individuals often have the necessary skills, below this level skills and qualifications can vary quite considerably.
- There is also a need to encourage finance professionals to think more broadly, to enable them to consider the bigger picture of how finance fits within service delivery and safeguarding of the financial position.



Sector issues and developments

Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

National developments

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:
<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/new-s-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

National developments

Challenge question:

- Are Audit Committee members aware of the pooling arrangements being put in place by local government pension funds?

Link: <http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

Challenge questions:

- Are Audit Committee members familiar with the content of the white paper?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Grant Thornton



Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class 1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times £5,000,000 = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager.

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Grant Thornton update

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Planning can help organisations reduce the impact of Brexit

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States.

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

The UK wants a 'bespoke deal'. Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

The Chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Grant Thornton update

For regular updates on Brexit, please see our website:

<http://www.granthornton.co.uk/eu-insights/brexit-planning-the-future-shaping-the-debate>

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires. With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Our new research on income generation which includes our CFO Insights too suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

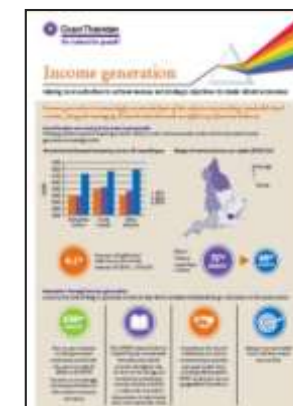
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

Grant Thornton publications

Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>

Boards of the future

Grant Thornton publications

Background

Boards of the future: steering organisations to thrive is a report from Grant Thornton International that draws on our International Business Report for 2016 plus data and interviews from Grant Thornton teams around the world.

The report recognises that successful organisations in any sector are the ones that manage challenges and adapt to the changing world around them. It notes that over half of the top hundred biggest companies in the world in 1912 had disappeared by the late 1990s.

How do organisations ensure they survive, adapt and ultimately thrive? Fundamental to the answer is good corporate governance. And although this is nothing new, it is arguably more pertinent now than ever.

The report found:

- The best organisations keep their eyes on the challenges and opportunities coming into view, adapting to the changing world to remain relevant. They anticipate potential hazards and react accordingly.
- The demands of boards are changing, boards can take a lead in being proactive and nimble in navigating organisations through uncertain waters.
- Nearly half of the International Business Report (IBR) business leaders surveyed believe that developing and reinforcing culture should be a focus for boards over the next ten years.

What will the successful board of 2025 look like?

This is an intriguing question which will inevitably vary across sectors and geographic areas. Although governance structures differ across organisations, the demands of senior leaders and decision makers are surprisingly similar.

In regions where there is a more developed assurance and governance approach the focus is likely to be on boosting competitiveness and managing risks. From a public sector perspective, competitiveness means delivering relevant, user-focused services – often working alongside others – that are economic, efficient and effective.

Potential development areas across all sectors are:

- **strategic planning horizons** – taking a longer term view and avoiding 'knee-jerk' reactions;
- **sustainability** – from an economic and natural resources perspective;
- **corporate culture** – ensuring customer experience matches the organisation's aspirations; and
- **digital expertise** – embracing technology, reacting to change and innovating to improve service delivery.

To achieve these, the report suggests that the key strands of focus are diversity and digital.



Boards of the future

Grant Thornton publications

Diversity

The report recognises:

- Greater diversity on a board widens its peripheral vision, allowing threats and opportunities to be spotted earlier.
- There is a need for diversity of experience on boards, which is critical to ensure a spread of ideas.
- Board diversity should be aligned with service users and reflect organisational culture.

How can boards ensure appropriate diversity?

- Identify skill gaps and widen the pool of talent and experiences to ensure these are filled.
- Recognise that some challenges and opportunities of the future will be less visible, particularly to homogenous boards.
- Invest in mentoring schemes.
- Recognise that to ensure the best talent is identified and nurtured, the net needs to be cast as widely as possible.

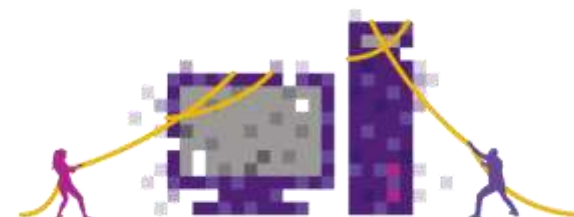
Digital

There is universal acknowledgement that digital expertise is required for boards. But those with the relevant board credentials have often not grown up with the technology or are not alert to the rapid changes and developments.

Big data, advanced analytics and automation can support organisations to develop. It is essential for all board members to embrace the digital agenda and, using relevant expertise where necessary, to spot the challenges and opportunities of the future.

How can boards enhance digital capacity?

- Collaborate with digital experts to understand digital innovations and how they can be harnessed.
- As well as boosting digital expertise on the board, make the most of external advice.
- Assess the ways your organisation is using data to drive strategies; could it be doing more?





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The Audit Plan for Blackburn with Darwen Borough Council

Year ended 31 March 2017

April 2017

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Blackburn with Darwen Borough Council,
Town Hall,
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11 April 2017

Dear Members of the Audit Committee,

Audit Plan for Blackburn with Darwen Borough Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Blackburn with Darwen Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements; and
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Karen Murray

Engagement Lead

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Chartered Accountants

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Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC reviewed this position at its meeting in March 2017 with a view to implementation in 2017/18. It decided that currently, and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation.

Integration with health sector

The responsibilities of local government now include public health. Pooled budgets including the Better Care Fund (BCF) are operated by the Council in conjunction with other local partners. More widely there is a recognition of a need for closer working with health partners to deliver the right health and social care to the people of Blackburn and Darwen.

In-sourcing of back office services

The Council's 15-year strategic partnership with Capita ended on 30 June 2016. From January 2016 the Council began the process of bringing the majority of the previously-outsourced financial systems back in-house. Staff have transferred to the Council from Capita on a phased basis since January 2016.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities.

The demand and cost pressures on adult and children's social care continue to provide a challenge across the sector. This is replicated in Blackburn with Darwen although significant work is being done to manage the position, including using external support to identify opportunities to transform services.

The pressures on adult social care were recognised in the spring 2017 Budget which announced additional funding of £2bn over the next three years to the local government sector.

Financial Position

The Council has set a balanced budget for 2017/18 and has kept its medium term financial plan under review throughout the year.

The Council knows that urgent action must be taken to reduce the medium term funding gap through its savings programme. This programme has designed savings by undertaking a comprehensive workforce review and implementing alternative delivery models to enhance service provision. Alongside reducing cost, in December 2016 the Council set itself a target to generate additional income of £4.1M per year by 2019/20.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparative through a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

Implementation of New Financial Ledger

The Council's finance and IT teams recently completed a major project to install a new financial ledger system. The new ledger went live on 1 April 2016. The installation has been accompanied by a programme of training for finance and non finance-staff to ensure the Council can obtain maximum benefit from the new system. The old ledger system will be used to prepare the 2016-17 financial statements.

Our response

- We aim to complete all our substantive audit work of your financial statements by 4 August 2017 based on an expectation that the draft accounts will be provided to us in early June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 CIPFA Code.
- We will review the Council's progress in delivering the schemes set out in its savings programmes.
- We will consider whether the Council's medium term financial strategy has been updated appropriately to reflect developments locally or nationally which might impact on the assumptions built into the strategy.
- We will document any changes the Council has made to its accounting systems, processes and controls since the systems have been brought in-house.

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £8,729k (being 2% of gross revenue expenditure as reported in the audited 2015-16 financial statements). In the previous year, we used the same level of materiality as that proposed for our 2016/17 audit. Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £436k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	The Council conducts its business using public funds. The Related Party disclosures ensures that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management, members or those charged with governance.	£20,000
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Blackburn with Darwen Borough Council, we have determined that the risk of fraud arising from revenue recognition can 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 Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Blackburn with Darwen Borough Council.</p>
Management override of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management; and • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management to identify any estimate, judgments and decisions not captured during the planning phase of the audit; • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation for periods not covered as part of the interim visit, particularly year-end journals; and • Review of unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary.
Valuation of property, plant and equipment	The Council undertakes a rolling programme of revaluations of land and buildings. The approach taken to determine the carrying value of Property, Plant and Equipment in the Balance Sheet represents a significant estimate by management in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> Identification of controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from fair value at year end and undertake an assessment of whether these controls are implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; Review of management's processes and assumptions for the calculation of the estimate; Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work; Sample testing to obtain assurance over the accuracy of valuations recorded in the Asset Register by tracing the valuations in the asset register back to reports received from the valuer; Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions; Review and challenge of the information used by the valuer to inform their valuations to ensure it is robust and consistent with our understanding; and Evaluation of 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 carrying value.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgement, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses/ Creditors	Creditors are understated or not recorded in correct period	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have reviewed the systems and controls that the Council has in place to pay suppliers and record expenditure incurred; and We have walked through controls relevant to the risk identified. <p>Work planned: .</p> <ul style="list-style-type: none"> We will undertake testing of a sample of payments made by the Council after the year-end to obtain assurance over the completeness of the Council's accruals; and We will test a sample of creditors and accruals recognised in the Balance Sheet to ensure these properly reflect the Council's liabilities at the year-end.
Employee remuneration	Employee remuneration costs are understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have reviewed the systems and controls that the Council has in place to ensure that its employees are paid the correct amount based on hours worked and their contractual entitlement, including arrangements to accrue for amounts outstanding but not yet paid at the year-end. We have walked through the controls the Council has in place in relation to this risk. <p>Work planned:</p> <ul style="list-style-type: none"> Documentation and walkthrough of the systems and processes operated by Capita which are relevant to this risk. Capita provide payroll services to some of the schools in the Borough. We will complete substantive testing of significant year end payroll accruals. We will perform analytical procedures to identify any discrepancies in monthly payrolls and consideration as to whether payroll expenditure is in line with our expectations based on supporting evidence. We will test the reconciliation between the payroll system and the amounts recorded in the general ledger and financial statements.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other audit procedures

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Intangible assets
- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing and utilising assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Delivery of the Financial Plan</p> <p>In February 2016 the Council agreed measures to close the budget gap of almost £48 million over the period of the MTFS to 2019/20. Progress has been made during 2016/17 in the implementation of these measures including development and significant delivery of a savings programme and increases in income streams.</p> <p>However, the December 2016 revenue monitoring report set out that the Council continues to face significant financial pressures and is forecasting an overspend of approximately £1.683 million across all portfolios for 2016/17.</p> <p>The delivery of the required savings in 2016/17 and beyond represent a significant challenge to the Council.</p>	<p>This links to the Council's arrangements for sustainable resource deployment and informed decision-making.</p>	<p>We will:</p> <ul style="list-style-type: none">• review the detail to support the required savings in 16/17 including financial and budget reporting to Members• assess the outturn position for 2016/17 and the budget plans for 2017/18 to 2019/20• meet with key officers to discuss plans/proposals

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - we will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

