

Audit Committee

Tuesday, 09 January 2018

18:00

Meeting Room A, Blackburn Town Hall

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PART 2: ITEMS FOR CONSIDERATION IN PRIVATE

Date Published: Tuesday, 02 January 2018
Harry Catherall, Chief Executive

AUDIT COMMITTEE
Tuesday, 19th September 2017

PRESENT – *Councillors Sidat (in the Chair); Casey, Whittle, McGurk, Murray, and D Foster.*

ALSO PRESENT

Councillor Kay	–	Executive Member Resources
Karen Murray	–	District Auditor
Neil Krajewski	–	District Auditor
Louise Mattinson	–	Director of Finance and IT
Colin Ferguson	–	Head of Audit and Assurance
John Addison	–	Democratic Services Manager

RESOLUTIONS

13 Minutes of the meeting held on 13th June 2017

The minutes of the meeting held on 13th June 2017 were agreed as a correct record.

At this point in the meeting the Chair requested that the External Auditors leave the room while the Director for Finance updated the Committee on the Appointment of External Auditors once the Councils current contract expired. It was noted that the Council had awarded its contract to Grant Thornton.

14 Declarations of interest

There were no declarations of interest.

15 External Audit: Findings Report 2016/17

The Council's External Auditors provided Members with a joint Findings Report for 2016/2017 and Value for Money report. The Findings Report summarised the outcomes from the 2016/17 audit, which was substantially complete. It also included messages arising from the auditing of the Council's financial statements and the results of the work External Audit had undertaken to assess Council arrangements to secure value for money in the use of resources.

It was reported that in terms of value for money, based on External Audits work, and having regard to the guidance on the specified criteria published by the Audit Commission, it was noted that External Audit were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

RESOLVED:

- 1) That That the External Audit joint report on Value for Money for Blackburn with Darwen Borough Council and the Findings Report 2016/2017 be noted.
- 2) That the Director of Finance and the Audit Department be thanked for hard work and support during the external audit process.

16 Statement of Accounts 2016/17

The Deputy Chief Executive gave a presentation on the Statement of Accounts for 2016/17 and submitted a report summarising the main features of the document.

The Statement of Accounts outlined the main features of the Council's financial performance for the year ending 31st March 2017 and provided information relative to the Council's financial position at that date.

It was noted that Accounts and Audit Regulations 2016 require that the accounts should be considered and approved by Members prior to publication by the 30th September following the year to which they relate. This was to enable the Audit and Governance Committee to review and approve the accounts, having considered the issues raised by the auditors in the Audit Findings Report.

Members were reminded that the 2016/17 Draft Statement of Accounts was certified by the Director of Finance on 23rd June 2017, and subsequently published on the Council's website.

The Committee was informed that the Council's Better Care Fund (BCF) which was a pooled budget arrangement with Blackburn with Darwen Clinical Commissioning Group (CCG), it was noted that the Council should only account for its share of income and expenditure. However, the accounts included the full amount of BCF deposited in the pooled fund as income, and the transactions to transfer funds to the CCG as gross expenditure. As a result both income and gross expenditure have been overstated, although there is no impact on the outturn position of the Council.

The Committee agreed to the approval of the accounts once the agreed changes relating to the Better Care Fund have been processed.

RESOLVED

- 1) That the Committee notes the outcome of the audit of the Council's financial statements and the Value for Money conclusion as

presented by Grant Thornton in their Audit Findings Report for 2016/17 (Minute number 15).

- 2) That the Committee approves the Statement of Accounts, including the annual governance statement for 2016/17.
- 3) That the Committee approves the letter of representation from the Director of Finance & I.T. to the external auditors.
- 4) That the Committee approves notes that the future change to the timescales for approval and publication in 2017/18.

17 Treasury Management Report – June to August 2017

The Deputy Chief Executive provided the Committee a report on the Treasury Management Quarterly report covering the period June 2017 to August 2017.

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 2017/18 Treasury Management Strategy at Finance Council in February 2017. The CIPFA Code, Investment Guidance issued by the Department for Communities and Local Government (CLG) and the Audit & Assurance review of Treasury Management activities, all Members recommend an enhanced role for elected Members in scrutinising the Treasury Management function of the Council.

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

RESOLVED

That the Committee to note the Treasury Management position over the quarter from June 2017 to August 2017.

18 Draft Treasury Management Annual report 2016/17 and Mid-Year Review 2017/18

The Deputy Chief Executive provided the Committee with the Annual Treasury Management Report for 2016-17 and Mid-Year Treasury Strategy Review for 2017/18.

Members were reminded that as the body responsible for scrutiny of the Treasury Management function, they are asked to consider key issues in the Treasury Management Outturn Report for 2016-17 and Mid-Year Strategy Review for 2017-18, ahead of consideration by full Council.

RESOLVED

That the Committee approve the draft Treasury Management Outturn for 2016-17 and Mid-Year Strategy Review for 2017-18 and that it be submitted to the Council for approval on 5th October 2017.

19 Audit & Assurance–Progress & Outcomes to 31 August 2017

The Head of Audit & Assurance 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.

Members were asked to consider and challenge the outcomes achieved to 31 August 2017 against the Audit & Assurance Plan. The report focused on a number of key areas in Audit & Assurance Plan, in particular:

- Growth Strategy Programme:
- Private Care Homes Contract Payments:
- Cyber risk
- Budgetary Control
- Payroll Core System

RESOLVED

That the Committee note the outcomes achieved to 31 August 2017 against the Audit & Assurance Plan, which was approved by Committee in April 2017.

20 Risk Management – 2017/18 Quarter 1 Review

The Head of Audit & Assurance provided the Committee with a report that detailed risk management activity that had taken place over the first quarter (1 April 2017 to 30 June 2017).

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 risk was:

- High profile serious/critical safeguarding incident/case

RESOLVED

That the Committee note the progress made on the Corporate Risk Register as at the end of Quarter 1 2017/18; and the risk management activity that has occurred during the period.

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

The Annual Audit Letter for Blackburn with Darwen Borough Council

Year ended 31 March 2017

October 2017

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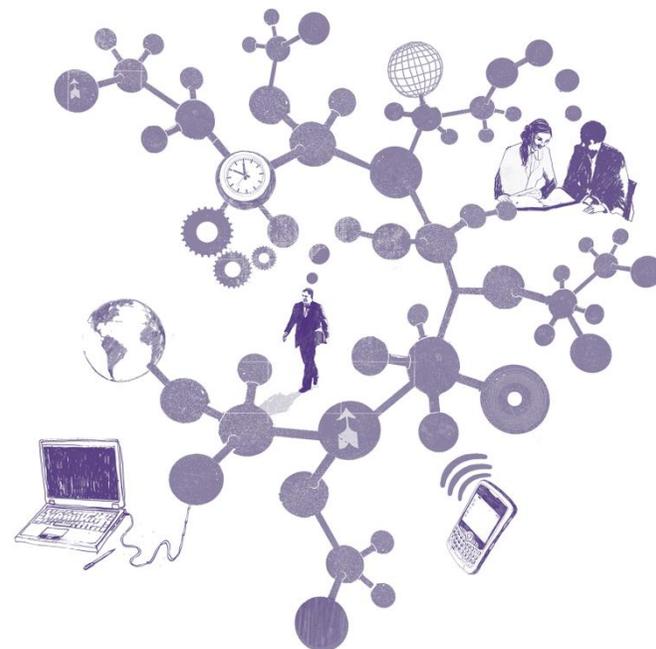
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Blackburn with Darwen Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 19 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 25 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 25 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Blackburn with Darwen Borough Council in accordance with the requirements of the Code on 27 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Working with the Council

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £8,729k, which is 2% of the Council's gross revenue expenditure in the previous year's audited accounts. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality of £20,000 for related party transactions and senior officer remuneration.

We set a lower threshold of £436,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

Our audit approach was based on a thorough understanding of the Council's business and is risk-based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

Table 1: Accounts Risks - These are the risks which had the greatest impact on our overall audit strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. We undertook procedures to confirm the reasonableness of the actuarial assumptions made. We reviewed 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. 	<p>We did not identify any concerns arising from this work to report to the Audit and Governance Committee.</p>
<p>Valuation of property plant and equipment</p> <p>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>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from current value at year end and assessed whether these controls are implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We reviewed management's processes and assumptions for the calculation of the estimate. We reviewed the competence, expertise and objectivity of any management experts used. We reviewed the instructions issued to valuation experts and the scope of their work. We carried out sample testing to obtain assurance over the accuracy of valuations recorded in the Asset Register by tracing the valuations in the register back to reports received from the valuer. We discussed with the valuer the basis on which his valuation had been undertaken and the challenged the key assumptions. We reviewed and challenged the information used by the valuer to inform their valuations to ensure it was robust and consistent with our understanding. We evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to carrying value. 	<p>Following discussion with management, the Council processed changes to the Property, Plant and Equipment note to disclose those assets owned by the Council which met the definition of a surplus asset in accordance with the Code.</p> <p>We obtained the assurances we requested from the valuer regarding the valuation base used as part of the Council's programme of rolling valuations.</p> <p>Management were able to demonstrate that it had appropriate processes in place to ensure that where assets had not been revalued in the year the movement between the date of the last valuation and the Balance Sheet date was not material.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 25 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 19 September 2017.

In addition to the key audit risks reported above, we identified the following adjustments during our audit:

- the Council participates in a pooled fund arrangement with Blackburn with Darwen Clinical Commissioning Group. The Council had recognised the full amount of income and expenditure attributable to the pooled fund whereas accounting standards require that the Council recognise only its share of income and expenditure. Adjustments to the financial statements were agreed with management which reduced income and expenditure by £5.84M. There is no overall impact on the Council's financial performance as income and expenditure were reduced by the same amount.
- we agreed with management that the Council had overstated its provision for appeals against the rateable values used to calculate business rates. The overstatement arose from an error in the approach used to exclude duplicate appeals. The overstatement is not material therefore we agreed that the required changes could be processed in the 2017/18 financial year.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 27 September 2017.

Other statutory duties

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

We did not use these powers.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risk where we concentrated our work.

The key risk we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects [the Council put in place](#) proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Table 2: Value for money risks – This is the risk area we identified for detailed consideration in order to provide our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
<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 Medium Term Financial Strategy (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 forecast 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 represented a significant challenge to the Council.</p>	<ul style="list-style-type: none"> • We reviewed the details to support the required savings in 16/17 including financial and budget reporting to members • We assessed the outturn position for 2016/17 and the budget plans for 2017/18 to 2019/20 • We met with key officers to discuss plans/proposals 	<p>The Council has had arrangements in place for a number of years to drive changes to its models of service provision in order to reduce net expenditure to cope with sustained reductions in central government funding.</p> <p>For 2016/17 the Council's savings target was £13.8m. There were three principal elements to the target:</p> <ul style="list-style-type: none"> • £6.7m related to the second year of a three-year £26m savings programme which started in 2014; • £3.6m of in-year savings; and • £3m of savings relating to a workforce review. This forms part of a £15m savings programme covering the 2016/17 and 2017/18 financial years. <p>Management reported to members in the outturn report in July 2017 an overspend on cash-limited expenditure of £1.434m, equivalent to 1.25% of the budget. This was mainly due to continuing pressure on the Health and Adult Social Care Directorate. This overspend has been funded from the Council's reserve balances.</p> <p>However, changes to the Council's minimum revenue provision policy, one-off government grant receipts and the release of contingencies meant that, even after covering this overspend, the unallocated reserve balance at the year-end was £1.2m more than that forecast in February 2017. Total unallocated reserves, as at 31 March 2017, are £6.189m.</p> <p>During the year, work has been undertaken by senior officers to develop robust mechanisms for making further savings. Internal project management support is in place across the Council to ensure savings plans are subject to appropriate review and challenge. For 2017/18, the workforce review is expected to generate savings of £6.278m which equates to 50% of the required savings for the year. However, internal reporting at March 2017 suggested this target will be challenging because some of the savings schemes are still at a relatively early stage of development. We understand management are continuing to assess whether the original savings can be realised or whether alternative savings schemes will need to be put in place.</p> <p>The Council recognises the challenges facing the Health and Adult Social Care directorate. The 2017/18 budget has therefore increased by £3m from the amount in the Medium Term Financial Strategy presented in February 2016. The demand and cost pressures facing the directorate mean that savings will still need to be found to contain expenditure within the budget allowed.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions (continued)
		<p>The Council is working with its partners in the NHS to take forward changes in the wider system intended to reduce service users' level of dependency and make more effective use of the available resource. The Government announced a £3.590m increase to the Improved Better Care Fund for 2017/18 in the Spring Budget, i.e. after the Council had set its budget. This funding is non-recurring although amounts of £2.186m and £1.081m will be paid in 2018/19 and 2019/20 respectively but again on a non-recurring basis. The Council and Blackburn with Darwen CCG have been working together with health and adult social care colleagues across Pennine Lancashire to develop proposals to utilise this funding to meet increasing adult social care needs, to reduce pressures in the NHS and to stabilise the social care provider market across the borough.</p> <p>Given the financial pressures from increasing demand, management needs to ensure that all directorates remain focused on delivering the savings set out in the MTFs.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	102,839	102,839	102,839
Grant Certification	14,910	14,910	15,413
Total fees (excluding VAT)	117,749	117,749	118,252

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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'.

Reports issued

Report	Date issued
Audit Plan	11 April 2017
Audit Findings Report	19 September 2017
Annual Audit Letter	17 October 2017

Fees for other services

Service	Fees £
Audit related services:	
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Teachers Pension Return (work completed November 2016) 	4,200
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Regional Growth Fund claim (work completed September 2016) 	2,100
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Transport Grant (work completed December 2016) 	3,875
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2016-7 Regional Growth Fund claim (work completed June 2017) 	2,350
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2016-17 Teachers Pension Return (service agreed in principle, due to be completed by 30 November 2017) 	4,200 (estimated)
Non-audit services	
<ul style="list-style-type: none"> Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software (three-year subscription agreed which commence from 1 April 2017). 	24,000 (for 2017-18 subscription)
Total Fee for Other Services	40,725

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as set in the table on the following page.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services				
Independent reasonable assurance reports in respect of: Teachers Pensions (2015/16 and 2016/17) Regional Growth Fund (2015/16 and 2016/17) Transport Grant (2015/16 only)	Blackburn with Darwen Borough Council	16,725	Self-interest	The fees in respect of Teachers Pension are recurring at an estimated £4,200 per annum. The fees relating to the Regional Growth Fund and the Transport Grant are non-recurring for future financial years as the associated projects have now ended. Therefore, while the recurring nature of the fee for Teachers Pensions presents a self-interest threat this is not considered a significant threat to independence as the fee for this work of £4,200 in comparison to the total fee for the audit of £117,749 and in particular to Grant Thornton UK LLP's turnover overall. Furthermore, the work is on audit related services, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit services				
Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software	Blackburn with Darwen Borough Council	24,000	Self-interest	This service is provided by a separate team within Grant Thornton UK LLP. There is no exchange of information relating to the audit between the two teams and therefore no impairment of auditor independence. The Council has agreed to purchase the service for a three-year period which also mitigates the degree of self-interest as there is no risk to the firm of the Council not renewing the subscription.
	TOTAL	£40,725		



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Audit Progress Report and Sector Update

Blackburn with Darwen Borough Council
Year ending 31 March 2018

December 2017



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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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.

Progress at 20 December 2017

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit. We will issue a detailed audit plan to management setting out our proposed approach to the audit of the Council's 2017/18 financial statements by 28 February 2018. The plan will be considered by the Audit Committee at its meeting in April 2018.

We are due to commence our interim audit in February 2018. Our interim fieldwork visit will include:

- 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

We will report any findings from the interim audit to you in our Progress Report at the April Audit committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We will continue to discuss and update our plans to ensure we are able to adhere to the amended timetable. The final accounts audit is due to begin in June 2018 with findings reported to you in the Audit Findings Report by the earlier deadline of 31 July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will make our initial risk assessment to determine our approach in January 2018 and report this to you as part of our audit plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

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Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with the Finance team in November to revisit the 2016/17 audit and assess the steps that can be taken to further enhance audit efficiency. In December, we met with your Director of Finance and IT to get an update on the progress that has been made to update Medium Term Financial Strategy. We will continue to meet with key officers frequently to discuss issues as they emerge during the audit process and to inform our ongoing risk assessment.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event are the Chief Accountant workshops which will be held across the North in early 2018. The key members of your finance team will be invited to this event.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	April 2018	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	November 2018	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Through a local lens: SOLACE summit 2017



The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)



Commercial Health Check: commercial investments and governance



Our latest health check report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less



[Click on the report cover to download and read more](#)

Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



Cost Assurance



Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Setting up a successful social enterprise



Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

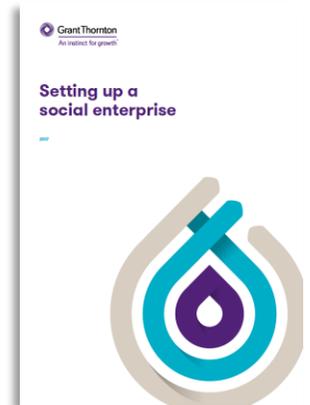
Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended.

The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

[Click on the report cover to download and read more](#)



Grant Thornton Publication



Challenge question:

Is your local authority looking to transition a public service to a social enterprise model, and if so are you familiar with this report?

Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available [here](#).

CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

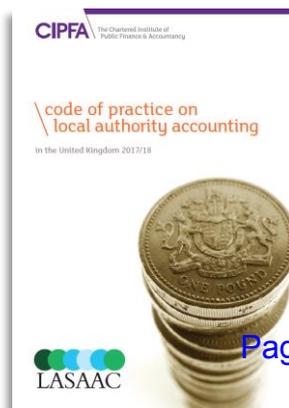
Looking further ahead, this sets out the changes to the 2018/19 Code in respect of [IFRS 9 Financial Instruments](#) and [IFRS 15 Revenue from Contracts with Customers](#). It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.



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CIPFA Publication

Challenge question:

Are your finance team aware of the changes affecting the preparation of the financial statements for 2017/18 and the forthcoming changes to financial instruments and revenue recognition.



Overview of General Data Protection Regulation (GDPR)

What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

GDPR

Challenge question:

Can your authority effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

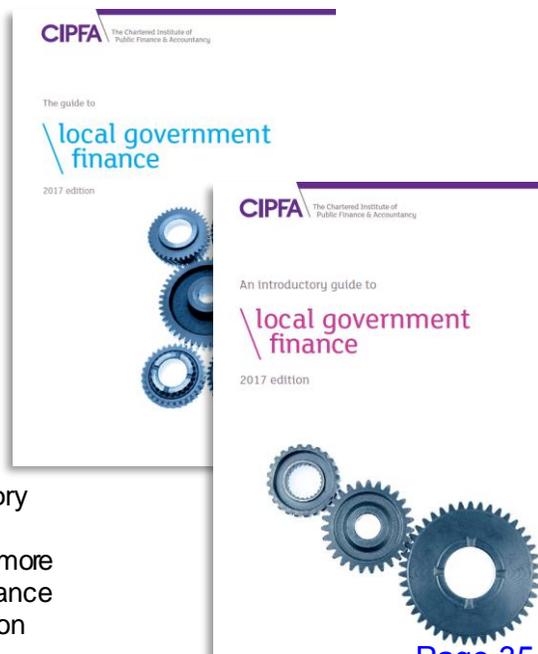
CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



Page 35 of 98

CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

CIPFA Publication

Challenge question:

Are these publications of use to you?



DCLG Consultation

DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

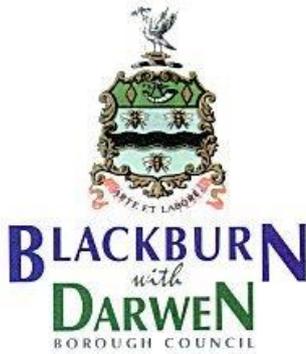
<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>



BRIEFING PAPER

REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance and IT

DATE: 9th January 2018

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2017/18

Based on monitoring information for the quarter 1st September 2017 – 30th November 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 2017/18, approved at Finance Council in February 2017, 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 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

The Bank of England's Bank Rate increased to 0.50% at the start of November, the first change since the fall to 0.25% in August 2016. Market interest rates, including the cost of government borrowing, continued to fluctuate, reacting to political events and economic expectations. From a broad perspective, rates remain at low levels, but are now showing signs of moving upwards.

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 (adjusted for anticipated borrowing).

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on such investments were low, but started to increase after the Bank Rate change with MMF rates increasing to around 0.27%. One bank account has increased its rate to 0.40% (from 0.15%) while our other two bank accounts are still paying 0.15% and 0.05%, but both with an expectation of a small upward change soon.