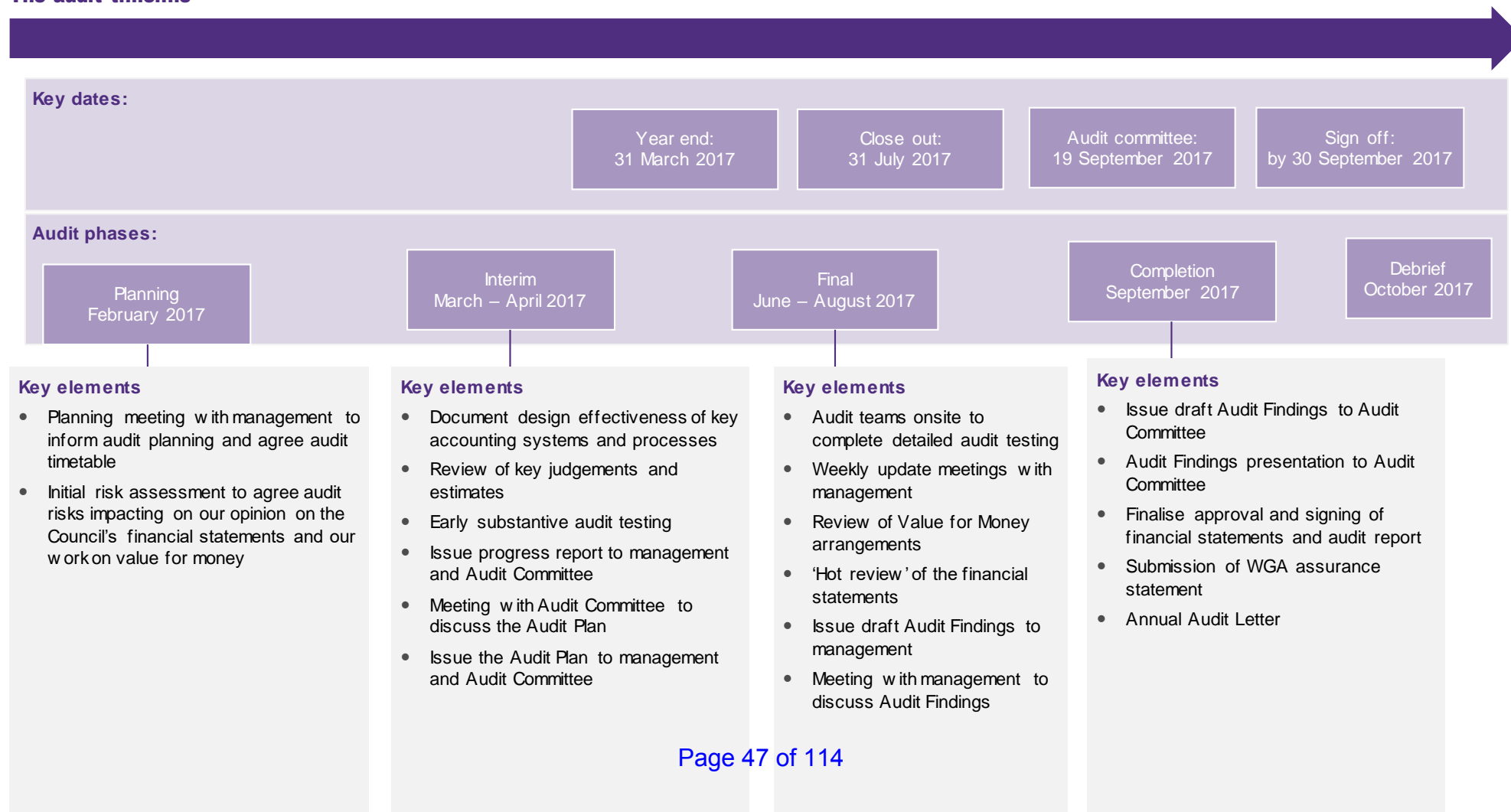
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Early substantive testing	<p>We have undertaken some early testing in respect of the following transactions recognised in the Council's ledgers for the period 1 April 2016 – 28 February 2017:</p> <ul style="list-style-type: none"> • Housing benefit payments • Non-Pay expenditure • Income from fees and charge <p>To date our testing had not identified any matters which we need to report to you.</p> <p>We have agreed with management that we will select samples and undertake testing of payroll expenditure in advance of receipt of the draft statements in order to reduce the volume of testing to be completed as part of our main post-statements visit.</p>	Our work has not identified any errors impacting on our audit opinion

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	102,839
Certification of Housing Benefit Subsidy Claim	14,910
Total audit fees (excluding VAT)	117,749

Our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list;
- the scope of the audit, and the Council and its activities, have not changed significantly;
- the Council will make available management and accounting staff to help us locate information and to provide explanations; and
- the accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feedback on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit-related services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £ (ex VAT)	Planned outputs
Audit related		
Certification of 2015-16 Transport Grant	3,875	We have provided a reasonable assurance report to the Council in line with the terms agreed in our engagement letter
Certification of 2015-16 Regional Growth Fund	2,100	We have provided a reasonable assurance report to the Council and the Department for Business, Innovation and Skills in line with the terms agreed in our engagement letter
Certification of 2015-16 Teachers Pension return	4,200	We carried out procedures agreed with Teachers Pensions to certify the Council's Teachers Pensions return.
Non Audit-Related		
None		

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

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The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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22 February 2017

Dear Louise

Certification work for Blackburn with Darwen Council for the year ended 31 March 2016

We are required to certify certain claims and returns submitted by Blackburn with Darwen Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) has taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim under PSAA arrangements for the financial year 2015/16 relating to expenditure of £55.2 million. The claim is both significant in value and technically complex and we wish to acknowledge the high level of co-operation that we received throughout the process from Council staff. Further details of this claim are set out in Appendix A.

As in previous years, the 2015/16 claim was subject to qualification as our review identified errors on five cells. The nature of the errors identified was similar to those reported in 2014/15. However, the errors and qualification issues identified in 2015/16 did not reduce the amount of subsidy claimed by the Council. We include a recommendation for improvement at Appendix A.

The most significant issue identified by our testing related to Rent Allowances where two errors out of a sample of 60 cases identified that an incorrect income figure had been used to calculate benefit. Under the HB COUNT methodology we are required to calculate a sample error rate (in this case 0.06%) and apply this to the relevant total cell monetary value to produce an extrapolated theoretical error. We calculated this as £33,141. We reported our findings to the Department of Works and Pensions (DWP) in line with the requirements of the methodology. DWP may require the Council to undertake further work or provide assurances on the errors identified.

The indicative fee for 2015/16 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. The scale fee set by the Audit Commission for the Council for 2015/16 is £15,413 and that is the amount that we have billed the Council.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£55,185,142	No	N/a	Yes	See above.

Further findings from certification of housing benefits subsidy

We identified two errors out of a total cell sample of 59 cases in respect of Non- HRA Rent Rebate where an incorrect eligible rent figure was used to calculate benefit. The error rate for the sample was 0.02% and this resulted in an extrapolated error of £51.

We identified two errors out of a total cell sample of 59 cases in respect of Non- HRA Rent Rebate where an incorrect income figure was used to calculate benefit. The error rate for the sample was 0.1% and this resulted in an extrapolated error of £254.

Recommended actions for officers

Extend the programme of risk based checking to cover all high-risk areas identified in the 2015/16 certification testing



BRIEFING PAPER

REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance and IT

DATE: 11th April 2017

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2016/17

Based on monitoring information for the quarter 1st December 2016 – 28th February 2017

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 have been inflated by taking significant short term borrowing ahead of the year end).

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 falling slightly to around 0.24% to 0.22%. Bank accounts continue to yield 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 investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
24-Jan-17	04-May-17	National Counties Building Society	1,000,000	0.35%
22-Feb-17	30-Mar-17	Newport City Council	5,000,000	0.35%

Appendix 2 shows the breakdown of the £27 million invested at the end of the period.

The Council’s average return over the 3 months was around 0.22% (a little down compared to 0.25% the last quarter), and this will probably continue to fall over the coming months.

For comparison, benchmark LIBID (London Interbank Bid) rates also remained low, falling very slightly. Average rates for 1 month’s lending were around 0.14%, and for 3 months around 0.25%.

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 1.4% (generally between 1.3 and 1.6%), while loans in the 20 to 50 year range averaged around 2.7% (generally between 2.5% 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 a continued slight upward movement over the period, suggesting some tightening in availability of such funds. By the end of February, 3 month loans usually cost at least 0.45%, and 6 month/ 1 year loans between 0.50% and 0.60%.

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 56 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 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 £16M, as loans of £6M of were repaid and **£22M of new loans** (listed below) were taken.

Start Date	End Date	Counterparty	Amount £	Rate
23/12/2016	23/01/2017	Oadby & Wigston District Council	2,000,000	0.27%
09/01/2017	30/06/2017	Gwent Police Authority	2,000,000	0.31%
23/01/2017	23/10/2017	Vale of Glamorgan Council	2,000,000	0.43%
27/01/2017	03/04/2017	London Borough of Brent	6,000,000	0.28%
10/02/2017	10/05/2017	Runnymede District Council	2,000,000	0.30%
15/02/2017	31/10/2017	Swansea City and County	2,000,000	0.35%
28/02/2017	29/08/2017	Kent Police Authority	1,000,000	0.33%
28/02/2017	25/08/2017	Derbyshire County Cncl Pension Fund	5,000,000	0.45%

4.5 Analysis of debt outstanding -

	1st December 2016		28th February 2017	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	0		8,000	
<u>Greater than 3 months (full duration)</u>	<u>37,000</u>		<u>45,000</u>	
		37,000		53,000
LONGER TERM DEBT				
Bonds	21,503		21,503	
Mortgages	17		17	
PWLB	106,125		106,125	
<u>Stock & Annuities</u>	<u>258</u>		<u>258</u>	
		127,903		127,903
Lancs County Council transferred debt		16,325		15,992
<u>Recognition of Debt re PFI Arrangements</u>		<u>69,195</u>		<u>68,680</u>
TOTAL DEBT		250,423		265,575
Less: Temporary Lending - fixed term		(1,000)		(6,000)
- instant access		(17,911)		(21,415)
NET DEBT		231,512		238,160

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).

Further loans have also been agreed, by the end of the period, to cover into and across the next financial year, listed below.

Start Date	End Date	Counterparty	Amount £	Rate
09/03/2017	09/01/2018	Tendring District Council	1,000,000	0.42%
15/03/2017	15/12/2017	Vale of Glamorgan	1,000,000	0.43%
15/03/2017	22/06/2017	Derby City Council	3,000,000	0.40%
15/03/2017	14/06/2017	Bridgend Borough Council	2,000,000	0.40%
20/03/2017	20/09/2017	Kent Police Authority	5,000,000	0.40%
20/03/2017	20/06/2017	Portsmouth City Council	5,000,000	0.40%
31/03/2017	30/06/2017	Vale of White Horse District Cncl	2,000,000	0.40%

4.6 Issues to note in the period

Over the period as a whole net borrowing increased and cash balances built up (as short term borrowing was taken ahead of year end needs). The Council has taken most of the short term loans it needs to meet its liquidity requirements. 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 28th February 2017 was £265.6M against our Authorised and Operational Borrowing Limits (£328.8M and £318.6M respectively) – this is the most significant Prudential Indicator.

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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 + £37M 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** remained at around £116M, against the 2016/17 limit of £223M – this indicator last moved with the PWLB debt repayment made at the end of September. 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

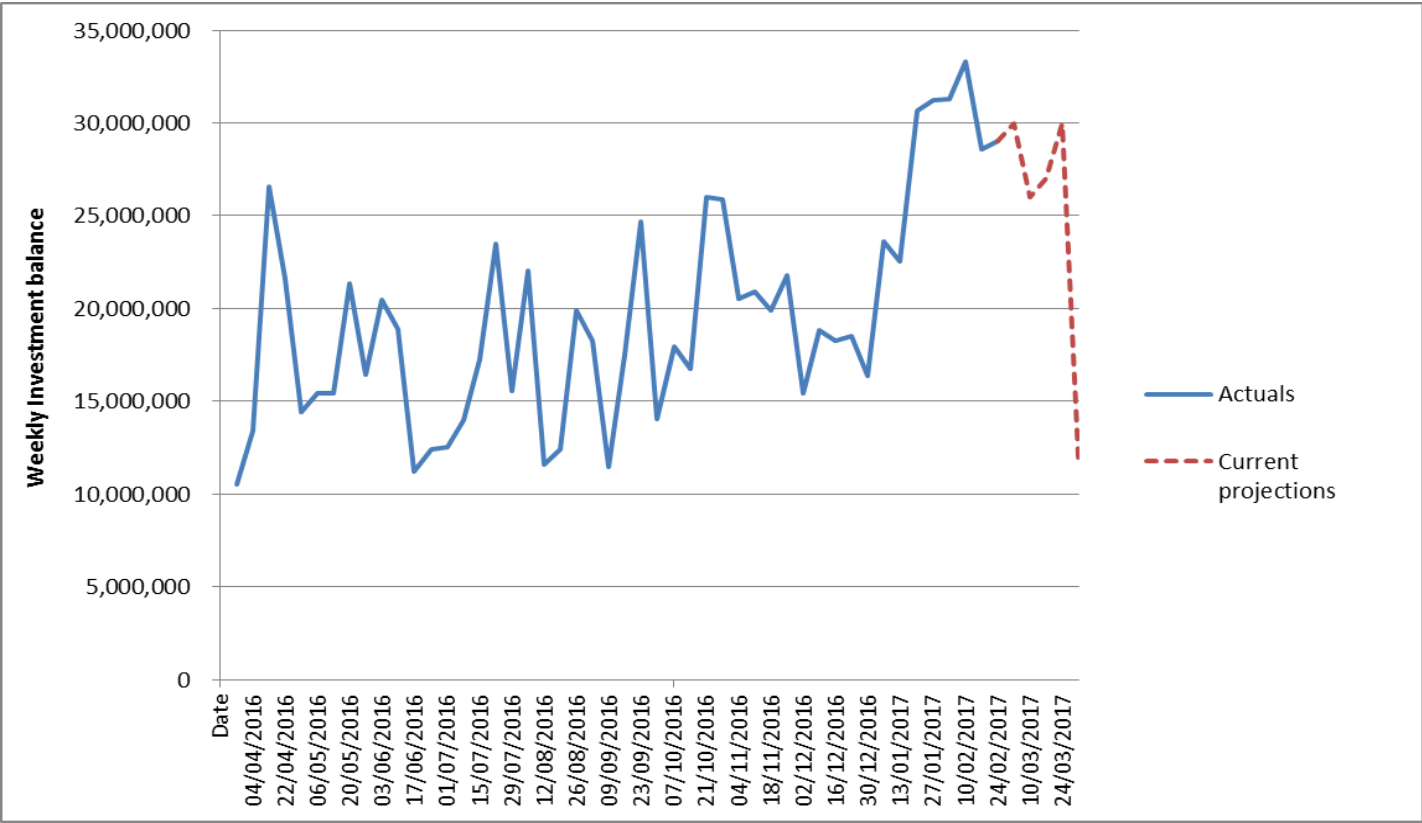
None

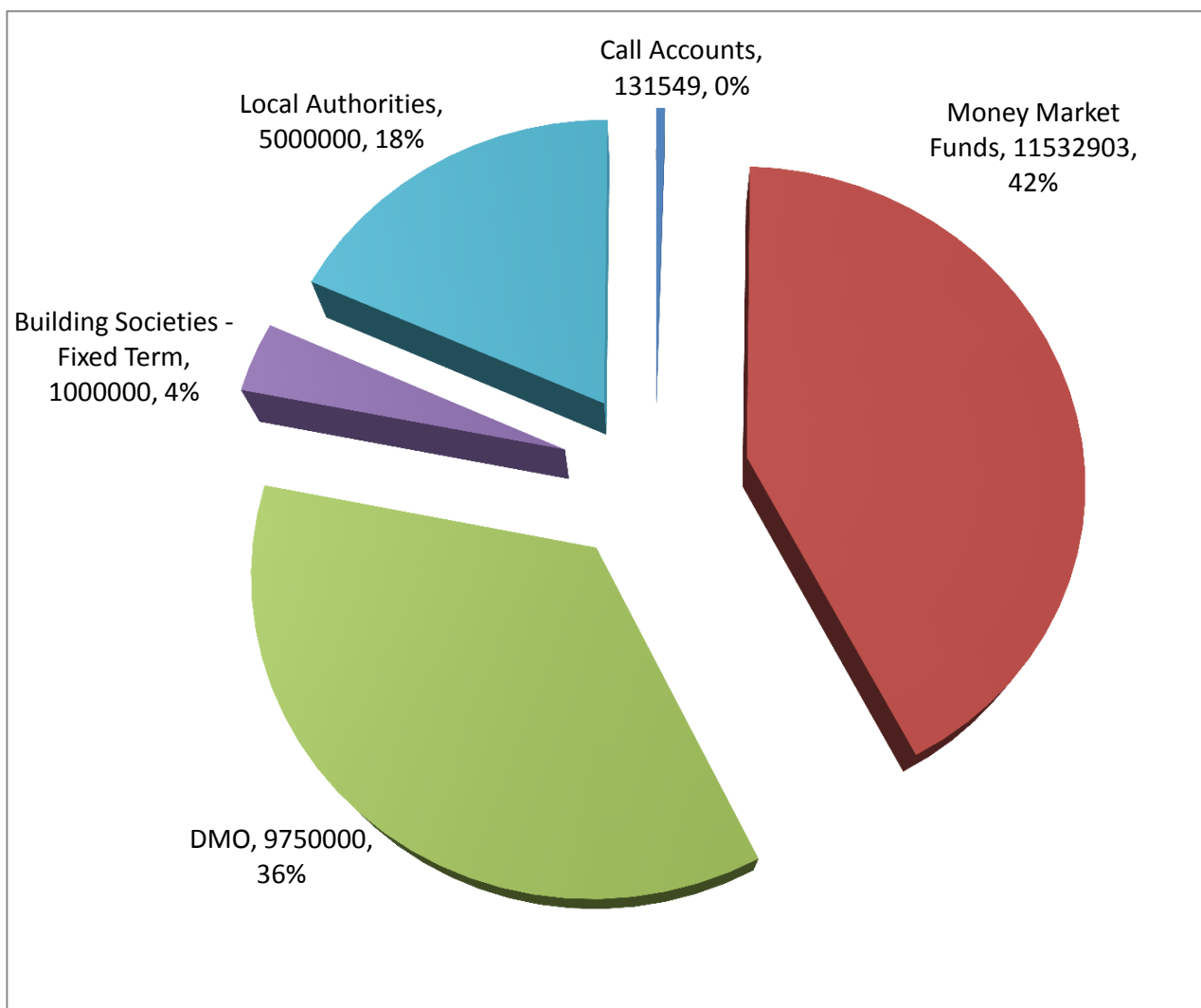
10. STATEMENT OF COMPLIANCE

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.

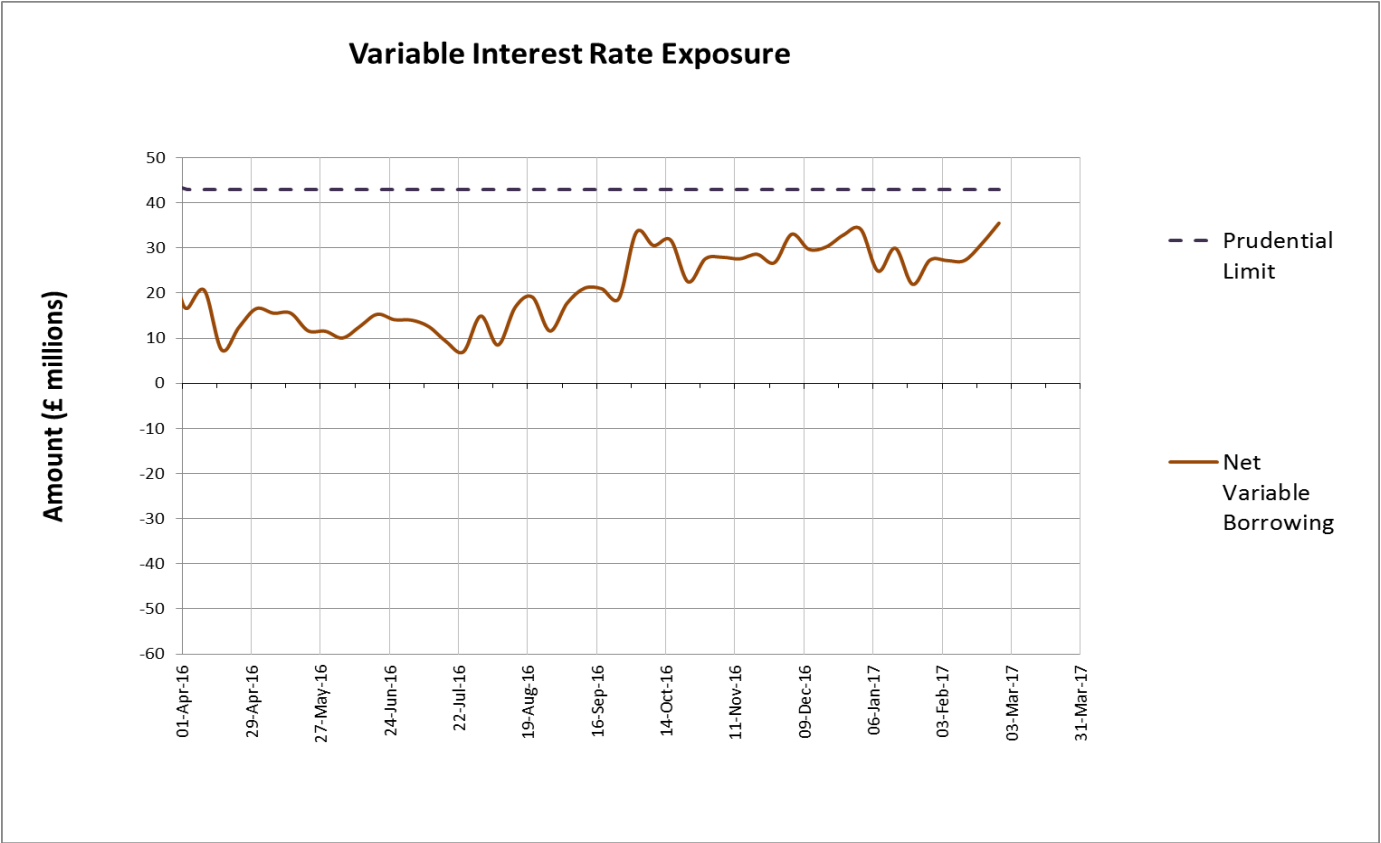
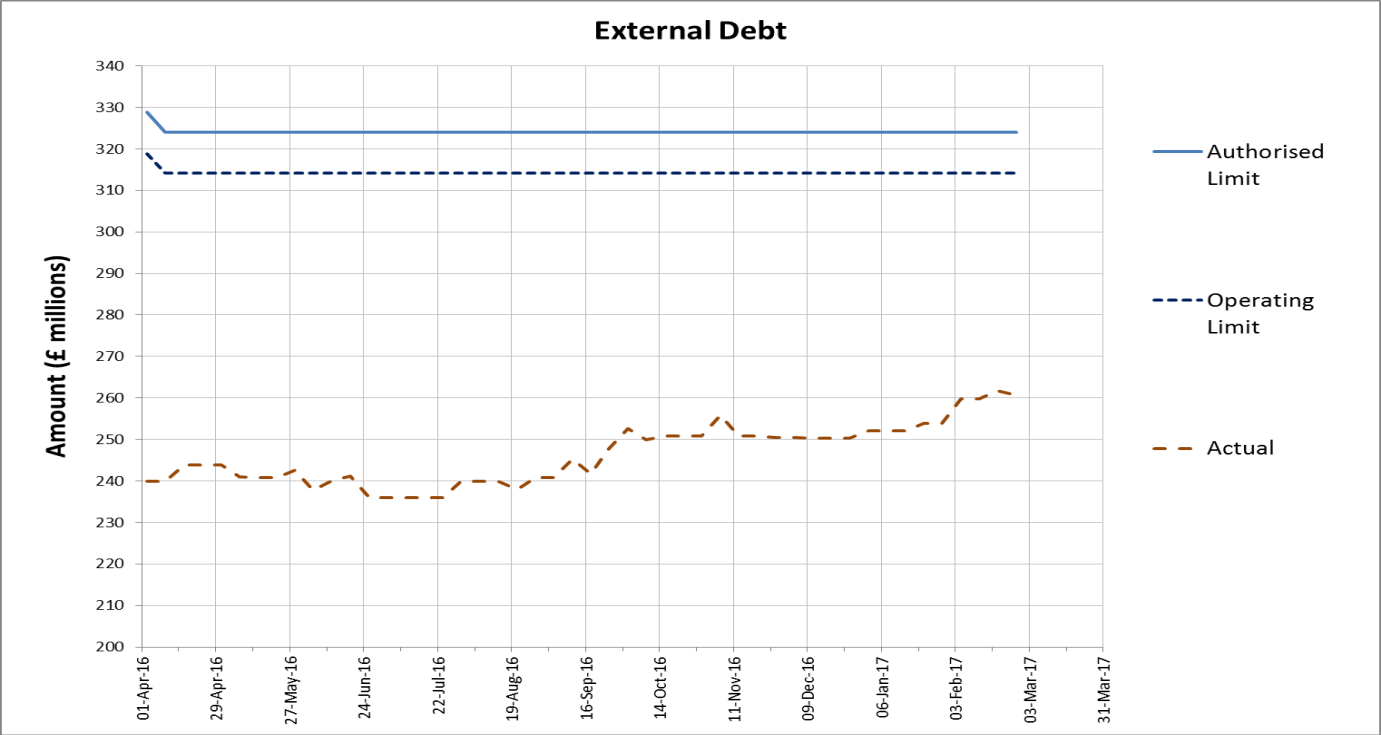
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CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager	extn 5303
	Louise Mattinson - Director of Finance and IT	extn 5600
DATE:	31 st March 2017	
BACKGROUND PAPER:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 29 th Feb 2016	





Indicator 2016/17		As approved Feb 16		Current Monitoring		Commentary																																										
PRUDENTIAL INDICATORS	1	Local Authority has adopted CIPFA Treasury Management Code of Practice		Latest edition of CIPFA TM Code of Practice adopted March 2012																																												
	2	Estimated Capital Expenditure		£29.1 Million		£38M																																										
	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 PFI elements (no lease) Remaining elements Operational Borrowing Limit Authorised Borrowing Limit	16.0M 68.5M 229.6M 314.1M 324.1M	<table><tr><th>Borrowing to date</th><th>£M</th></tr><tr><td>LCC Debt</td><td>16.0</td></tr><tr><td>PFI Elements</td><td>68.7</td></tr><tr><td>BwD</td><td>180.9</td></tr><tr><td>Total</td><td>265.6</td></tr></table>	Borrowing to date	£M	LCC Debt	16.0	PFI Elements	68.7	BwD	180.9	Total	265.6	LCC debt and BSF PFI debt with both fall across the year, as debt payments are made																															
Borrowing to date	£M																																															
LCC Debt	16.0																																															
PFI Elements	68.7																																															
BwD	180.9																																															
Total	265.6																																															
TREASURY	7	Variable Interest Rate Exposure		£43 Million		Exposure to date	£37 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><tr><th>Lower Limit</th><th>Upper Limit</th><th>Period (Years)</th></tr><tr><td>0</td><td>30%</td><td><1</td></tr><tr><td>0</td><td>15%</td><td>1-2</td></tr><tr><td>0</td><td>30%</td><td>2-5</td></tr><tr><td>0</td><td>30%</td><td>5-10</td></tr><tr><td>25%</td><td>95%</td><td>>10</td></tr></table>	Lower Limit	Upper Limit	Period (Years)	0	30%	<1	0	15%	1-2	0	30%	2-5	0	30%	5-10	25%	95%	>10	<table><tr><th colspan="3">Actual maturity structure to date</th></tr><tr><th>Period (Years)</th><th>£M</th><th>%</th></tr><tr><td><1</td><td>53.8</td><td>29.7</td></tr><tr><td>1-2</td><td>2.6</td><td>1.4</td></tr><tr><td>2-5</td><td>7.2</td><td>4.0</td></tr><tr><td>5-10</td><td>15.8</td><td>8.7</td></tr><tr><td>>10</td><td>101.5</td><td>56.1</td></tr><tr><td>Total</td><td>180.9</td><td>100.0</td></tr></table>	Actual maturity structure to date			Period (Years)	£M	%	<1	53.8	29.7	1-2	2.6	1.4	2-5	7.2	4.0	5-10	15.8	8.7	>10	101.5	56.1	Total	180.9	100.0	Limit not breached during the year includes Short term borrowing
	Lower Limit	Upper Limit	Period (Years)																																													
0	30%	<1																																														
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0	30%	2-5																																														
0	30%	5-10																																														
25%	95%	>10																																														
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>10	101.5	56.1																																														
Total	180.9	100.0																																														
10	Total investments for longer than 364 days		£7 Million		Page 63 of 114 NO LONG TERM INVESTMENTS MADE																																											



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).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial than others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indicator was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the 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: 11 April 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 28 February 2017

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 December 2016 to 28 February 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 28 February 2017 against the Audit & Assurance Plan, which was approved by Committee on 12 April 2016.