For limited periods, funds were also placed with the Government’s Debt Management Office (at 0.25%). The only other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
19-Sep-17	29-Dec-17	Thurrock Council	3,000,000	0.24%
27-Oct-17	21-Dec-17	London Borough of Haringey	5,000,000	0.25%
17-Nov-17	23-Feb-18	National Counties Building Society	1,000,000	0.57%

At 30th November, the Council had approaching £25 M invested, up from around £20 M at the start of the period. Appendix 2 shows the breakdown of the investment balance at the end of the period. The Council’s return over the 3 months was around 0.20% (having increased in November).

For comparison, benchmark LIBID (London Interbank Bid) rates also remained low. Average rates for 1 month’s lending were around 0.22% (having risen to 0.37% by period end), and for 3 months were around 0.28% (having risen to 0.40% by period end).

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. Average PWLB borrowing rates remain historically low, but moved up in September, and have fluctuated since then. Based on the cost of a new “maturity” loan to the Council, 5 year loan costs increased, recently averaging c. 1.6% (usually between 1.5% and 1.7%), while loans from 20 to 50 years also cost more, recently averaging around 2.6% (ranging between 2.4% and 2.8%)

Short term borrowing rates - based on loans from other councils – remained fairly low, but moved up as investment rates moved up. By the end of November, 3 month loans could typically cost around 0.45%, while 6 month/ 1 year loans were between 0.55% and 0.75%.

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 more than £88M below the CFR at the start of 2017/18, (as the CFR increased and long term debt was repaid). The Council has taken no new long term borrowing for several years, and is repaying existing debt at maturity.

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 earn), and
- (b) fewer funds held, so a lower risk from default on funds invested.

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 to anticipate future borrowing needs.

Over the period, there was an increase in short term borrowing of £5M, as loans of £14M of were repaid and **£19M of new loans** were taken (listed below).

New loans taken in the period				
Start Date	End Date	Counterparty	Amount £	Rate
29/09/2017	19/03/2018	Basildon	2,000,000	0.35%
17/10/2017	17/04/2018	Basildon	3,000,000	0.35%
29/10/2017	28/10/2018	Oxfordshire County Council	5,000,000	0.45%
30/10/2017	30/04/2018	Kent Police Authority	3,000,000	0.35%
30/10/2017	30/07/2018	Kent Police Authority	3,000,000	0.38%
30/11/2017	29/03/2018	Gwent Police authority	3,000,000	0.27%
			19,000,000	

Future deals already agreed by end of period				
Start Date	End Date	Counterparty	Amount £	Rate
31/01/2018	18/10/2018	Oxford City Council	3,000,000	0.60%
19/02/2018	25/10/2018	Oxfordshire County Council	5,000,000	0.60%
28/02/2018	31/08/2018	Gwent Police authority	5,000,000	0.50%
23/02/2018	09/11/2018	Oxfordshire County Council	5,000,000	0.65%
			18,000,000	

<u>4.5 Analysis of debt outstanding -</u>	<u>31st August 2017</u>		<u>30th November 2017</u>	
	£000	£000	£000	£000
TEMPORARY DEBT				
Less than 3 months	0		0	
<u>Greater than 3 months (full duration)</u>	<u>59,250</u>		<u>64,250</u>	
		59,250		64,250
LONGER TERM DEBT				
Bonds	21,503		21,503	
Mortgages	17		17	
PWLB	105,345		104,564	
<u>Stock & Annuities</u>	<u>258</u>		<u>258</u>	
		127,123		126,342
Lancs County Council transferred debt		15,832		15,672
<u>Recognition of Debt re PFI Arrangements</u>		<u>67,842</u>		<u>67,417</u>
TOTAL DEBT		270,047		273,681

Less: Temporary Lending - fixed term	(12,000)	(9,000)
- instant access	(10,095)	(15,850)
NET DEBT	244,591	248,831

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) £105M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, while EIP (Equal Instalment of Principal) loans range from 1.94% to 3.77%.
- (c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year – charged provisionally at 2%.
- (d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use those new school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over and use of these assets is thereby shown “on balance sheet”, with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax payer as these are incurred through the payments made from the PFI contractor (and are largely offset by PFI grant funding from the Government).

4.6 Issues to note in the period

Over the period as a whole, net borrowing increased as did cash balances. Sufficient loans have been agreed to cover most of the rest of this financial year, but some extra borrowing will probably be needed across the financial year end. 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 still be taken.

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

The Government has consulted local authorities over planned changes it intends to make to its Investment Guidance and Statutory Guidance on Making MRP (Minimum Revenue Provision). There are some concerns over the draft proposals issued by the Government, which both the LGA and Arlingclose addressed in their responses. If the Government does not take on board the feedback it has received, there could be some uncertainty over the ability of local authorities to invest in property with a view to making a return, and over how councils will exercise oversight over prudential investment decisions. The impact on this Council’s current financial standing would not be significant, but it could limit the range of options open in future. As the consultation has closed, we are waiting to see what the Government will do.

4.7 MiFID II Regulations

EU regulations have changed, from January 2018, the way local authorities can access some financial services, with a need for councils to go through a process of “opting up” to professional status to be able to continue to access the full range of investment options. Most of the parties that the Council has dealt with had, before MiFID II, effectively assumed that councils would have the necessary competencies.

In line with the overwhelming majority of local authorities, we intend to “opt up”. The main consequence is that the Council will maintain a minimum investment balance of at least £10M. As the Council’s investment balance has only rarely fallen below that level – because we ensure that we have adequate liquidity to cover unexpected expenditure – this is not a major issue.

4.8 Forthcoming Treasury Management Strategy for 2018/19

The Council's proposed Treasury Management Strategy, Treasury and Prudential Limits, together with its MRP Policy for 2018/19 will be submitted to Finance Council in February 2018. There is some uncertainty about the exact form these proposals will take, as we wait for both the new CLG Investment and MRP Guidance, and for new CIPFA Codes of Practice. The Council is obliged to have regard to both CLG and CIPFA guidance, but may need to base its initial strategy for 2018/19 on the basis of existing standards, and deal with any changes that may be required in the new financial year.

The context for the Treasury Management Strategy is similar to that of previous years, with low interest rates, and a premium on minimising the costs of net borrowing. The main banks are in process of ring-fencing, leaving the split between retail and investment banks unclear, but the challenges of seeking to make investments in such a way as to prioritise security and liquidity ahead of yield remain unchanged. The basic shape, intent and levels of investment limits are therefore unlikely to change from those in previous years.

The Council will also remain a net borrower, seeking to minimise the costs of borrowing, with a heavy emphasis on continuing to take short term borrowing at relatively low interest rates, so long as that remains possible.

Having extensively reviewed the Council's MRP Policy in recent years, it is not expected that there will be any significant changes proposed to existing policy.

4.9 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the previous and current year.

Movements in the key indicator – Overall Borrowing against Borrowing Limits – are shown as the first graph in Appendix 4. Our total borrowing at 30th November 2017 was £273.7M, well within our Operational and Authorised Borrowing Limits for 2017/18 (£312.8M and £322.8M respectively). The Authorised Borrowing Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

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.

When the Mid-Year Treasury Management Strategy was approved by Council in October, two of the original Limits set for 2017/18 were amended, to allow for the higher level of short term borrowing being taken by the Council. One was part of the controls over the Maturity Structure of Borrowing - the **Limit to the proportion of debt held of less than 1 year's duration** was increased from 35% to 45%.

Short term borrowing currently represents the best value option for financing changes to the Council's overall indebtedness. The level of debt also reflects, for instance, the borrowing taken to make savings by making an early payment towards pension costs (for this and the next two years).

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £52.4M, against the **Revised Limit** set for this year of £90M (up from £54.2M).

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).

Our **Fixed Interest Rate Exposure** fell to around £114.8M, against the 2017/18 limit of £220 M. This indicator effectively mirrors 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 decades led the Council to hold a large part 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
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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
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9. CONSULTATIONS	None
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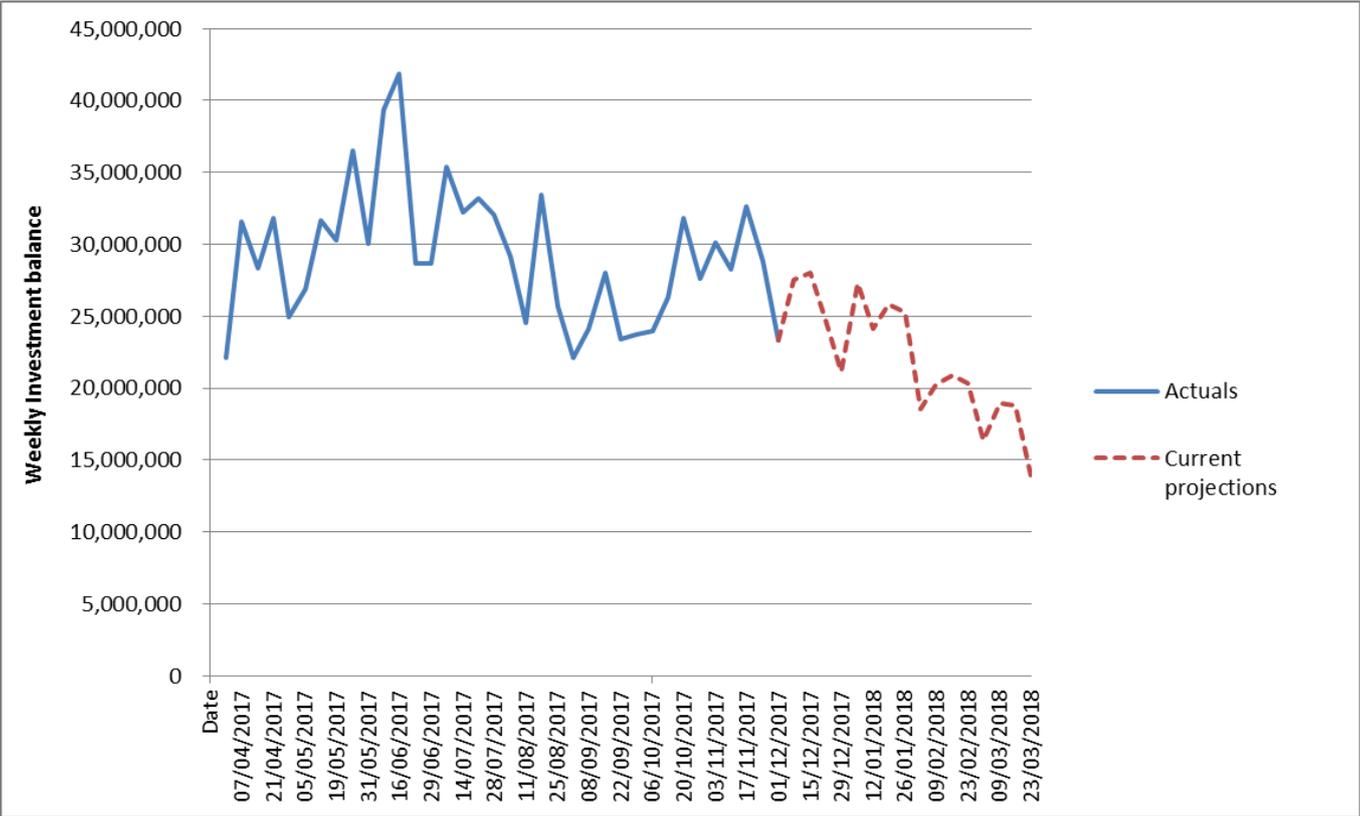
10. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