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:

Internal Audit

A summary of the 12 audits completed and finalised since the last report to Committee are detailed below.

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations
	Environment	Compliance	Agreed
Care Act Implementation	Adequate	Adequate	2
Partnerships	N/A	Adequate	2
Performance Indicators	Adequate	Adequate	2
Old Town Hall Stonework	Adequate	Adequate	3
Newfield School	Adequate	Adequate	24
Meadowhead Infants School	Adequate	Adequate	16
Shadsworth Infants School	Adequate	Adequate	25
Sacred Heart RC Primary School	Limited	Limited	28
Holy Trinity CE School	Limited	Limited	30
The Redeemer School	Adequate	Adequate	21
Section 17 Payments/Financial Assistance (Children's Act 1989)	Limited	Limited	12
Social Media	Limited	Adequate	12

We have provided a brief commentary on the four audit assignments where we have provided a limited assurance opinion.

Sacred Heart RC Primary School: The final report provided a **limited** assurance opinion for both the control environment and compliance. We made 28 recommendations to strengthen arrangements in place across nine of the eleven areas covered during the visit. This included six 'must' level recommendations relating to policies (2), expenditure control (1), petty cash (2) and the bank reconciliation (1).

Holy Trinity CE School: The final report provided a **limited** assurance opinion for both the control environment and compliance. We made 30 recommendations to strengthen arrangements in place across nine of the ten areas covered during the visit. This included 13 'must' level recommendations relating to policies (2), budgetary control (1), expenditure control (4), petty cash (2), income collection and billing (1), bank reconciliation (1), asset control (1) and access rights (1).

Section 17 (Children's Act 1989) Financial Assistance: Under Section 17 of the Children's Act 1989 the Council has a duty to safeguard and promote the welfare of children in the area who are in need. This includes the provision of financial assistance where appropriate. The final report provided a **limited assurance** opinion for the control environment and compliance. The issues

noted included the following:

- Relevant forms were either not being consistently with sufficient detail or not always retained on file;
- There was a lack of controls to prevent duplicate payments, and to ensure that, where monies had been identified as repayable to the Council, the debt was managed effectively;
- The use of incorrect budget codes, impacting on budget monitoring; and
- A lack of adequate monitoring arrangements or performance indicators to manage the additional Challenge to Care monies.

Social Media: The review considered the arrangements in place to maximise the use of social media, whilst maintaining a safe and professional environment for the Council and staff. The final report provided a **limited assurance** opinion for the control environment. Procedures supporting the Social Media Policy were inconsistent, with an unclear approach to setting up and managing a social media account. Monitoring arrangements and incident management procedures also needed to be clearly defined.

Current internal audit reviews

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

- Private Care Homes Contract Payments
- Budgetary Control
- Efficiency Partner
- Strategic Funding & Bidding
- Highways
- Payroll VFM
- Payroll Core System
- 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	Q3 2016/17	Q2 2016/17
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	75%	75%
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	100%

5. Recommendations Implemented	90%	89%	70%
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

Three of the 12 audits (25%) were completed over budget. Holy Trinity (2 days), and Shadsworth Infants (2 days) were completed by an auditor with less experience of school systems. In addition, extra time was required for Holy Trinity due to the issues identified. The Partnership audit (4 days) 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 13 audits (100%) requiring follow up by 28 February.

5. Recommendations Implemented

Of the follow up responses received we were able to identify that 32 (68%) of the 47 recommendations due for implementation on or before 28 February 2017 had been fully implemented and 10 (21%) partially implemented.

- Civic Hall and Catering – 12 recommendations; nine fully and one partially implemented, two “should” not yet done. No “must” recommendations
- Homes of Multiple Occupancy Licensing – four recommendations; two partially implemented. Two not yet done. No “must” recommendations.
- Markets – three recommendations; two done, one not yet implemented. No “must” recommendations

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 or health implications arising as a result of this report.

11. CONSULTATIONS

Directors

Contact Officer: Colin Ferguson, Head of Audit & Assurance– Ext: 5326
Date: 31 March 2017
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: 11 April 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Audit & Assurance Plan 2017/18

1. PURPOSE

To inform Members of the planned Audit & Assurance work for the forthcoming year.

2. RECOMMENDATIONS

The Committee is asked to:

- approve the 2017/18 Plan (as set out in Appendices A and B);
- approve the revisions to the Internal Audit Charter (as set out in Appendix C);
- note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- note that Plan changes will be reported during the year.

3. BACKGROUND

Under the Accounts and Audit Regulations 2015 the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards (PSIAs)”. The PSIAs require the Head of Audit & Assurance to develop a risk based audit plan taking into account the requirement to produce an annual internal audit opinion. The plan must explain how internal audit’s resource requirements have been assessed.

4. RATIONALE

The Plan and Charter define the scope and the rationale of the approach being followed. They allow Audit & Assurance, independently, to provide assurance to managers, the Chief Executive, the Section 151 Officer and other stakeholders about the effectiveness of controls and the management of risk. To this Committee, with its responsibility to oversee the effectiveness of governance arrangements in the Council and in its partnerships, they allow Audit and Assurance to assist it in this process.

5. KEY ISSUES

The Plan:

The Plan defines the scope and reasoning behind the approach being adopted. Overall, the objectives are:

- to fulfil Audit & Assurance's own statutory obligations;
- to provide assurance, support and advice to Directors on matters under their control;
- to support the Section 151 Officer's statutory obligations to maintain an adequate and effective audit of the Council's accounting records and its systems of internal control;
- to assist the Audit & Governance Committee in gaining independent assurance on the Council's risk management, governance and control arrangements;
- to report compliance with the PSIAS; and
- to contribute, as part of the Resources Directorate, to the development of corporate standards.

The Plan itself, as in previous years, is risk-based and the audit methodology is essentially risk-based auditing.

Consultations:

The Plan, as a whole, is also a product of consultations with Directors and their Departmental Management Teams (DMTs), which were undertaken in February/March. Later in 2017/18 further consultations will be held to ensure that the Plan continues to meet the stated objectives. Any significant changes to reflect new developments and/or resources will be reported to this Committee.

Ongoing consultations will take place with Directors and Heads of Service to ensure that specific Terms of Reference are prepared for each planned audit to reflect the detailed key risks within each area.

Resources:

Audit & Assurance has had to make adjustments to its staffing establishment to meet the demands currently placed upon the Council. The audit resources currently available are considered sufficient to deliver an effective Audit Plan. The planned resources for the audit function for this year are 676 work-days. In addition, there are 714 work-days for Risk Management (70), Counter Fraud (85), Insurance (462) and Financial Support/Other (93).

Internal Audit Charter:

The Internal Audit Charter is requirement of the PSIAS, which became mandatory from 1 April 2013. The Charter was last re-approved at the Audit Committee meeting on 15 April 2014. The Charter has been revised and updated following publication of updated PSIAS in March 2016. The revised Charter includes extra detail in line with the PSIAS as follows:

- Defining the Internal Audit Mission; and
- Adoption of Core Principles for the Professional Practice of Internal Auditing.

In addition, the Standards section has been expanded to include the context of internal audit and definitions of independence and objectivity for internal auditors. The section dealing with Internal Access Rights has been updated to

account for any arrangements where the Council works in partnership with other organisations and there is a role for internal audit.

6. POLICY IMPLICATIONS

This report begins the process that leads to the Annual Governance Statement for the new financial year. This process assesses the effectiveness of the Council's own management of its policy objectives.

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 IMPLICATIONS & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Directors, Deputy Chief Executive, External Audit

Contact Officer:	Colin Ferguson, Head of Audit & Assurance - Ext: 5326
Date:	31 March 2017
Background Papers:	Audit & Assurance Planning papers; Risk Registers; 2016/17 Audit & Assurance Plan, Strategic Statement and Internal Audit Charter.

Strategic Statement Supporting 2017/18 Audit & Assurance Plan

1. Introduction & Purpose

- 1.1 Under the Accounts and Audit Regulations 2015 the Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account compliance with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS define Internal Auditing as:
‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’
- 1.3 The PSIAS require the Head of Audit & Assurance to prepare an annual risk-based internal audit plan which takes into account the requirement to produce an annual internal audit opinion. This opinion statement is a key contributor to the Annual Governance Statement which the Chief Executive and Leader are required to sign off alongside the final accounts each year.
- 1.4 The annual programme of audit work, as defined within this annual audit plan, is the basis on which the Head of Audit & Assurance forms an annual audit opinion on the Council’s risk, control and governance frameworks.

2. Scope and Independence

- 2.1 In line with the requirements of the PSIAS, the Head of Audit & Assurance is responsible for the effective review of all aspects of risk, governance and internal control throughout the full range of the Council’s activities.
- 2.2 Audit and Assurance will remain independent of the activities that it audits to ensure internal auditors perform their duties in accordance with the statutory guidance, and relevant codes of ethics, and to ensure impartial, objective and effective professional judgements. Internal auditors have no operational responsibilities within the Council. Audit & Assurance has the right of access to all information and records held by the Council and may seek explanations on any matters from any officer or Member of the Council without fear or favour.

3. Standards and Ethics

- 3.1 All internal audit work will be delivered in line with the requirements of the PSIAS.

- 3.2 The Standards contain a mandatory Code of Ethics for all internal auditors in UK public sector organisations. Individual members of Audit & Assurance are also bound by the codes of ethics of their respective professional institutes. They are also required annually to declare that they comply with the Council's Code of Ethics for Internal Audit and that they have no conflicts of interest.

4. Internal Audit Planning Strategy

- 4.1 The key principles of Audit & Assurance's approach to audit planning are:

- to deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations (2015).
- to meet the requirements of the PSIAS (2013) by producing a risk based audit plan which takes into account the Council's organisational strategies, objectives, risks and priorities.
- to focus assurance effort on the most important issues for the Council, by assessing critical business processes and principal risks, at both strategic and operational levels.
- to support the Director of Finance & IT and Director of HR, Legal & Corporate Services in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.
- to liaise with the external auditor, Grant Thornton, to coordinate the approach and scope of work so that they can place reliance on the work of Audit & Assurance in delivering their own programme of work.
- to add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money and promoting organisational improvement.
- to consult with key stakeholders to ensure provision of an appropriate level of assurance within the available resource, accepting that not all requests can or will be met.
- to provide sufficient flexibility to allow the plan to evolve to meet any significant emerging risks during the year and to respond where appropriate to management requests for assistance, advice and consultancy.

5. Internal Audit Planning Methodology

- 5.1 The approach to audit planning for 2017/18 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate & Departmental Risk Register, the Departmental Management Accountability Framework Exception Reports, and review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

- Materiality;
- Legal, Political and Reputational risk;

- Management priority;
- Internal Control, governance and previously identified issues;
- System stability; and
- Time since previous audit review.

5.2 The annual plan is produced from the Audit Universe and prioritised (Level 1-6) to the level of risk associated with each issue. The priorities have been determined as follows:

- Priority 1 (highest): A corporate risk, strategic governance or fundamental control review, not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. Or a grant claim certification, which must be endorsed by internal audit to comply with the funding requirements of central government departments. (Red)
- Priority 2: A significant departmental risk, governance, control or improvement issue identified by Directors and/or their departmental management teams not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Brown)
- Priority 3: A significant departmental risk, governance or control issue identified from a review of corporate/departmental risk registers, MAF returns or Council minutes not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Orange)
- Priority 4: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 2 years. (Yellow)
- Priority 5: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 3 years. (White)
- Priority 6 (lowest): Departmental risk, governance or control issue removed, no longer applicable or not auditable (Green)

6. Key Challenges & Opportunities

- 6.1 Transformation of services throughout the Council continues to result in significant changes to the control framework, and risks can increase as experienced staff leave the organisation and new and innovative ways of working are developed and implemented. We need to be aware of the challenges that face the Council and maintain awareness of these risks. The audit plan has been developed to provide assurance that basic governance and control arrangements continue to operate effectively, minimising the risks of misappropriation, loss and error.
- 6.2 To add value, Audit & Assurance needs to take into account the key changes affecting the Council. Consequently, the specific challenges and opportunities facing the Council at the current time have been considered as part of the planning strategy. Those which are considered to have a high strategic risk are discussed below together with an outline

of how the internal audit programme will contribute to the Council's assurance requirements.

Welfare Reform:

- 6.3 The impacts of Welfare Reform are expected to continue through 2017/18. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries. The Audit Plan includes time for counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy 2016/21 through the completion and review of fraud risk registers and both proactive and reactive counter fraud initiatives. The Audit Plan also provides for a review of Housing Benefits to cover the assessment and testing of control procedures following the transfer of Benefits services back to the Council.

Local Government Finance

- 6.4 Under the Localism Act 2011 proposals for local business rate retention came into effect from April 2013. The Government is currently developing mechanisms to move to a 100% Business Rates Retention scheme by 2020 which will fundamentally change the funding levels for every Council beyond that date. In addition, as a consequence of the recent revaluation exercise, the total rates payable in the Borough will decrease with effect from 2017/18. However, as agreed at the time the Business Rates Retention mechanism was introduced, in order to ensure the impact of revaluation is neutral on local authorities. In order to maximise both council tax and business rate income, the Council needs to ensure it has robust collection procedures. The 2017/18 Audit Plan includes reviews of business rates and council tax arrangements, following the transfer back of Revenue services to the Council during 2016/17.

Health Reform

- 6.5 Central government is continuing with its proposals for greater integration between health and social care in order to find ways to tackle unsustainable increases in service demand in future years. The Care Act 2014 has led to changes in the funding of social care, which will lead to changes in the assessment process. Internal audit resources will be involved reviews of adult social care assessments, governance arrangements for the social determinants of health fund, the Volunteering/Demand Management Strategy and preparedness for the new joint Ofsted/Care Quality Commission inspection regime for children's Special Educational Needs and Disability (SEND).

Education Reform

- 6.6 There have been changes in national legislation over recent years which have given schools increased freedoms which will potentially impact on the business model for the existing educational support services offered by the Council. The Government is also started the first stages for the introduction of a new national funding formula for schools, which will mean that all schools will receive a consistent and fair share of the schools budget. This will potentially lead to a reduction in funding for some schools. Reviews of the Council's maintained schools will continue

to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

- 6.7 The Council is committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough's future be secured and sustained. The Local Strategic Partnership Board (LSP) Plan for Prosperity sets out how the Council intends to secure greater prospects for the Borough over the next six years. The planned audit work for 2017/18 will include a review of the LSP Growth Strategy governance framework.

Capital Investment

- 6.6 The Council's capital programme includes major commitments, which require strong project management and effective monitoring to ensure they are achieved on time and within budget. Failure to deliver against externally funded schemes could lead to potential overspends, which could impact on the overall future capital programme and the Council's ability to win future funding bids. There will be a project management review to consider arrangements for managing the Growth Deal funding that the Council has received, as well as the Heritage Lottery Funded project for Blakey Moor. Provision has also been included for a review of MOSAIC (the new Adult Social Care system).

7. Categories of Internal Audit Work

- 7.1 The overall opinion on the Council's control framework is derived from a range of Audit & Assurance work over a number of areas. The work of the service is broadly categorised as follows:
- Planning – a risk based internal audit plan will be created on an annual basis which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy.
 - Risk-based system audits – one of the main ways that Audit & Assurance will form a view on the overall control system is by carrying out reviews of the component systems and processes (e.g. using process maps that identify risks and controls; drafting system notes) established within respective business entities. These are commonly known as risk-based system audits and will allow Audit & Assurance to assess the effectiveness of internal controls within each system in managing business risks, enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in an efficient way, whilst maximising the benefit which can be derived from it.
 - Compliance / regularity / establishment / school audits – these audits are intended to assess if systems are operating properly in practice. They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems (not necessarily just financial systems). This will also provide

information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.

- Key Control Testing – a variation on compliance audit but focusing on a small number of material or ‘key’ controls that provide assurance on the completeness and adequacy of the Council’s accounts. This can provide the basis for external audit to place reliance on the work of Audit & Assurance.
- Procurement – This will use the risk based methodology to assess compliance with the Council’s corporate procurement strategy and the Constitution, with reference, in particular, to major contracts.
- Service Reviews / Value for Money – these reviews will use the risk-based methodology, working often in a multi-departmental team, to review specific processes. Value for money will be a consideration in both these and more general audit reviews.
- Control Risk Self Assessment – facilitating the review by services of their own risks and controls in a structured way, for example, via questionnaires or workshops. This can service both the requirements for assurance or as consultancy.
- Systems Development Audit – phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage, thus minimising the need for re-working.
- Counter Fraud – preventing, detecting and investigating fraud and corruption is, ultimately, a responsibility of management – as part of management’s general responsibility for the integrity of the Council’s activities. Most cases of fraud and corruption exploit the same weaknesses in systems that, in other circumstances, might have led to nothing more than a mistake. Internal audit will assist management by:
 - verifying management’s arrangements for ensuring systems are secure against fraud and corruption and report on any weaknesses;
 - investigate, using the fraud response plan, cases where there is evidence of fraud and irregularity;
 - when requested, undertake investigations into suspected or alleged fraud or corruption. These will be conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff;
 - review weaknesses revealed by instances of proven fraud or corruption, including review of National Fraud Initiative (NFI) data matches to ensure that appropriate action is taken to strengthen internal control arrangements;
 - verify that the risk of fraud and corruption is specifically considered in the Council’s overall risk management process; and
 - develop counter fraud awareness and understanding of fraud risk.
- ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.
- Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These

services apply the professional skills of Audit & Assurance through a systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.

- Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.
- Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
- Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

8. Reporting Arrangements

8.1 At the conclusion of each audit assignment, a draft report is issued to the appropriate manager within the Council. A management action plan is included within the report, which summarises the recommendations arising. Management should agree these actions, allocate responsibilities and timescales for implementation.

8.2 Recommendations included in the report are classified as follows:

- Must** Critical in that failure to address the issue or progress the work will lead to one of the following occurring: loss, fraud, impropriety, poor value for money or failure to achieve against organisational objectives. Examples include failure to comply with legislation or organisational policy or procedures. *Remedial action must be taken immediately.*
- Should** Not critical but failure to address the issue or progress the work could impact on operational objectives and should be a concern to senior management. *Prompt specific action should be taken.*
- Consider** Areas that individually have no major impact on achieving objectives or on the work programme, but where combined with others could have an effect at the process level which could give cause for concern. *Specific remedial action is desirable.*

8.3 For the risk, control and governance audit reviews, which support the Head of Audit & Assurance's annual audit opinion the final report will provide an assurance level. This will be measured to cover (i) the control environment following an assessment of internal controls and (ii) compliance following testing to measure application of controls. The levels of assurance provided in the audit report are as follows:

Assurance Level	Control Environment	Compliance
Substantial	There are minimal control weaknesses which present very low risk to the control	The control environment has substantially operated as intended although some minor

	environment.	errors have been detected.
Adequate	There are some control weaknesses which present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited	There are significant control weaknesses which present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No	There are fundamental control weaknesses which present an unacceptable risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

8.4 For the consultancy reviews, where Audit & Assurance is providing independent advice and support to departments during the implementation of new systems and procedures an opinion may be provided, which reflects progress on these developments. This opinion may contribute to the Head of Audit & Assurance's annual audit opinion.

8.5 A final report containing management responses to any issues identified is subsequently distributed to:

- The Director responsible for the area reviewed;
- The Director of Finance & IT (Section 151 Officer);
- The Deputy Chief Executive (Limited Assurance Reports Only); and
- Grant Thornton (the Council's external auditor) (Limited Assurance Reports Only).

9. Monitoring Arrangements.

9.1 The Audit & Assurance Plan will be monitored via monthly progress meetings between the Audit & Assurance management team, regular meetings with the Director of Finance & IT and external audit. Periodic updates will also be provided to the Directorate Management Teams along with individual reports to relevant Senior Managers.

9.2 The plan reflects the assurance need, however, it is recognised that priorities may be subject to change. In addition to the contingency that is available, we accept that there may be a need to amend our planned audits so that we continue to reflect the needs of the Council. We will discuss minor changes with the Director of Finance & IT. Any significant matters that impact upon completion of the plan or require substantial changes will be reported to Management Board and to the Audit & Governance Committee.

9.3 Report recommendations from individual audits are followed up to ensure they have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions

confirmed, and ensures audit resources are directed towards priority areas. It is the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable agreed in the management action plan included in the audit report.

- 9.4 Where we issue a *limited* or *no* assurance report we will undertake “standard” follow ups after 3 months. For all other assurance reports we will undertake a “standard” follow up after 6 months. Where we have particular concerns about the implementation of recommendations we will undertake further “physical” follow up exercises where documentation will be reviewed and further testing undertaken.
- 9.5 In addition summaries of finalised Audit & Assurance reports are presented to the each Audit Committee meeting to provide an update of audit coverage and to outline the key issues arising from this work. This also includes information on the implementation of recommendations.
- 9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit Committee through the progress & outcomes report. The defined targets included within the Finance & IT Department’s Business Plan for Audit & Assurance in 2017/18 are:

Achievement:

- a) delivery of priority 1 audit plan topics: 100%
- b) percentage of planned assignments completed within budget: 90%
- c) percentage of final reports agreed within deadline: 90%
- d) follow ups undertaken within deadline: 90%

Quality:

- a) percentage of agreed recommendations implemented: 90%
- b) percentage of client’s satisfied with the Service : 75%
- c) percentage compliance with PSIAs: 95%.

- 9.7 The extent of audit work performed during the year, managers’ acceptance of audit recommendations and the subsequent improvements in controls and processes enable a formal opinion to be prepared by the Head of Audit & Assurance as to the quality of the overall internal control environment. This formal opinion will be presented to members within the Annual Internal Audit Report and this formal opinion feeds directly into the Annual Governance Statement.

10. Audit & Assurance Resources

- 10.1 As at 1 April 2017 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.4 full-time equivalent (FTE) posts (previously 7.15 FTE posts in 2016/17):
- 1 Head of Audit & Assurance (0.70 FTE)
 - 2 Principal A & A Officers (2.0 FTE)
 - 2 A & A Officers (2.0 FTE)
 - 1 Apprentice (0.7 FTE)

10.2 The qualifications, experience and specialisms of the staff occupying the current staffing structure are as follows:

Name	Qualifications	Experience	Specialism
Colin Ferguson Head of A & A	ACCA	34 years	Strategic Risk & Governance Audit
Chris O' Halloran P A & A Officer	PIIA	7 years	Counter Fraud Contract Audit
Andrew Tordoff P A & A Officer (starts 1 May 2017)	HND in Accounting Foundation Diploma in Business Analysis	17 years	IT Audit Risk & Governance Audit
Ilyas Ismail A & A Officer	AAT	10 years	IT Audit, Risk & Governance Audit
Catherine Bibby A & A Officer	Honours Degree	3 year	Risk & Governance Audit
Joseph Toth Apprentice	Accounting Degree	18 months	Risk & Governance Audit

PA&A - Principal Audit & Assurance

ACCA - Association of Chartered Certified Accountants

CIPFA - Chartered Institute of Public Finance & Accountancy

PIIA - Practitioner of the Institute of Internal Auditors

AAT - Association of Accounting Technicians

HND - Higher National Diploma (equivalent to 2 years at University)

10.3 Currently, this establishment is regarded as adequate for the Council's needs in ensuring that it meets the requirements of the Accounts and Audit Regulations. There will, however, often be significant changes affecting either what the Council does or how it arranges delivery to fulfil its statutory obligations. The impact on the Audit & Assurance function of such changes will be reviewed, each year, so that Members can assess the adequacy of its resource needs.

10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2017/18. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan which is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & IT Department's training plan is as follows:

Name	Professional Training	2016/17 Commitment
Ilyas Ismail	CIPFA	25 days
Catherine Bibby	AAT	30 days

10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below with 2015/16 figures for comparison.