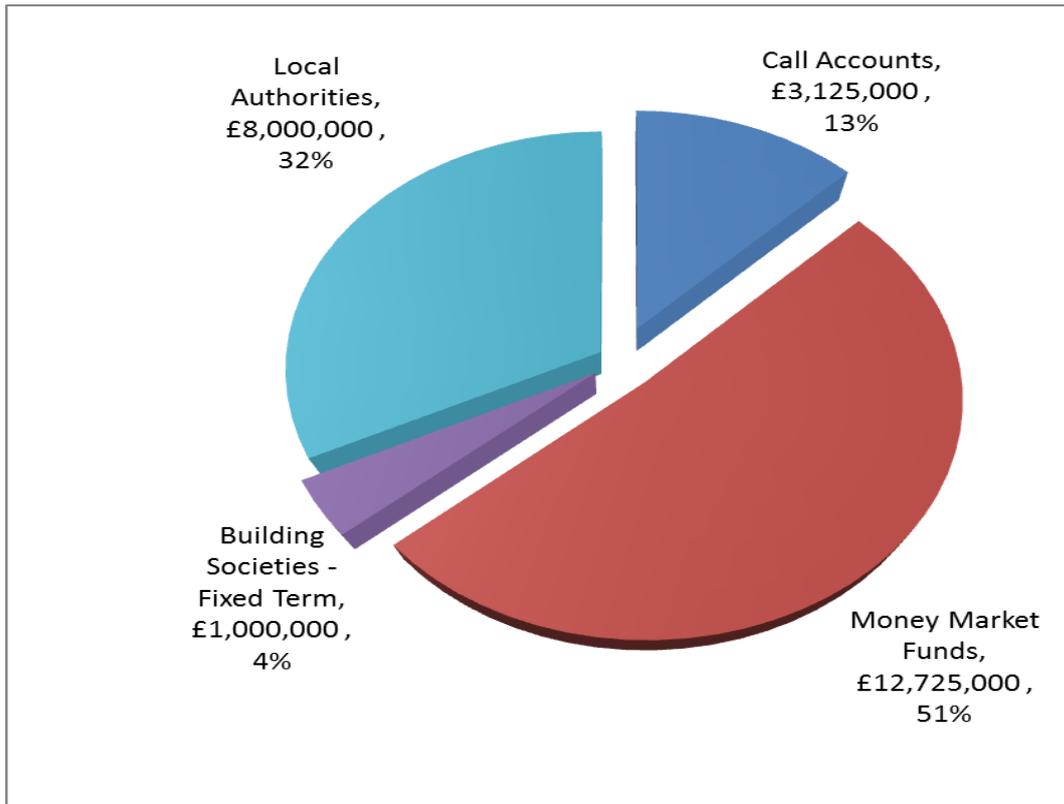
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CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager	extn 5303
	Louise Mattinson - Director of Finance and IT	extn 5600
DATE:	15 November 2017	
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 27th February 2017	

Weekly Investment balances

2017/18



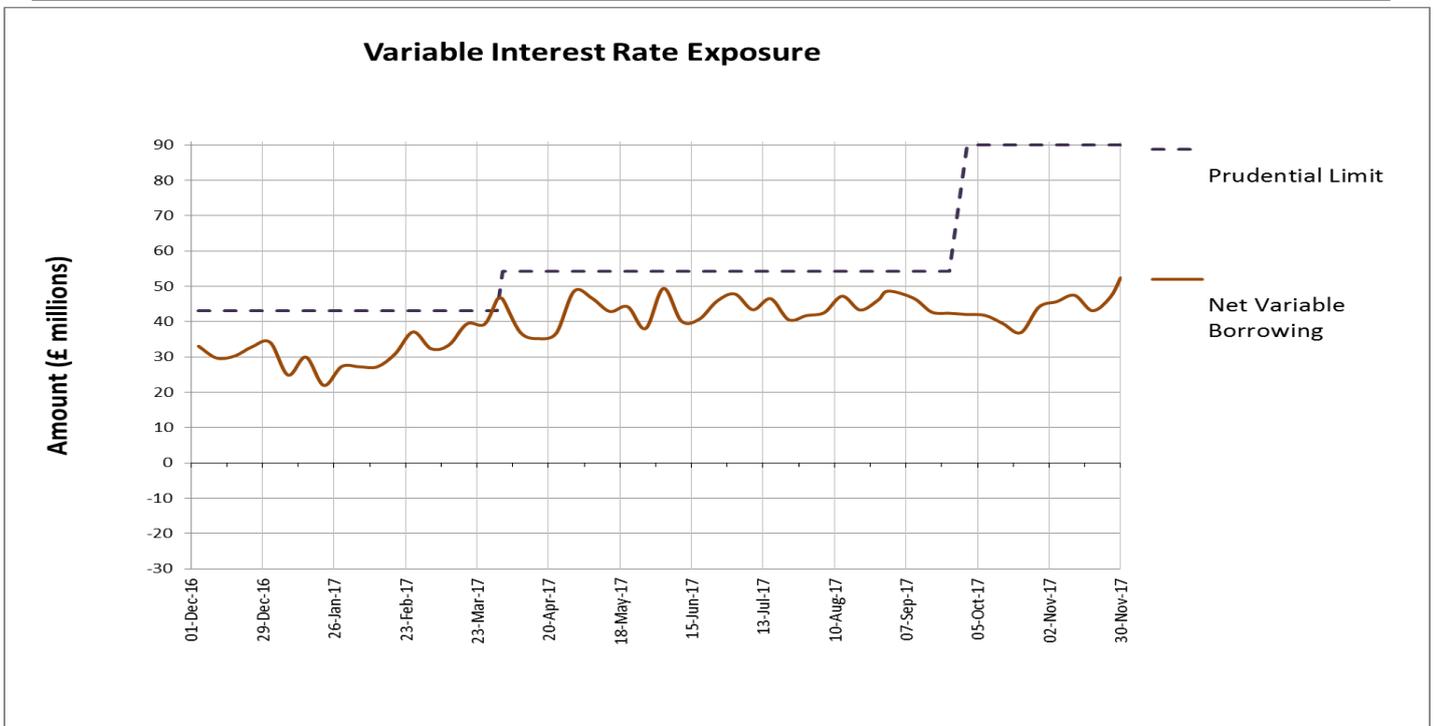
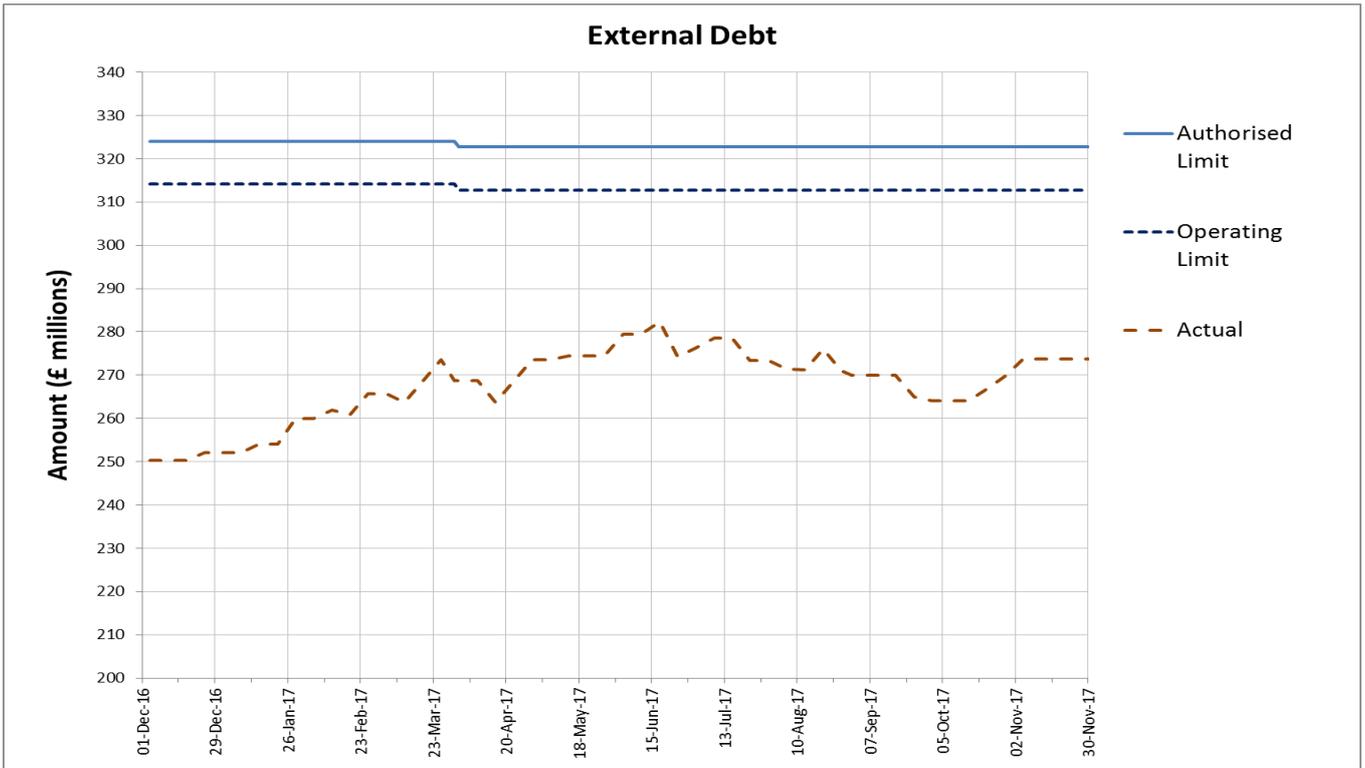


	Indicator 2017/18	As approved Feb 17	Current Monitoring	Commentary																																									
	Local Authority has adopted CIPFA 1 Treasury Management Code of Practice	Latest edition of CIPFA TM Code of Practice adopted March 2012																																											
PRUDENTIAL INDICATORS	2 Estimated Capital Expenditure	£21.2 Million	November Executive Board - £28 M																																										
	3 Estimated total Capital Financing Requirement at end of year	£307 Million (incl projections re LCC debt £16M and accumulated PFI / Lease debt £69.8M)	these indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year																																										
	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	14.73% (Main Programme Capital Spend)																																											
	6 Outturn External Debt prudential Indicators	<table border="1"> <tr> <td>LCC Debt</td> <td>16.0M</td> </tr> <tr> <td>PFI elements (no lease)</td> <td>69.8M</td> </tr> <tr> <td>Remaining elements</td> <td>227.0M</td> </tr> <tr> <td>Operational Borrowing Limit</td> <td>312.8M</td> </tr> <tr> <td>Authorised Borrowing Limit</td> <td>322.8M</td> </tr> </table>		LCC Debt	16.0M	PFI elements (no lease)	69.8M	Remaining elements	227.0M	Operational Borrowing Limit	312.8M	Authorised Borrowing Limit	322.8M	<table border="1"> <tr> <th>Borrowing to date</th> <th>£M</th> </tr> <tr> <td>LCC Debt</td> <td>15.7</td> </tr> <tr> <td>PFI Elements</td> <td>67.4</td> </tr> <tr> <td>BwD</td> <td>190.6</td> </tr> <tr> <td>Total</td> <td>273.7</td> </tr> </table>	Borrowing to date	£M	LCC Debt	15.7	PFI Elements	67.4	BwD	190.6	Total	273.7	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made																				
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TREASURY	7 Variable Interest Rate Exposure	£90 Million <i>(increased from original 54.2 Million)</i>	Exposure to date	£52.4 M	Limit not breached during the year																																								
	8 Fixed Interest Rate Exposure	£220.2 Million	Exposure to date	£114.8 M	Limit not breached during the year																																								
	9 Prudential limits for maturity structure of borrowing	<table border="1"> <thead> <tr> <th>Lower Limit</th> <th>Upper Limit</th> <th>Period (Years)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>45%</td> <td><1</td> </tr> <tr> <td>0</td> <td>20%</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> </tbody> </table>	Lower Limit	Upper Limit	Period (Years)	0	45%	<1	0	20%	1-2	0	30%	2-5	0	30%	5-10	25%	95%	>10	<table border="1"> <thead> <tr> <th colspan="3">Actual maturity structure to date</th> </tr> <tr> <th>Period (Years)</th> <th>£M</th> <th>%</th> </tr> </thead> <tbody> <tr> <td><1</td> <td>66.1</td> <td>34.7</td> </tr> <tr> <td>1-2</td> <td>4.1</td> <td>2.2</td> </tr> <tr> <td>2-5</td> <td>4.3</td> <td>2.3</td> </tr> <tr> <td>5-10</td> <td>18.1</td> <td>9.5</td> </tr> <tr> <td>>10</td> <td>98.0</td> <td>51.4</td> </tr> <tr> <td>Total</td> <td>190.6</td> <td>100.0</td> </tr> </tbody> </table>	Actual maturity structure to date			Period (Years)	£M	%	<1	66.1	34.7	1-2	4.1	2.2	2-5	4.3	2.3	5-10	18.1	9.5	>10	98.0	51.4	Total	190.6	100.0
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10 Total investments for longer than
364 days

£7 Million

NO LONG TERM INVESTMENTS MADE



Key considerations and likely approach to the 2018/19 Treasury Management Strategy

The Council must, before the start of each new financial year, set out a Treasury Management Strategy, to include Treasury Management Indicators; Prudential Indicators to help it manage its Capital Programme and associated borrowing; and its Policy for Charging MRP (Minimum Revenue Provision). In doing so, it acts on the basis both of CIPFA Codes of Practice and CLG Guidance. Both sets CIPFA and CLG Guidance are currently under review, with changes potentially impacting from 2018/19. The Council is obliged to have regard to this guidance.

Arlingclose, the Council's treasury advisers, recommend that we wait for the revised Code and Guidance to be published before taking any action.

It is even possible that the Council may determine its Treasury Strategy and Indicators, Prudential Indicators and MRP Strategy on the basis of current guidance, amending them as required in the new financial year.

The context for the Treasury Management Strategy is similar to that of previous years, with low interest rates, and a premium on minimising the costs of net borrowing. The main banks are in process of ring-fencing, leaving the split between retail and investment banks unclear, but the challenges of seeking to make investments in such a way as to prioritise security and liquidity ahead of yield remain unchanged.

The basic shape, intent and levels of investment limits are therefore unlikely to change from those in previous years.

The Council will also remain a net borrower, seeking to minimise the costs of borrowing, with a heavy emphasis on continuing to take short term borrowing at relatively low interest rates, so long as that remains possible.

Having extensively reviewed its MRP Policy in recent years, it is not expected that there will be any significant changes proposed to existing policy

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: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 30 November 2017**

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 September to 30 November 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 November 2017 against the Audit & Assurance Plan, which was approved by Committee on 11 April 2017.

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 PSIAS and statutory governance requirements;
- it 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 to 30 November 2017:

Risk and Corporate Governance

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

The table below summarises the seven “red” priority areas of concern across the departments, by key themes, which have been identified from the summary Director Exception/Dashboard Report and Assurance Statements for the first half of the year, as at 30 September 2017.

This includes five “red” priorities that have remained as areas of concern from March 2017 and two new “red” areas (^N below) that have been identified and appear as red for the first time. There are also four areas of concern previously identified as “red” that have been downgraded (^D below) to “amber” this period.

			2017/18	2016/17
Themes	No	Description	30 Sept Half Year	31 March Year End
Demand Management	1	Deliver statutory requirements under Deprivation of Liberty (DoLS). (Adults).	Red	Red
		Deprivation of Liberty Safeguards and Children’s Service Care Orders & Public Law Outline. (HR, Legal & Corporate).	Amber ^(D)	Red
	2	Failure to recruit long term foster carers, Asian heritage foster carers and carers for older and more challenging young people increasing demand led services, in particular commissioned out of borough. (Children’s).	Red	Red
	3	Social Worker Workloads. (Children’s).	Red	Red
	4	Improve Integrated Discharge pathways – discharge to assess. Mandated Delayed Transfer of Care (DToC) targets are significantly higher, these will be a challenge to achieve than those identified as achievable with the Council and across the partnership. (Adults).	Red ^(N)	n/a
Budgets & Finance		Budget Pressures – Adult Social Care Commissioning. (Adults).	Amber ^(D)	Red
	5	Family Court Decisions Placing Increased Financial Burden On Permanence Planning. (Children’s).	Red	Red

	6	Under performance against targets for the National Careers Service. Performance to date is behind the profile. This is a payment by results programme so failure to draw down the funding would cause a budget pressure. (Localities and Prevention).	Red ^(N)	n/a
Staffing/ HR		Sickness Absence. (Corporate).	Amber ^(D)	Red
		Maintain Number of Approved Adopters. (Children's).	Amber ^(D)	Red
	7	Using data and intelligence to enable the Council to make better and informed decisions for the Borough. Review opportunity for developing e-learning module on HR portal relating to research and data. (Strategy and Funding).	Red	n/a

Counter Fraud Activity

National Fraud Initiative

A total of 8,837 data matches were received from the Cabinet Office as part of the 2017 National Fraud Initiative. Of these, 4,402 cases were highlighted as 'recommended matches'. These are cases which include several matching pieces of information from more than one data source, suggesting a greater degree of accuracy. The Cabinet Office suggests that these matches are prioritised for review. The results of work undertaken show that 2,475 data matches have been processed to date. A total of 461 fraud/errors have been found resulting in savings of £211,819. The table below illustrates main areas of activity and where savings have been identified.

Summary of Results

Area	No. of Frauds/Errors	Value (£)
Benefits (Housing/Council Tax Support)	26	£56,270
Council Tax Single Persons Discount	323	£87,348
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423*
TOTAL	461	£211,819

*Taxi Licences revoked after it was established the holders had no leave to remain/right to work in the UK.

*The value attached to the Blue Badges/Residents Parking Permits has been determined by the Cabinet Office which considers the average loss of fraud/error to be £536.66 per case.

A further 59 data matches are currently being reviewed as the result of a supplementary report provided by the Cabinet Office on 11 December 2017. These involve data matches where it appears that the Housing Benefit claimant has failed to disclose student finance details. The initial work on these matches is being carried out by resources within the Audit & Assurance team before being passed to Revenues & Benefits staff to adjust benefit entitlement and refer to the DWP for further investigation where appropriate.

Audit & Assurance has completed an investigation into alleged fraud and corruption following a complaint received. Whilst no fraud or corruption was found, the findings, including several recommendations to strengthen internal controls, have been reported to management for further action.

We are also continuing to liaise with the Police regarding a case of suspected overpayments in respect a social care client responsible for the direct commissioning of their own care service.

In addition, work is on-going to review and update the corporate fraud risk register in liaison with the key contacts identified.

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
Adult Services Client Case Management System (Mosaic)	Adequate	Adequate	5
Special Education Needs and Disability (SEND) Inspection Regime	Limited	Adequate	7
NNDR/Business Rates	Substantial	Adequate	3
Council Tax	Substantial	Substantial	2
Housing Benefits	Adequate	Adequate	4
Selective Licensing	Substantial	Substantial	0
Energy Grant	Adequate	Adequate	3
Disaster Recovery	Substantial	Adequate	1
Petty Cash – Children’s Services Administration	Adequate	Limited	16
Schools & Museums External Funding Governance	Adequate	Adequate	2
Belmont Primary School	Adequate	Adequate	15
St Peter’s CE Primary School	Limited	Limited	29

We have provided a brief commentary on the four audit assignments where we have

provided a limited or no assurance opinion.