Category	2017/18	2016/17
Total available days	2060	2,610
Deduct: annual leave, sickness & bank holidays.	(352)	(505)
Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.)	(318)	(405)
Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)	(714)	(883)
Days available for Audit & Assurance reviews	676	817

10.6 The days available for Audit & Assurance reviews have been allocated to the priority 1, 2 and 3 audit planning levels (see section 5.2, above) for the following corporate and departmental areas (See Appendix B).

Audit & Assurance - Draft Proposals 2017/18	Classification	Priority	2017/18 Days
Adult Social Care			
Client case management systems - Mosaic	Risk	1	10
Personalised budgets/Direct payments	Control	2	10
Volunteering/Demand Management	Consultancy	A*	8
Commissioning/Contract Management	Control	2	10
Provision of equipment to services users	Control	2	10
Sub total			48
Children's & Education Services			
SEND Inspection Regime	Risk	2	10
Adoptions/Fostering recruitment and payments	Control	2	10
Section 17 Payments	Risk	2	10
Audits of Schools Finance systems	Control	2	40
Sub total			70
Public Health			
Social Determinants of Health Fund	Governance	2	10
Partnership Arrangements	Governance	2	10
Sub total			20
Localities & Prevention			
Energy grant	Governance	1	10
CCTV Pennine Lancs Provision	Risk	2	10
Selective Licensing	Control	A*	10
Volunteers/ Demand Management	Control	A*	8
Sub total			38
Growth & Development			
		Priority	
LTP Grant Requirement	Control	1	5
Strategic Partnership Arrangements	Departmental Risk	2	10
Growth Deal Round 2 - East Darwen Distributor	Governance	2	10
Highways	Departmental Risk	2	15
Blakey Moor Heritage Lottery	Control	2	10
Growth Strategy	Departmental Risk	2	10
Sub total			60
Environment & Leisure			
Public Protection Inspections	Risk	2	10
Events Management - King Georges Hall	Control	2	10
Schools & Museums Programme	Governance	A*	10
Transport Procurement/Fleet Management	Risk	2	10
Sub total			40
HR, Legal & Corporate Services			
Payroll - Core system	Control	1	25
Police & Crime Commissioner Grant	Control	1	5
Off payroll engagement (IR35)	Control	2	10
Overtime/additional hours payments	Control	2	10
Severance Payments	Control	2	10
Health & Safety	Risk	2	5
Public Contracts Regulations 2015 - Corporate Procurement	Control	2	10
Members Allowances and Induction	Control	A*	10
Sub total			85
Finance & IT			
		Priority	
Budgetary Setting and Control	Risk	1	10

Audit & Assurance - Draft Proposals 2017/18	Classification	Priority	2017/18 Days
Main Accounting System	Control	1	10
Housing Benefits	Control	1	20
Creditors/E-Procurement Purchase cards	Control	1	15
Council Tax	Control	1	15
NNDR	Control	1	15
Income collection and management system	Control	2	10
Information Governance/Data Protection	Risk	2	5
Sundry Debtors	Control	2	10
Capital Programme/Budget - Monitoring and Reporting	Control	2	10
Sub total			120
Corporate Audits			
Capita Partnership - Contract management and governance	Governance	1	10
Review of Financial Regulations, SFIs, etc.	Governance	2	5
Sub total			15
Other Audit Work			
Follow up work	Governance	1	10
Audit Committee	Governance	1	15
Liaison with external audit	Other	1	5
Audit Committee Annual Report/Evaluation	Governance	1	5
A & A Client liaison/Queries	Other	2	20
A & A Client liaison/DMT attendance	Other	2	10
A & A Client liaison/Project Groups	Other	2	15
Audit Committee CIPFA Guidance	Governance	2	5
Contingency	Other	2	25
Auditor Panels	Governance	2	5
Sub total			115
Other Risk Work		Priority	
MAF Process/Form Review	Governance	1	5
Annual Gov Statement	Governance	1	10
MAF and MAF Challenges	Governance	1	15
Risk Management Support	Governance	1	5
Corporate Risk & Resilience Forum	Governance	1	5
Review/Monitor Corporate Risks	Governance	1	10
Review Monitor Departmental Risks	Governance	1	10
Business Continuity Champions Meetings	Governance	1	5
Risk Annual Plan/Report	Governance	2	5
Sub total			70
Other Fraud Work			
Review of Counter Fraud Strategy	Control	1	5
National Fraud Initiative (NFI)	Governance	1	35
Counter Fraud Annual Plan/Report	Governance	1	5
Proactive Fraud Testing	Governance	2	10
Reactive investigations	Governance	2	15
Review/Monitor Fraud Risk Register	Control	2	10
Fraud awareness and whistle blowing initiatives	Control	2	5
Sub total			85
2016/17 Audit Completions			
Sub total			65
Total Planned Audit days			831

Blackburn with Darwen Borough Council



Internal Audit Charter

**Audit & Assurance
Finance & IT Department**

Update Approval: Audit Committee 15 April 2014

**Revisions Approved: Audit & Governance Committee
11 April 2017**

Background

The Public Sector Internal Audit Standards (the PSIAS), provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) standards, and also additional requirements and interpretations for the UK public sector.

The purpose of this Internal Audit Charter is to define internal audit's purpose, authority and responsibility in accordance with the requirements of the PSIAS. **These are consistent with the Internal Audit Mission, which is set out below.** It establishes internal audit's position, as performed by Audit & Assurance within the Council, and reporting lines, authorises access to records, personnel and physical property relevant to the performance of audit work, and defines the scope of internal audit activities.

This Charter also covers the arrangements for the appointment of the Head of Audit, & Assurance and internal audit staff, and identifies the nature of professionalism, skills and experience required.

The Internal Audit Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition

The Audit & Assurance team have adopted the following definition of internal auditing from the PSIAS. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The PSIAS require that the internal audit charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the Council's Audit & Governance Committee which has delegated responsibility for overseeing the work of internal audit. Senior management is defined as the Chief Executive, Deputy Chief Executive and Directors.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The Head of Audit & Assurance is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles. Failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it should be in achieving internal audit Mission. The internal audit activity must achieve the following Core Principles:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.

- Is appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promote organisational improvement.

Standards

Internal audit is a statutory service in the context of the Accounts and Audit (England) Regulations 2015, which require authorities to ensure that they have a sound system of internal control which:

- 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 Accounts and Audit Regulations 2015 also state that: “a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance.”

The internal audit function is required to comply with the PSIAS. The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of local government, have adopted the common set of PSIAS from 1 April 2013. Compliance with the Standards is subject to an on-going quality assurance and improvement programme (QAIP), developed and implemented, in line with the Standards. This Programme will cover **all aspects of the internal audit activity** and includes a self-assessment on a regular basis and an external assessment which must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Results of quality reviews shall be reported to the Audit & Governance Committee by the Head of Audit & Assurance.

Responsibilities and Objectives of Internal Audit

Internal audit is responsible for establishing procedures and applying the required resources to ensure that the service conforms to the **Mission Statement**, Definition of Internal Auditing and the Standards. The members of the internal audit team must demonstrate conformance with the **PSIAS Core Principles**, **Code of Ethics** and the Standards. **In addition, all internal audit staff are also required to adhere to the Code of ethics of their professional bodies where appropriate.**

The Head of Audit & Assurance must deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This is the ‘assurance role’ for internal audit.

Internal audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of the organisation. The aim of the consultancy service is to help line management improve the Council’s risk management, governance and internal control. This is the ‘Consultancy’ role for internal audit and contributes towards the overall opinion.

Responsibilities of the Council

The Council is responsible for ensuring that internal audit is provided with all necessary assistance and support to ensure that it meets the required standards. The Director of Finance & IT (Section 151 Officer) will make appropriate arrangements for the provision of an internal audit service. This will include the formal adoption of this Charter by the Audit & Governance Committee and the adoption of corresponding elements in the Financial Procedure Rules.

The Council will ensure it has taken all necessary steps to provide internal audit with information on its objectives, risks, and controls to allow the proper execution of the audit strategy and adherence to internal audit standards. This will include notifying internal audit of any significant changes in key control systems which may affect the internal audit plan. The Council, through the Chief Executive, Director of Finance & IT and other relevant managers, will respond promptly to audit plans, reports and recommendations. Responsibility for monitoring and ensuring the implementation of agreed recommendations rests with the Council.

Independence and Objectivity of Internal Audit

The internal audit activity must be independent and internal auditors must be objective in performing their work. **Audit & Assurance have adopted the PSIAS definition of independence. This is defined as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.** The Financial Procedure Rules recognise the organisational independence of the internal audit function as performed by Audit and Assurance. Although structurally part of the Finance & IT Department and reporting, initially, to the Director of Finance & IT, who has line management responsibilities for the team, **to achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity** the Head of Audit, & Assurance has direct reporting, and other, access to senior management and the Audit & Governance Committee. Additionally the internal audit function as performed by Audit & Assurance will have, as far as possible, little or no non-audit responsibilities.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditors' judgment. Internal auditors are required to declare any potential conflict of interest. Where internal auditors have a perceived conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit planning, management and supervisory process.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Audit & Assurance also manages the functions of risk management and insurance. When audits covering these functions are undertaken they will be led by a Principal Audit & Assurance Officer with draft reports being issued to the Principal Insurance Officer for a management response. The Head of Audit & Assurance will take no part in this process.

The Head of Audit & Assurance will confirm to the Audit & Governance Committee at least annually, the organisational independence of the internal audit activity.

Head of Audit & Assurance

The Head of Audit & Assurance will be appointed by the Council and will have sufficient skill, experience and competencies to work with the Executive Team and the Audit & Governance Committee and influence the risk management, governance and internal control of the Council. The Head of Audit & Assurance is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the audit plan and meet the requirements of the PSIAS. In addition to internal audit skills, the Head of Audit & Assurance will specify any other professional skills that may be needed by the internal audit team. The Head of Audit & Assurance will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics.

Relationships

The Head of Audit & Assurance reports directly to the Director of Finance & IT. The Head of Audit & Assurance, or an appropriate representative of the internal audit team, shall attend meetings of the Audit & Governance Committee unless, exceptionally, the Committee decides that they should be excluded from either the whole meeting or for particular agenda items.

The Head of Audit & Assurance shall have an independent right of access to the Chair of the Audit & Governance Committee. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Head of Audit & Assurance may report directly to the Chair of the Audit & Governance Committee.

Internal Audit and External Audit will agree a protocol for co-operation which will make optimum use of the available audit resources.

Scope of Internal Audit

The Head of Audit & Assurance should develop and maintain a strategy for providing the Director of Finance & IT economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the Council's risk management, governance and internal control arrangements. The annual internal audit plan will be risk based, prepared in consultation with Departmental Management Teams and presented to the Audit & Governance Committee for approval. The Head of Audit & Assurance opinions are a key element of the framework of assurance the Chief Executive and the Leader of the Council need to inform the completion of the Annual Governance Statement (AGS).

The Head of Audit & Assurance will communicate the impact of resource limitations and significant interim changes to senior management and the Audit & Governance Committee.

Opinion Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach **that is aligned with all of the strategies, objectives and risks to the Council.**

Governance

Internal audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;

- communicating risk and control information to appropriate areas of the organisation; and,
- co-ordinating the activities of and communicating information among the Audit & Governance Committee, external and internal auditors and management.

Risk Management

Internal audit must evaluate the effectiveness and contribute to the improvement of risk management processes by assessing:

- organisational objectives support and align with the organisation's mission;
- significant risks are identified and assessed;
- appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

Internal Control

Internal audit must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- economical, effective and efficient use of resources;
- effectiveness and efficiency of operations and programmes;
- safeguarding of the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity corruption or bribery; and
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit use a risk based planning system designed to proactively identify audits to address any emerging and developing risks on an ongoing and 'future focussed' basis.

Internal audit will promote and contribute to continuous ongoing improvements in systems across the Council by identifying and recommending best practice actions following audit work completed.

Where key systems are being operated on behalf of the Council or where key partnerships are in place the Head of Audit & Assurance must ensure arrangements are in place to form an opinion on their effectiveness.

Where the Council operates systems on behalf of other bodies, the Head of Audit & Assurance must be consulted on the audit arrangements proposed or in place.

It is management's responsibility to ensure the provision for relevant audit rights of access in any contract or Service Level Agreement the Council enters into, either as provider or commissioner of the service.

Non-Opinion Work

Internal audit may provide, at the request of management, a consultancy service which evaluates the policies, procedures and operations put in place by management. A specific contingency should be made in the internal audit plan to allow for management requests and consultancy work.

The Head of Audit & Assurance must consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. In the event that the proposed work may jeopardise the delivery of the internal audit opinion, the Head of Audit & Assurance must advise the Director of Finance & IT before commencing the work. The Head of Audit & Assurance must consider how the consultancy work contributes towards the overall opinion.