SEND Inspection Regime: The audit considered the controls relating to the Council's preparedness for an inspection of the local area's effectiveness in identifying and meeting the needs of children and young people who have special educational needs and/or disabilities. The final report provided a **limited assurance** opinion for the control environment in place and **adequate assurance** regarding compliance with the controls identified. The key factors for this decision were:

- Terms of Reference had not been established for the Inspection Readiness Group;
- The SEND Strategy was in draft at the time of the review and had not been formally approved; and
- The Self Evaluation document required for the Inspection was not presented in an orderly manner.

Petty Cash – Children's Services Administration: The review assess the controls and processes in place relating to petty cash payments made from the Children's Services Administration account were appropriate and accordance with Standing Financial Instruction (SFI) 4 - Petty Cash Imprest Accounts. The final report provided an **adequate assurance** opinion on the control environment in place and **limited assurance** in respect of compliance with these controls at the time of the review. The key factors for this decision were:

- The cash in hand had not been counted and reconciled to petty cash records. A shortage of £30.01 was identified when the cash was counted during the audit;
- Petty cash had been used to reimburse employee expenses in some cases, in contravention of SFI 4. This type of expenditure must be repaid via payroll.
- Claim forms were not available for three of the ten items of expenditure sampled;
- There was insufficient details on some of the claims to confirm whether or not VAT had been properly accounted for or to enable the claims to be properly checked before authorisation;
- The keys for the safe where the petty cash was stored overnight were not kept in a secure manner where access was restricted to authorised staff. In addition the petty cash box was not stored securely when not in use during the day.

St Peter's CE Primary School: The final report provided a **limited assurance opinion** for the both the control environment in place within the school and compliance with the controls identified in respect of the areas covered during the visit. We made 29 recommendations to strengthen arrangements in place across eight of the eleven areas covered during the visit. This included 6 'must' level recommendations. There were issues found within the following areas:

- Management Structure (5 recommendations);
- Policies/Transparencies agenda (2 recommendations);
- Budgetary and Employee Control (4 recommendations);
- Expenditure Control and Cheque Control (3 recommendations);
- Petty Cash (3 recommendations);
- Bank Reconciliation (2 recommendations);

- Asset Control (3 recommendations); and
- Information Security and Access Rights (7 recommendations).

During the period Audit & Assurance staff have also completed appropriate work to enable the Local Authority Bus Subsidy Ring-Fenced (Revenue) and the Local Transport Settlement 2016/17 Grant declarations to be signed in respect of the year ended 31 March 2017. The results of the work confirmed that in all significant respects the conditions attached to the grant determinations had been complied with.

Current internal audit reviews

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

- Adults Client Case Management System;
- Kings Georges Hall Events Management;
- Public Protection Inspections;
- Main Accounting;
- Members Allowances and Induction;
- Project Management/Capital Schemes Management;
- Personalised Budget/Direct Payments;
- Adoptions/Fostering Recruitment and Payment;
- Blakey Moor Heritage Lottery Grant;
- Off Payroll Engagement (IR35);
- Creditors/E-Procurement;
- CCTV – Pennine Lancashire Provision;
- Our Lady & St John’s Catholic College;
- Resource Link System Access; and
- Severance Payments.

Internal Audit Performance

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

Performance Measure	Target	Q2 2017/18	Q1 2017/18
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	66%	60%
3. Final Reports Issued Within Deadline	90%	92%	90%
4. Follow Ups Undertaken Within Deadline	90%	88%	87%
5. Recommendations Implemented	90%	96%	95%
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 (Q2, 2017/18) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Four of the twelve audits (33%) were completed over budget. The scope of the SEND review was expanded during the audit to fully consider the governance arrangements in place as well as the detailed assessment of day to day service delivery. This necessitated extra audit time (2 days). The Petty Cash review required extra time due to the nature of the issues identified which necessitated additional testing to be carried out, meetings with managers to follow up queries and finalise the report and an element of on the job training for the apprentice (5 days). Extra time was used on Belmont School and St Peters CE Primary due to the issues identified and on the job training for the newly appointed apprentice.

4. Follow Ups Undertaken within Deadline

We have received responses to 5 of the 6 audits (83%) requiring follow up by 30 November. We did not receive a full response to the Private Care Homes Contracts Payments follow up (13 recommendations, 5 graded must).

Audit & Assurance will continue to seek a response from the audit client for the above review and provide a verbal update at the Committee meeting if received.

5. Recommendations Implemented

Of the follow up responses received we were able to identify that 70 (80%) of the 87 recommendations due for implementation on or before 30 November 2017 had been fully implemented and 7 (8%) partially implemented.

- St Peters RC Primary School– 25 recommendations; 21 fully and three partially implemented, one not yet done. No 'must' recommendations outstanding.
- St Thomas CE Primary School – 22 recommendations; 20 fully and one partially implemented. One not yet done. No 'must' were recommendations outstanding.
- Housing Growth Strategy – 14 recommendations; 13 completed, one must recommendation relating to the inclusion of project costs in the Growth model not implemented. These will be dealt with at a Growth team level and reviewed against budget.
- Private Care Homes Contract Payments – five recommendations had been fully or partially implemented. A management response was outstanding in respect of six recommendations, including two graded as 'must'.

Audit & Assurance Plan 2017/18 – In Year Review

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

Resources – it was anticipated that Audit & Assurance would have staff resources amounting to 831 days for the delivery of the Audit & Assurance Plan. This comprised of 676 days for internal audit, 70 days for risk/governance and 85 days for fraud. However, it is now anticipated that Audit & Assurance will now only be able to deliver 775 days (682 days for internal audit, 45 days for risk/governance and 70 days for fraud). The short fall in days has arisen due to the Apprentice post being vacant for 6 weeks due to the previous post holder finding permanent job prior to the end of his fixed term contract and additional unplanned time being required to carry out investigations into potential fraud or irregularities and extra time in dealing with staffing and recruitment matters within the team time.

Audit & Assurance has proposed revisions to the Audit & Assurance Plan, which will allow it to provide an opinion on the Council's framework of governance, risk management and internal control. This revision will ensure that the highest priority

(priority 1) audits will be completed in 2017/18. The lower priority audits will be delayed to start at the end of the year or deferred and considered for inclusion in the Audit & Assurance Plan 2018/19 and will cover all departments/areas of the Council.

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: 21 December 2017

Background Papers: Audit & Assurance Plan 2017/18, approved by Audit Committee on 11 April 2017.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Annual Governance Statement (AGS) – Progress of 2016/17 Actions and 2017/18 Approach/Timetable

1. PURPOSE

To inform Members on the progress of the actions taken to address the significant governance issues identified in the 2016/17 AGS and the planned approach and timetable for producing the 2017/18 Statement.

2. RECOMMENDATIONS

The Committee is asked to:

- review progress made on the agreed AGS actions from 2016/17; and
- note the approach/timetable for producing the AGS for 2017/18.

3. BACKGROUND

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

4. RATIONALE

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

5. KEY ISSUES

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

Actions from 2016/17 AGS

In 2016/17 the following significant issues were noted in the AGS:

- Partnership Arrangements(brought forward from 2014/15);
- Adults Services Financial Position (brought forward from 2014/15);
- Children’s Services Financial Position (2016/17 action); and
- Information Governance (2016/17 action).

Details of the progress for each of these are shown in Appendix 1. There are still actions to be completed but all are in progress and they are largely in accordance with expected targets.

Approach for 2017/18

The Management Accountabilities Framework (MAF) provides ongoing assurance on the effectiveness of the Council’s governance framework. Through their completion of the half-yearly “Directors Exception/Dashboard Report and Assurance Statement” each director provides an update with regard to their departmental/operational plan priorities and confirms the effective operation of sound systems of internal controls, risk management and governance within their department, highlighting and exceptions and actions. These reports, combined with the Deputy Chief Executive’s Programme Area Meetings (PAM), provide appropriate challenge to the process, with significant “red” issues being reported to the Management Board and Audit & Governance Committee.

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

Proposed Timetable for 2017/18 AGS Completion and Related Processes

Deadline	Action
14/3/18	Circulation of director statement of assurance templates.
30/3/18	Completion of Second Half-Year MAF Directors reports.
15/4/18	Second Half-Year MAF PAM challenges.
30/4/18	Receipt of signed director statements of assurance. Receipt and collation of annual governance core principle evidence.
02/5/18	Second Half-Year MAF significant “red” issues reported to Management Board.
23/5/18	AGS evidence and statements considered by Primary Assurance Group (PAG).
31/5/18	Production of draft AGS by PAG for consideration by Management

	Board.
24/7/18	Second Half-Year MAF significant “red” issues reported to Audit & Governance Committee. Approval of AGS by Audit & Governance Committee.
25/7/18	AGS signed by Chief Executive and Leader of the Council.
31/7/18	AGS published.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

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

10. EQUALITY AND HEALTH IMPLICATION

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

11. CONSULTATIONS

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

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

Date: 21 December 2017

Background Papers: 2016/17 AGS approved by Audit & Governance Committee on 13 June 2017

Annual Governance Statement: Progress on 2016/17 Actions

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
<p>1. Partnership Arrangements (Brought forward from 2014-15)</p>	<p>Implementing robust governance arrangements relating to the management and delivery of the new five-year contract with the Council's technical services partner in 2016/17.</p>	<p>Deputy Chief Executive</p>	<p>Now in the second year of the new partnership, which started on 1 July 2016, and we are ensuring completion of all the agreed contract management arrangements to enable a review of the governance processes to ensure they are fit for purpose. Arrangements in the first year generally worked well although some late submissions have been followed up to ensure full completion.</p> <p>The Operational Board and Strategic Partnership Board are meeting monthly plus the full Partnership Board with elected Members meets regularly and governance issue are discussed with agreed actions monitored.</p>
<p>2. Adult Services Financial Position (Brought forward from 2014-15)</p>	<p>The implementation of provisions within the Care Act 2014 has placed greater demands for services (which have been recognised nationally) together with the growing complexity of service user needs and delays in the delivery of efficiency programmes has resulted in a budget overspend of over £2m. The challenge of managing the budget within these pressures, whilst developing effective partnerships with the NHS will continue in 2017/18.</p>	<p>Director of Adult Services</p>	<p>A balanced budget is forecast in this area however the department continues to experience an increase in demand due to demographic pressures and constraints in funding.</p> <p>Additional improved Better Care Fund (iBCF) monies have supported a balance budget position in 2017-18.</p> <p>Fortnightly strategic budget meetings are in place. A dashboard is being developed as an early warning system to pull together trends, activity, budget,</p>

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
			<p>cost and impact.</p> <p>Commissioning spend is scrutinised via the Mosaic approval process and demand management strategies are being applied. A programme of efficiency targets remains in place.</p>
<p>3. Children's Services Financial Position</p>	<p>Maintain awareness and effective management at all levels within the service to monitor and manage demand and budget pressures relating to intervention, prevention and permanence planning to ensure that services and resources are not diverted from elsewhere within the Council.</p>	<p>Director of Children's Services</p>	<p>Based on activity data at the end of period 6 the portfolio is forecasting an overspend at year end in the region of £1.4M. This is predominantly due to demand pressures within the commissioned placements budget. Any further rise in demand in the second half of the year will only add to this budget pressure. The portfolio is considering all courses of action to potentially mitigate this budget pressure. Any ongoing budget pressures will be considered as part of the 2018/19 budget setting process.</p> <p>The department continues to expand on Early Help prevention and intervention approaches to address rising demand.</p> <p>The Family Group Conference (FGC) team has expanded following a successful pilot in 2016/17. The aim of FGC work is to engage the wider family of those children open to children's social care in designing viable solutions that address the underlying issues</p>

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
			<p>within their immediate family that have led to social care involvement (which are commonly focused around the actions and behaviour of their parents).</p> <p>The department continues to increase the number of families receiving help through the CAF process and Early Help offer to reduce number of child in need cases open to social care. In the 12 months up to the end of September 2017 there have been 825 open and active CAFs. In the last 12 months 434 cases have stepped down from children’s social care to being open as a CAF and of these children and young people, 373 remain closed to children’s social care (86%). There is a re-referral rate to Children’s Social Care of just 14% (61 children and young people).</p>
<p>4. Information Governance</p>	<p>Review and strengthen Information Governance policies, systems and processes to ensure compliance with the requirements of the General Data Protection Regulations.</p>	<p>Director of Finance & IT</p>	<p>Significant work has been undertaken to date to ensure the council is prepared for the introduction of GDPR in May 2018 some of which is highlighted below:</p> <ul style="list-style-type: none"> • Processes and policies are being re-drafted to ensure they are GDPR compliant. This is being undertaken with our AGMA colleagues to deliver a full suite of GDPR compliant policies prior to May 2018. • Joint Management Board presentation defining the role of the Information Asset

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
			<p>Owner (IAO) and an overview of GDPR to Senior Officers took place on 18 October. This successfully highlighted the requirement for IAOs to take responsibility for data assets in their area.</p> <ul style="list-style-type: none"> • The Data Protection Officer Role (DPO) will be formalised and defined (example Job Descriptions have been prepared and are under consideration) • Schools GDPR presentations have been prepared and the visits are underway. The combined effect of GDPR, and the work required from recent Freedom of Information requests, has seen an increase in the number of Schools entering into an SLA. • Schools Information Governance services will include the appointment of a LA nominated DPO to assist with their compliance of GDPR in the SLA for 2018/19. An increase of £100 per SLA has been agreed. • Member’s bitesize training on GDPR delivered. Uptake was good, although it is noted that no additional Members have completed their Information Governance training. • New Information Governance training content will be rolled out in March 2018. This will include GDPR modules and we will encourage take up via pop ups on every users computer screen and a

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
			<p>communication campaign throughout April.</p> <ul style="list-style-type: none"> • The Information Commissioner has announced that the replacement for notification will be a 3 tier system. Charges for each tier have not yet been announced but Tier1 is rumoured to be set at £1000 (Up from £500), with £55 charge for Cllrs (Up from £35). • The Information Asset Register has now been updated to incorporate known Information Assets at the Council, their ownership and the legal gateways for processing. This will form the basis of the mandatory ROPA under GDPR which will demonstrate the Council's compliance with the Accountability requirement. The next phase in the project will be to introduce a data privacy audit to all significant personal data processing assets, in order to obtain an understanding of the processing risks to the Council. An Request For Service will be submitted to the IT Team to integrate these registers into a workable SharePoint site for the entire set of Council Asset administrators to manage and update their Registers as and when. • Elected member Guidance in relation to changes envisaged under GDPR has been drafted and issued to Head of Service and Cllr Kay for review. • Corporate Data Protection risk register

APPENDIX 1

Issue	Issue/Actions being taken	Responsible officer(s)	Half Year Update – November 2017
			<p>has been updated to include the potential for non-compliance with GDPR as of 25th May 2018. As the project progresses and the Gap analysis is updated, we will update the risk register to reflect any changes required.</p> <ul style="list-style-type: none"> • Meeting held to discuss GDPR Gap analysis with audit. The Gap Analysis has been updated to reflect progress on the position from March to October. It is the intention of the audit team to track progress and to suggest specific areas of compliance that can be reviewed in Q4.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2017/18 Quarter 2 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 July 2017 to 30 September 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 2 2017/18;
- Note the risk management activity that has occurred during the period; and
- Select a Corporate Risk to undertake a review of its assessment, control and monitoring at its next meeting.

3. BACKGROUND

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

4. RATIONALE

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

5. KEY ISSUES AND RISKS

The Corporate Risk Register currently contains a total of 15 open risks, the same as the previous update report to this Committee on 19 September 2017. A summary of the risks is attached at Appendix 1 of this report. The report

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

The top corporate risk remains the same as the previous quarter, Corporate Risk 14, a high profile serious/critical safeguarding incident occurring relating to an individual known to the Council.

We have continued to utilise the risk management support available from Zurich Municipal as part of the current long term insurance agreement. A Zurich colleague provided a briefing to the October Joint Management & Heads of Service Board meeting to raise awareness of key information risks and accountabilities defined in the BwD Council Information Governance Framework.

The Zurich support has also been used for a review of the current arrangements used by the Council to inspect open land and manage contaminated land/brownfield sites. This was carried out with Public Protection colleagues via a site visit in conjunction with the Environmental Protection Team Manager. An inspection regime training session was then held for the team using findings from the site visit. Accident investigation training was also provided to Leisure and Environment managers and a briefing and training session was delivered to Parks staff to raise awareness of identifying and reporting defects and the role that this plays in loss prevention and claims defence.

The Road Risk Management Group has met regularly 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. It receives and reviews management reports to consider any trends in fleet driving behaviour 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 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: 21 December 2017

Background Papers: Annual Risk Management Report (including 2016/17 Quarter 4 Review)

Corporate Risk Management Strategy 2015/2020



Summary Risk Register

Directorate: _____

Department: Corporate Risk Register

Service: _____

Quarter and Year: Quarter 2 - 2017/18 Date of last review: 30-Jun-17

Date: 30-Sep-17 Date of next review: 31-Dec-17

Risk N	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	14-Nov-17	2	3	LOW	-
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	Ian Richardson, Lee Kinder, Stuart Scott	Open	03-Feb-17	2	4	MEDIUM	-
4	The Council is not able effectively influence and shape new partnership structures to respond to changes occurring in the public sector.	07-Feb-12	Good	3	3	MEDIUM	2	3	LOW	2	2	LOW	Executive Team	Alison Schmid / Heather Taylor / Andrea Sturgess	Open	27-Sep-17	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-Sep-17	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	28-Sep-17	1	3	LOW	-
7	Ensure the Council delivers its statutory function Civil Contingencies by Emergency Preparedness, Planning, Response, Recovery and Business Continuity Promotion (to small & med sized businesses) in order to protect the Community/enhance the resilience of the Council, mitigate reputational and financial damage. Corporate Objectives at risk - 1,2,5,6.	25-May-11	Good	4	5	HIGH	1	5	LOW	1	5	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	14.09.2017	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 exercising procedures and plans. 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	2	4	MEDIUM	1	3	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	22-Sep-17	2	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	07-Aug-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	3	LOW	1	3	LOW	Sayyed Osman	Imran Akuji/Mark Aspin	Open	05-Jun-17	2	3	LOW	-
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	29-Sep-17	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	04-Oct-17	4	2	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services.	20-Aug-13	Good	4	5	HIGH	3	5	HIGH	3	5	HIGH	Paul Lee / Linda Clegg (DCS)	Paul Lee	Open	02-Oct-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	Lorraine Nicholls	Open	14-Sep-17	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	10-Oct-17	3	4	MEDIUM	-
18	Insufficient budget for service delivery if MFTS income targets from the Growth Agenda are not met.	29-Nov-16	Good	4	4	HIGH	3	4	MEDIUM	1	1	LOW	Denise Park, Ian Richardson	Simon Jones	Open	01-Feb-17	3	4	MEDIUM	-



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Governance Committee – Effectiveness Assessment

1. PURPOSE

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

2. RECOMMENDATIONS

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

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

3. BACKGROUND

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

3.2 In 2013 CIPFA published its document, 'Practical Guidance for Local Authority Audit Committees 2013'. The guidance includes the two checklists provided at appendices 1 and 2 to this report. These checklists

contain the results of the internal assessment, and supporting evidence, for the Committee's consideration in order to conclude on the performance and effectiveness of the Committee and to identify any areas where development is needed.

- 3.3 The guidance also includes CIPFA's 2013 position statement: 'Audit Committees in Local Authorities and Police'. The statement sets out CIPFA's view of the role and functions of an audit committee and local authorities are recommended to review their arrangements against the position statement; this is a recommendation and not a mandatory requirement.
- 3.4 The summary questionnaire results included in Appendix 3 are based on a self-assessment questionnaire used by Audit Committees in neighbouring authorities, which provides an alternative basis for assessing the Committee's effectiveness. The questions asked are aimed at exploring other avenues of assessing effectiveness compared to the more technical areas identified by CIPFA. These questions have been answered by members themselves, rather than officers completing the CIPFA checklists on their behalf and seeking their comments on it.
- 3.5 The details included at appendix 3 provide a summary of the responses received from the Councillors who have been members of the Committee during the Municipal Year. The overall results show that there is a strong belief by all members that the Committee is operating effectively, with the majority of scores being either a 3 or a 4. However there are some areas where there is scope for further improvement for consideration by the Committee.

4. RATIONALE

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

5. KEY ISSUES AND RISKS

- 5.1 Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) sets out CIPFA's view of the Audit Committee in relation to governance, risk management and internal control. CIPFA's Good Practice Checklist, which was appended to the Guidance, was previously completed by the former Committee Vice-Chair with the assistance of Audit & Assurance. This document was presented to the Committee in January 2015 and January 2016. Audit & Assurance has now updated the Checklist (see Appendix 1). This shows that the Council's Audit & Governance Committee arrangements are now largely compliant with the recommended guidance. The only area where full compliance cannot yet be provided is:
 - Question 18: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.