Fraud

Managing the risk of fraud is the responsibility of line management. The Director of Finance & IT has specific responsibilities in relation to the detection and investigation of fraud and may request internal audit to assist with the investigation of suspected fraud or corruption. The relationship between the Head of Audit & Assurance, the Director of Finance & IT, and HR and Legal Services staff has been set out in a fraud response plan that has been agreed by all parties. Internal audit should be notified of all suspected or detected fraud, corruption or impropriety, to inform their opinion on the control environment and their audit plan.

Whilst it is not a primary role of internal audit activity to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal audit can do additional work, although it cannot be prejudicial to this primary role. Typical activities may include:

- investigating the cause of fraud;
- responding to whistleblowers;
- considering fraud in every audit;
- making recommendations to improve processes; and
- review fraud prevention controls and detection processes put in place by management.

Reporting

The Head of Audit & Assurance will agree reporting arrangements with the Section 151 Officer which will include procedures for the:

- distribution and timing of draft audit reports;
- Council's responsibilities in respect of responding to draft audit reports;
- distribution of finalised audit reports;
- follow up by internal audit of agreed recommendations; and
- escalation of recommendations where management responses are judged inadequate in relation to the identified risks.

The Head of Audit & Assurance will present a formal report annually to the Chief Executive, Director of Finance & IT and the Audit & Governance Committee giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control. The report will also include significant risk exposures and control issues, including fraud risks, governance issues, and other

matters needed or requested by senior management and the Audit & Governance Committee. The annual report will state any areas of non-conformance with PSIAS and will be timed to support the production of the Council's Annual Governance Statement. Reports of progress against the planned work will be presented to the Audit & Governance Committee on a regular basis during the year.

Internal Audit Access Rights

The Financial Procedure Rules (B2) state that the Director of Finance & IT or his/her authorised representative (interpreted to be any Audit & Assurance internal audit officers) shall have authority, without necessarily giving prior notice, to:

- access at all reasonable times to any Council premises or land;
- require any officer or member to produce any cash, stores or any other Council property under his/her control;
- require from any officer or member access to all records, documents, vouchers and correspondence relating in any way to both the financial or other transactions of the Council and the development of processes or activities within the Council or its partners, including documents of a confidential nature;
- require and receive such information and explanations he or she considers necessary concerning any matter under examination.

Where the Council works in partnership with other organisations, the role of internal audit will be defined on an individual basis. Where internal audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the organisation's Board and in consultation with the Director of Finance & IT to ensure that appropriate audit resources are available to provide assurance over the Council's activities.

Internal Audit Resources

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and standards. Leadership will be provided by qualified accountants experienced in the field of audit, and support will be provided by qualified or experienced auditors, accounting technicians or trainees preparing to become qualified auditors, accountants or technicians. Auditors need to be properly trained to fulfil their responsibilities, and should maintain their professional competence through an appropriate ongoing development programme. The Head of Audit & Assurance is responsible for appointing Internal Audit staff and will ensure that appointments are made to achieve the correct mix of qualifications, experience and audit skills.

If the Head of Audit & Assurance or the Audit & Governance Committee consider that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with the Definition of Internal Auditing and the Standards, they should advise the Chief Executive and the Director of Finance & IT accordingly.

Review

The Internal Audit Charter will be reviewed and reported to the Audit & Governance Committee at least every two years.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 11 April 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2016/17 Quarter 3 Review

1. PURPOSE

To provide Members with details of the risk management activity that has taken place in the period from 1 October 2016 to 31 December 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 3 2016/17, including the detailed review of the two corporate risks considered by the Committee during the training session held prior to the start of this meeting;
- note the risk management activity that has occurred during the period;
- select a Corporate Risk for the Committee 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 15 open risks; this is a reduction of two since the previous quarter as reported to this Committee on 20 September. A summary of the risks is attached at Appendix 1 of this report. The following changes should be noted since the Risk Management 2016/17 Quarter 2 Review Report to this Committee:

- The Business Continuity and Emergency Planning risks have now been separately recorded and assessed (Risks 7 & 7b);
- The Finance, Community Cohesion, and Growth Risks (Risks 1, 10, 12, and 18) have been reviewed and updated following the last Risk Report to Committee.
- The IT Infrastructure/Resilience Risk has been incorporated into the Business Continuity Risk and Failure to deliver a robust medium Term Financial Strategy (Risk 16) has been combined with the updated Risk 1.

The attached report shows any movements in the residual risk scores between quarters to enable changes to be tracked. The report shows that the residual score for the Finance and Community Cohesion Risks (Risks 1 and 10) have reduced.

Risk 14, a high profile serious/critical safeguarding incident/case occurring that is known to Council services is the top corporate risk.

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. No amendments to the corporate risks were identified by the CRRF at its meeting in January. However changes will be required following the recent review of Directors and senior managers responsibilities. These will be reported to Audit Committee at its next meeting.

The Council's previous long term insurance agreement ended on 31 March 2017. Following the completion of a tender exercise the February Executive Board meeting approved the award of long term agreements to the two successful bidders, Axis Syndicate 1686, via Aon Crisis Management, to provide terrorism cover, and Zurich Municipal providing all other policies. These agreements are an initial period of three years with an option to extend for a further two year period. The new arrangements have been in place from 1 April 2017.

During the last quarter we continued to use the risk management support available from Zurich Municipal as part of the 2012/17 long term insurance agreement. A Motor Fleet Risk Review has recently been completed by Zurich Municipal. This is a follow up to the review on this area carried out in March 2014. The results will be reported to Committee at its next meeting.

Risk management colleagues from Zurich Municipal have also provided support to assist the Civil Contingencies Team to run the corporate business continuity exercise carried out in March.

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.

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 or health 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:	Colin Ferguson, Head of Audit & Assurance– Ext: 5326
Date:	31 March 2017
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 3 - 2016/17 Date of last review: 30-Sep-16
 Date: 31-Dec-16 Date of next review: 31-Mar-17

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	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Government Commission taking control of the authority's finances	26-Jan-15	Fair	5	5	HIGH	2	3	LOW	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	12-Jan-17	4	4	HIGH	Down
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	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	Closed	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-Sep-16	1	5	LOW	-
7b	Ensure that the council delivers its statutory function of Civil Contingencies by ensuring the Council has Business Continuity Management arrangements in place, planning, training testing and validating and also promoting business continuity to external small and medium sized businesses. This will protect the community, enhance the resilience of the Council and mitigate financial and reputational damage. Corporate Objectives 1,2,5,6 link	22.09.16	Good	3	4	MEDIUM	1	4	LOW	1	3	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	30-Nov-16	1	4	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	Closed	29-Nov-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	06-Jan-17	2	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesion, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	4	MEDIUM	1	3	LOW	Sayyed Osman	Imran Akuji/Mark Aspin	Open	11-Nov-16	2	5	MEDIUM	Down
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	16-Jan-17	3	3	MEDIUM	-

Risk No.	Risk Description	Date Raised	Strength of Existing Controls	L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating	Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	L	I	Risk Rating	Change in Score
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	Closed	29-Nov-16	3	3	MEDIUM	-
13	Failure to prevent data loss and privacy incidents (Information Governance) leading to financial/Data loss, disruption or damage to the reputation of the Council	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	09-Jan-17	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	Closed	12-Jan-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	-
18	Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met.	29-Nov-16	Good	4	4	HIGH	3	4	MEDIUM	1	1	LOW	Brian Bailey	David Proctor Andrew Bond	Open	29-Nov-16				-



TO: Audit & Governance Committee

FROM: Director of Finance & IT

DATE: 11 April 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT	Response to the External Auditor's request for information on how the Audit & Governance Committee gains assurance from management
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1. PURPOSE

To summarise how the Audit & Governance Committee gains assurance, as 'those charged with governance', from management in order to fulfil its responsibilities in relation to the financial reporting process.

2. RECOMMENDATIONS

The Committee is asked:

- to consider and approve the response attached at Appendix A.

3. BACKGROUND

The Council's external auditor, Grant Thornton, is obliged to comply with the International Standards on Auditing (UK and Ireland) (ISAs).

Grant Thornton has specific responsibilities, under these ISAs, to communicate with the Audit & Governance Committee and the matters which should be communicated. To support their work, the Audit & Governance Committee has been asked to provide information on how it gains assurance from management in order to fulfil its responsibilities in respect of the financial reporting process

Grant Thornton is required to obtain an understanding of the management processes and the Committee's oversight of the following areas in respect of the year ended 31 March 2017.

- Fraud;
- Laws and regulations;
- Going concern; and
- Contingent liabilities.

4. RATIONALE

Increasingly, local authorities are required to comply with international standards and external audit are, in turn, required to gain an understanding and review the arrangements in place. The ISAs set out steps that any organisation with robust governance arrangements will follow routinely. The Audit & Governance Committee is responsible for providing independent assurance on the adequacy of the Council's governance arrangements.

5. KEY ISSUES

The attached Appendix A sets out a series of questions from Grant Thornton in respect of each of the above areas and provides the source of assurance and management response in each case, for consideration by the Audit & Governance Committee.

The responses demonstrate that the Audit & Governance Committee can gain assurance from management in order for it to fulfil its responsibilities in respect of the financial reporting process.

6. POLICY IMPLICATIONS

There are no policy implications flowing from complying with the ISAs.

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 AND HEALTH IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality or health issues.

11. CONSULTATIONS

Director of Finance & IT, Head of Financial Services (Resources & Place) and the Deputy Council Solicitor.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance— Ext: 5326
Date:	31 March 2017
Background Papers:	None

ISA – MANAGEMENT and TCWG QUESTIONS 2016/17

Ref	Auditor Question	Source of Assurance	Response 2016/17
1.	What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17?	The Council assesses its current and future potential obligations and the potential impact on the Council's financial position, as part of the annual closure process for example in assessing whether financial provisions or the disclosure of contingent events are required within the Statement of Accounts	There were no key events or issues that occurred during 2016/17 which will have a significant impact on the financial statements for that year.
2.	Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	In preparation for closure of accounts 2015/16 the Council has reviewed any changes to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and referred to current guidance issued by CIPFA e.g Code guidance, LAAP bulletins etc.	Accounting policies have been reviewed and amended to reflect the measurement of any non-operational property, plant and equipment at fair value. We are not aware of any other events or transactions that may cause the Council to change or adopt new accounting practices.
3.	Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	There is an annual review process of the Council's Constitution in place that includes, as a fundamental part, reviewing and updating standing processes and financial instructions and ensuring that they comply with all relevant legislation and regulations. In addition the HR, Legal & Corporate Services Department also has a role in this in that it has an obligation to the other Departments within the Council to monitor legislative changes, gauge the impact on the various service areas and provide appropriate advice. In particular, the statutory Monitoring Officer role includes ensuring, compliance, probity and lawfulness in the Council's operations and decision-making processes.	We are not aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements
4.	How would you assess the quality of the Council's internal control processes?	Audit & Assurance reviews and progress reports to Audit & Governance Committee and Head of Audit Annual Audit Opinion Report. MAF Returns Page 103 of 114	The Council has a comprehensive and robust internal control framework in place, including Financial Regulations, Standing Financial Instructions, Contract and Procurement Procedure Rules, an Officer Scheme of Delegation, a Counter Fraud Policy and Strategy and resource monitoring processes. These various documents are monitored

ISA – MANAGEMENT and TCWG QUESTIONS 2016/17

Ref	Auditor Question	Source of Assurance	Response 2016/17
			<p>and reviewed periodically to ensure that they are up to date and fit for purpose.</p> <p>Directors are responsible for self-assessing the effectiveness of their arrangements and required to complete a Director's Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement.</p> <p>Audit & Assurance considers these control processes as part of the development of the risk based plan and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, and some exceptions were identified regarding compliance with the controls in place no material issues have been identified during the year.</p> <p>The Audit & Assurance team is also responsible for managing any investigations arising from whistle blowing or other sources. There have been no significant issues regarding non-compliance with internal controls identified as a result of any investigations carried out during the year.</p> <p>Audit staff also provide advice and support to review and revise the elements of the internal controls framework as part of the annual audit plan.</p>
5.	How would you assess the process for reviewing the effectiveness of internal control?	<p>Annual Audit & Assurance Plan presented to Audit & Governance Committee</p> <p>A&A Progress Report</p> <p>Peer Review Outcomes Report</p>	<p>The process in place meets the requirements of the Public Sector Internal Audit Standards (PSIAS) with regards to the requirement to prepare and deliver a risk based audit plan that supports the production of an annual internal opinion from the Head of Internal Audit on the Council's control, risk and governance frameworks. A Peer review was carried out during 2015/16 as part of the PSIAS requirements. This confirmed that the internal audit team within Audit & Assurance conforms to the fundamental requirements of the Standards.</p> <p>The internal audit planning strategy sets out the key principals of the Audit and Assurance approach and methodology used to develop and deliver the annual</p>