5.2 The evaluation of effectiveness document (Appendix 2) was previously completed by the Chair of the Audit & Governance Committee with the support from the Head of Audit & Assurance. It was originally appended to the Audit & Governance Committee's annual report and presented to this Committee on 13 June 2017. It has been updated to reflect the additional review and scrutiny of the corporate risks that the Committee now carries out on a regular basis, the senior officer attendance to provide updates on actions from key reports. It also notes that the Committee now receives an Counter Fraud Annual Report.

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

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

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

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

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality implications arising from this report.

11. CONSULTATIONS

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

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

Date: 21 December 2017

Background Papers: Audit Committee – Self-Assessment & Action Plan Update, reported to Audit Committee on 10 January 2017.
Audit Committee – Annual Report, reported to Audit Committee on 13 June 2017.

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
<i>Audit Committee purpose and governance</i>					
1	Does the authority have a dedicated audit committee?	√			
2	Does the audit committee report directly to full council?	√			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	√			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	√			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	√			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	√			
<i>Functions of the committee</i>					
7	<p>Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <ul style="list-style-type: none"> ▪ good governance ▪ assurance framework ▪ internal audit ▪ external audit ▪ financial reporting ▪ risk management ▪ value for money or best value ▪ counter-fraud and corruption 	√			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	√			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	√			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	√			
Membership and support					
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ▪ separation from the executive ▪ an appropriate mix of knowledge and skills among the membership ▪ a size of committee that is not unwieldy ▪ where independent non-elected members are used, that they have been appointed using an appropriate process 	√			
13	Does the chair of the committee have appropriate knowledge and skills	√			
14	Are arrangements in place to support the committee with briefings and training?	√			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	√			
17	Is adequate secretariat and administrative support to the committee provided?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
<i>Effectiveness of the committee</i>					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			√	
19	Has the committee evaluated whether and how it is adding value to the organisation?	√			Results from 2016/17 exercise and updated for 2017/18. (see Appendix 2)
20	Does the committee have an action plan to improve any areas of weakness?	√			Appropriate actions have been identified above and from the annual self-assessment process.

Evaluating the Effectiveness of the Audit & Governance Committee

Assessment key

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

Blackburn with Darwen Borough Council Audit & Governance Committee Effectiveness Assessment

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

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

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

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

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract & Procurement Procedure Rules are in place as part of the control framework to ensure that value for money is considered in procurement activity. Regular Creditors audits consider on compliance with these requirements. The Committee receives the External Auditors Combined Audit Findings and Value for Money Report.	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and members.	A Counter Fraud Policy and Strategy is in place (which was reviewed and updated in 2015/16 in accordance with latest CIPFA guidance) supported by the Counter Fraud Policy Framework which includes a Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees' Codes of Conduct. The Internal Audit progress reports include oversight of counter fraud activity and results. The Committee consider and approve the annual fraud risk assessment as part of the External Auditor's enquiries of those charged with governance and have approved the Counter Fraud Plan as part of Internal Audit annual plan 2016/17. The Committee receives the Counter Annual Report as part of the suite of annual reports which is considered prior to approval of the Annual Governance Statement:	5

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

Assessment scores:

1-Hardly ever/Poor/Definitely disagree 2- Occasionally/Inadequately/Partly disagree
 3 - Most of the time/Satisfactory/Partly agree 4 - All of the time/Good/Definitely agree N/A - Not applicable

CORE AREAS OF KNOWLEDGE	Number of Responses					Average Score
	N/A	1	2	3	4	
1 Members with appropriate skills and experience						
The Audit Committee should comprise members with an appropriate mix of skills and experience, including some relevant financial experience.				1	5	3.8
2 Clear terms of reference						
There are clear, up to date terms of reference, with clarity as to the committee's role in relation to the council and other committees				1	5	3.8
3 Structured and appropriate annual agenda						
There is a structured annual agenda of matters to be covered, with focus on the right areas.				1	5	3.8
4 Sufficient number of meetings and access to resources						
The number and length of meetings and access to resources is sufficient to allow the committee fully to discharge its duties.			1	1	4	3.5
5 Concise, relevant and timely information						
Audit Committee papers are concise, relevant and permit timely resolution of the issues raised			1	4	1	3.0
6 The right people are invited to attend and present at meetings						
Senior officers and others are asked to present on issues as appropriate.				1	5	3.8
7 Attendance and contribution to meetings						
All Audit Committee members attend and actively contribute at meetings				4	2	3.3
8 Sufficient time and commitment to undertake responsibilities						
As an Audit Committee member I have sufficient time and commitment to fulfil my responsibilities				3	3	3.5
9 On-going personal development						
Audit Committee members have access to on-going development activities to update their skills and knowledge.				1	5	3.8
10 Understanding the Council's business						
The Audit Committee has a good understanding of the different risks inherent in the council's business activities.				4	2	3.3
11 Focus on appropriate areas						
The Audit Committee focuses on the right questions and is effective in avoiding minutia				5	1	3.2
12 Understanding of how assurance is gained						
The Audit Committee understands the relationship between the various sources of assurance available to it.				5	1	3.2
13 Quality of interaction with external audit						
The Audit Committee actively engages with the external auditors regarding the scope of their work and audit findings.		1		2	3	3.2
14 Quality of interaction with internal audit						
The Audit Committee demonstrates an appropriate degree of involvement in the work of internal audit and its findings.				4	2	3.3
15 Frank, open working relationship with senior officers						
Audit Committee members have a frank and open relationship with senior officers, whilst avoiding the temptation to act as officers.				2	4	3.7
16 Open channels of communication						
The Audit Committee has open channels of communication with officers and other members to keep it aware of topical/regulatory issues.				3	3	3.5
17 Rigour of debate						
Audit Committee meetings encourage a high quality of debate with robust and probing discussions.			1	1	4	3.0
18 Reaction to bad news						
The Audit Committee responds positively and constructively to bad news to encourage future transparency.		1		3	2	3.0
19 Perceived to have a positive impact						
There is an appropriate balance between the monitoring role and the Committee acting as an "influencer for good".				4	2	3.3
20 Quality of chairmanship						
The Chair promotes effective and efficient meetings, with an appropriate level of involvement outside the formal meetings.				4	2	3.3



TO: Audit & Governance Committee

FROM: Director of Finance & IT

DATE: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Confirmation of the Appointment of the Council's External Auditor

1. PURPOSE

1.1 To note:

- the appointment of Grant Thornton as 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; and
- the proposed arrangements for the appointment of an accredited accounting firm to carry out the work required under the auditors to new arrangements for the Housing Benefit (Subsidy) Assurance Process for Subsidy claims from 2018/19 onwards.

1.2 The Council's external auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission. This included the work necessary to certify the Council's Housing Benefits Subsidy claim.

1.3 The Council is required to have new arrangements in place to make a first appointment of its external auditors by 31 December 2017 for the audit year 2018/19 and to inform the Department for Works and Pensions (DWP) of the procurement of its reporting accountant for subsidy claims from 2018 onwards by 1 March 2018.

2. RECOMMENDATIONS

2.1 The Committee is asked to note the appointment of Grant Thornton as the Council's external audit services provider from 2018/19.

3. BACKGROUND

3.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. The Act also set out the arrangements

for the appointment of external auditors, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed.

- 3.2 The options under the Act were to establish our own independent audit panel to make a stand-alone appointment or join with other authorities to establish a joint appointment. Alternatively, Regulations made under the Act allowed authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.3 In July 2016 PSAA were specified by the Secretary of State as an appointing person under Regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA had wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA
- 3.4 The Council Forum meeting in January 2017 approved that the Council opt in to the sector led option for the appointment of external auditors for five years commencing from 1 April 2018.
- 3.5 Following the completion of the procurement exercise the PSAA consulted with opted in bodies on their proposed auditors for five weeks during August and September 2017. The proposed appointment was considered at the Audit & Governance Committee meeting on 19 September. The members confirmed that they were satisfied with the appointment of Grant Thornton (UK) LLP as the Council's external auditor from 1 April 2018. This appointment was formally confirmed to the Council following the PSAA Board meeting on 14 December. The contract will cover a five year period commencing with the audit of the accounts for 2018/19. The PSAA has an option to extend the contract for a further two year period, to a total of seven years, if it chooses to do so.
- 3.6 From 1 April 2018 the PSAA will no longer oversee or appoint auditors for Housing Benefit Certification work. From that date the DWP will assume responsibility for issuing guidance and providing support for this assurance process. However, the DWP will not appoint auditors on behalf of Local Authorities. The Council is therefore required to procure services from an accredited accounting firm for this work from that date.
- 3.7 We are required to inform the DWP of the appointment by 1 March 2018. There will be separate engagement requirements and terms and conditions for this work. The process to procure the auditors to carry out this work will be carried out in accordance with the Council's Contract & Procurement Procedure Rules to ensure that the arrangements are in place by the due date.

4. RATIONALE

- 4.1 The Audit & Governance Committee, in its role of providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards, is required to oversee external audit, helping to ensure efficient and effective assurance arrangements are in place.

4.2 The work of external audit forms a key element of the Council's overall system of internal control. Effective external audit arrangements promote best practice and improvements in the management of risks and value for money. A key requirement for the Audit & Governance Committee, in order for the Committee to meet its Terms of Reference, is to assess the adequacy of the external audit provision.

5. KEY ISSUES AND RISKS

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

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

7.1 The Council will benefit from reduced fees in 2018/19 as a result of the successful procurement process led by PSAA. The PSAA has estimated that the savings will be the equivalent of approximately 18% in the scale fees payable by local bodies. The fees for the statutory audit of the Council for 2016/17 were £102,839.

7.3 Opting-in to a national scheme provided maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

8. LEGAL IMPLICATIONS

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

8.2 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

8.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person)

Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

9. RESOURCE IMPLICATIONS

There are no resource implications arising from this report.

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Chief Executive, Deputy Chief Executive

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

Date: 21 December 2017

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

Arrangements for the Appointment of External Auditors, noted at the Audit & Governance Committee meetings of 20 September 2016 and 10 January 2017 and at Council Forum on 26 January 2017.

DCLG: Government response to the Future of Local Audit

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

Local Audit and Accountability Act 2014.