ISA – MANAGEMENT and TCWG QUESTIONS 2016/17

Ref	Auditor Question	Source of Assurance	Response 2016/17
			<p>audit plan, including the prioritisation of the areas covered.</p> <p>The final plan is the result of consideration of a wide range of information from various sources and consideration of various factors. This includes detailed consultations with Directors and their Departmental Management Teams (DMTs), and agreement with Management Board prior to approval by Audit & Governance Committee.</p> <p>The Audit Team delivered the priority areas identified in the 2016/17 audit plan that will enable us to provide an annual opinion on the Council's framework of governance, risk management and internal control.</p> <p>Directors are also responsible for self-assessing the effectiveness of their internal arrangements and providing the annual assurance statement referred to in the response to 4 above as evidence of this. The statements are reviewed by Audit & Assurance as part of the process to complete the Annual Governance Statement.</p>
6.	How do the Council's risk management processes link to financial reporting?	<p>Audit & Assurance Annual Plan</p> <p>Individual Audit Reports</p> <p>Progress Report to Audit & Governance Committee</p> <p>MAF Returns</p> <p>Directors Assurance Statements</p>	<p>The risk of the main accounting and feeder systems being inaccurate or misleading, and consequently the financial statements, is recognised in the Finance & IT Department's risk register. The steps below, plus the controls exercised by both the Finance & IT Department and service managers operationally, and through the Constitution, scheme of delegation, governance arrangements with partners, etc., service to mitigate material fraud risks.</p> <p>The risk-based Audit & Assurance Plan identifies the key internal control systems, which require review. Where internal controls are identified as being absent or not operating satisfactorily during both planned and unplanned work Audit & Assurance will agree recommendations for improvement with management. A follow – up programme is in place for monitoring the implementation of audit recommendations, which includes both management</p>

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			<p>declarations and physical verification by internal audit to confirm the actions taken. Any control deficiencies will be disclosed in the Head of Audit & Assurance's Progress & Outcomes and Annual Opinion reports to the Audit & Governance Committee.</p> <p>There is no evidence to indicate that key internal controls are not in place or not working effectively.</p> <p>Audit & Assurance undertakes reviews of significant financial systems which feed into the general ledger, and reviews the general ledger itself, to ensure that the source data for the financial statements is accurate and reliable.</p> <p>In addition Financial Services will undertake an analytical review of the statement of accounts each year, which will consider any significant or material changes are supported by valid explanations. These processes have not identified any concerns.</p> <p>The Management Accountability Framework summarises key issues affecting each service for consideration by Directors and the Executive Team on a bi-annual basis; this should include financial and non financial issues. Any issues identified which are not currently on a departmental risk register are required to be indicated.</p> <p>The bi-annual returns are reviewed and challenged by Audit & Assurance for completeness and accuracy, including any actions identified.</p> <p>The annual Directors assurance statements should also highlight any issues requiring action regarding this area. These are considered by Audit & Assurance as part of the process to complete the Annual Governance Statement.</p>
7.	How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	<p>Audit & Assurance Annual Plan</p> <p>Individual Audit Reports</p> <p>Progress Report to Audit & Governance Committee</p> <p style="color: blue;">Page 106 of 114</p>	<p>The Council has appropriate arrangements in place to identify and respond to the risk of fraud. A number of policies and strategies are in place, including a recently updated Counter Fraud (CF) Policy Statement and Strategy, a Money Laundering Policy and Strategy and a Fraud Response Plan.</p>

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			<p>There are various processes in place to identify and respond to risks of fraud which include the dissemination of alerts and intelligence from the National Anti-Fraud Network, and other groups to relevant managers throughout the Council. A fraud awareness e-learning package is also in place for all staff and managers. A dedicated whistle blowing line is also in place which is monitored by Audit & Assurance staff. The Council also participates in the National Fraud Initiative data matching exercise.</p> <p>The CF Strategy includes links with Legal and HR to ensure that potentially fraudulent activities are properly identified and appropriate actions taken, both in the particular case and, the implications more widely considered across the Council. Suspected and potential fraudulent activity is thoroughly investigated and prosecution/enforcement pursued where appropriate.</p> <p>Directors are also responsible for self-assessing the effectiveness of their arrangements, including this area. This is evidenced via the annual Directors Assurance Statements they complete as part of the Annual Governance process.</p> <p>The Audit & Assurance Team has staff resources available with the skills and experience required to provide support to managers to respond to instances of potential and suspected fraud and to carry out appropriate investigations.</p>
8.	What has been the outcome of these arrangements so far this year?	A&A Progress Report to Audit & Governance Committee	<p>Advice has been provided to managers on request during the year to strengthen preventative fraud controls. The 2016/17 NFI work has recently commenced and is on-going. The latest update on progress will be reported to Audit & Governance Cttee as part of the annual Counter Fraud report</p> <p>Two cases relating to direct payment/personal budget fraud have been completed. One has been concluded and recovery of an overpayment of £14,500 will be sought. The second case, with a potential value of £40,000, has been passed to the</p>

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			<p>Police for consideration. Audit & Assurance staff have also been involved in work with colleagues from ITM&G to investigate a telephone hacking incident which resulted in the loss of approximately £30,000, which occurred due to weaknesses in poor IT controls. The controls have now been strengthened to prevent a re-occurrence.</p> <p>Other cases regarding the potential falsification of time records have been investigated by HR and have resulted in a number of staff being dismissed.</p>
9.	What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?		<p>Officers reviewed the 2014 Protecting the Public Purse report and updated the accompanying checklist to assess compliance and further action. The main areas of fraud reported in the 2014 Protecting the Public Purse report, relevant to this authority have been subject to audit review in 2015/16, namely: procurement, recruitment (payroll), council tax discount/exemption, housing benefits, schools, and business rates.</p> <p>The Corporate Counter fraud (CF) Strategy was revised in June 2010 and the Whistle-blowing policy was approved by the Executive Member (Resources) in August 2013. This has been reviewed during the year to align it with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.</p> <p>The Council also has a Money Laundering Policy & Strategy in place and approved a Bribery Act Statement in January 2012. These policies have been widely communicated within the Council. The Council has a comprehensive set of Standing Financial Instructions in place which are subject to regular review including a Fraud Response Plan which sets out the procedures for responding to fraud. There are processes in place to identify and respond to risks of fraud which include the dissemination throughout the Council of alerts and intelligence from the National Anti-Fraud Network.</p> <p>A Fraud Awareness e-learning package has also been purchased and is being rolled out across the</p>

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			Council. The Council also participates in the National Fraud Initiative data matching exercise which is undertaken every two years. The CF Strategy includes links with, in particular, Legal Services and HR to ensure that potentially fraudulent activities are properly identified and appropriate actions taken, both in the particular case and, more widely. Suspected fraudulent activity is thoroughly investigated and prosecution/enforcement pursued where appropriate.
10.	Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?		The Council has a whistle blowing policy that allows staff and others to raise concerns. Two whistle blowing complaints received during the year have been passed to Audit & Assurance for consideration. These have been investigated and no fraud implications have been identified.
11.	Have any reports been made under the Bribery Act?		The Council has an anti-bribery/fraud policy which sets out the standards the Council expects from its staff, members, contractors and other stakeholders. There are also anti-bribery provisions in the Council's procurement documents and standard terms and conditions. We are not aware of any reports made under the Bribery Act 2010
12.	As a management team, how do you communicate risk issues (including fraud) to those charged with governance?		Relevant risk issues are reported to the Audit & Governance Committee at each meeting via the external auditors Update Report, the Audit & Assurance Progress Report and the Risk Management Update Report. The External Auditors Update Report highlights emerging issues and developments, including prompts and challenge questions for members to consider. The Progress Report includes an update on counter fraud, along with progress against planned work and the relevant findings from audit reviews. Senior managers are also invited to meetings to update members on key issues

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			identified in audit reports.
13.	As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?		<p>The Constitution contains codes of conduct for both Members and Officers. New members are required to accept the code of conduct as part of their induction. All Members now need to complete and submit “a notification by member of a Local Authority of personal interests” form, which includes information relating to gifts and hospitality. New appointees sign the staff code of conduct as part of induction. In addition, each Department maintains registers of gifts & hospitality and personal interests which should be reviewed annually.</p> <p>The Council has a whistle blowing policy, which is available to all staff, partners, contractors and members of the public. The pre-qualification questionnaire requires that potential Council contractors declare any fraud, bribery or corruptions offences.</p> <p>Revisions to Financial and HR policies are circulated to senior managers to cascade to their teams, along with articles in Teamtalk. The HR team also deliver bite sized training on a variety of HR policies during the year.</p>
14.	What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Annual request to Directors for details of potential contingent liabilities arising from litigation / claims is used as the basis for assessing the requirement for a financial provision or for the disclosure of contingent events made within the accounting statements	The Director of HR, Legal & Corporate Services has delegated powers under the Council's Constitution to take any action to protect the Council's legal rights and to take any necessary steps to settle disputes arising.
15.	Is there any use of financial instruments, including derivatives?	<p>Treasury Management Strategy agreed annually at Finance Council (March)</p> <p>Treasury Management Group meets regularly to review operational issues</p>	There have again been very few changes to the Council's use of financial instruments in this year. We employ the same approach to analysing debtors and creditors, and there has been no change in the type of treasury instruments used (for borrowing or investing). It is understood that, subject to final review, there were no potential derivatives (such as

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		Regular reporting to Audit & Governance Committee	forward deals outstanding at the end of the year) to be recognised.
16.	What is the current position of those issues included as contingencies and provisions at 31 March 2016?		<p>An updated position will be disclosed with regard to the Municipal Mutual Insurance (MMI) and landfill sites contingent liabilities.</p> <p>For provisions:</p> <ul style="list-style-type: none"> - Non domestic rate appeals has been re-assessed using the list of outstanding appeals at 31 March 2017 as part of year end processes - Highways and Vehicles insurance claims provisions have been re-calculated as part of year end processes. - The level of the MMI provision has been reviewed in line with the latest statement at 31/3/17. (this links in with contingent liability disclosure).
17.	Are you aware of any significant transactions outside the normal course of business?		<p>The phased implementation of the Council's new financial ledger and cash management systems will involve the transfer of data between the old and new systems in order to ensure that a full years' data is held in Masterpiece.</p> <p>There have been no Academy conversions this year.</p>
18.	Are you aware of any changes in circumstances that would lead to impairment of non-current assets?		<p>We are not aware of any significant transactions outside the normal course of business.</p>
19.	Are you aware of any guarantee contracts?		<p>Although Legal Services have been asked to advise on arrangements where the Council would potentially be providing guarantee or security (e.g. guarantor on leases), we are not aware of such agreements being implemented.</p>
20.	Are you aware of allegations of fraud, errors, or other irregularities during the period?		<p>The only issues we are aware of during the period are those referred to in the response to point 8 above.</p>

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21.	Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?		<p>Legal Services are often involved in advising client departments on compliance with relevant laws and regulations, and any corrective action where there has been non-compliance. These matters include procurement law, local government law, governance etc.</p> <p>Legal checks are also carried out on most decision reports (Exec Member/Exec Board) to ensure that the recommendations are legally sound, correct processes/procedures have been followed, and the Council's interests (commercial and otherwise) are protected. Qualified legal officers also attend decision-making committees to monitor the lawfulness of the decision-making process and provide any advice that may be required by the decision-making body. Legal officers also attend other committee meetings to monitor and ensure that the proceedings are fairly conducted and in accordance with relevant legislation.</p>
22.	Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?		We have not received any reports from other regulatory bodies, which may indicate non-compliance.
23.	Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?		We are not aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.
24.	Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?		Estimates are made taking into account historical experience, current trends and other relevant factors. However balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates and any items that may be impacted are raised in the statement of

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			accounts
25.	Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?		We are not aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements.
26.	Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?		<p>The Financial Strategy considers the financial position of the Council over the short and medium term and is designed to ensure that the Council continues as a going concern. The Audit & Assurance Plan includes a number of reviews, which cover elements of the Financial Strategy to ensure that it is being delivered and to highlight at an early stage any unforeseen risks. The monitoring of the Financial Strategy will involve: (i) Close monitoring of the Council's budget to ensure spending is contained within budget. (ii) Ensuring balances are maintained at an adequate level, and unallocated reserves do not fall below the minimum required (iii) Three year cash flow profile and monitoring against this.</p> <p>Management are not aware of any events or conditions that may cast doubt on the Council's ability to continue as a going concern.</p>
27.	Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?		<p>Partnership Review - Addleshaw Goddard</p> <p>Various property matters/litigation – DAC Beachcroft</p> <p>Bus station dispute - DWF LLP/Blake Morgan LLP</p> <p>State-Aid advice – DWF LLP</p>

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Ref	Auditor Question	Source of Assurance	Response 2016/17
28.	Can you provide details of other advisors consulted during the year and the issue on which they were consulted?		<p>Price Waterhouse Coopers – Leisure VAT advice</p> <p>PS Tax - Post office VAT claim</p> <p>Capita review – Addleshaw Goddard, New Networks, Best Practice Group</p> <p>Treasury Management Advice – Arling Close</p> <p>Tax Advice – LCC</p> <p>Leasing advice – Chrystal Consulting</p>
29.	Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements of the Council?		None have been reported.