

Public Document Pack

Audit & Governance Committee

**Tuesday, 16th April, 2019
Conference Room 1
Blackburn Town Hall
6.30 pm**

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Date Published: Monday, 08 April 2019
Harry Catherall, Chief Executive

Agenda Item 2

AUDIT & GOVERNANCE COMMITTEE Tuesday, 15 January 2019

PRESENT – Councillors, Casey, Connor, Rigby, Sidat and Whittle.

EXECUTIVE MEMBER – Councillor Andy Kay.

OFFICERS – Louise Mattinson, Colin Ferguson, Phil Llewellyn (BwDBC), John Farrar and Simon Hardman (External Audit).

RESOLUTIONS

25 Welcome and Apologies

The Chair welcomed everyone to the meeting. Apologies were received from Councillor Vicky McGurk.

26 Minutes of the meeting held on 16th October 2018

The Minutes of the Meeting held on 16th October 2018 were agreed as a correct record.

27 Declarations of Interest

No Declarations of Interest were received.

28 External Audit - Grant Certification Report 2017/18

Details of the Certification work undertaken by Grant Thornton were submitted to the Committee for the Year Ending 31st March 2019 in terms of the Housing Benefit subsidy claim.

As a result of the errors identified, the claim was qualified. The indicative fee for 2017/18 was based on 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the claim and the fee remained unchanged following completion of the work.

RESOLVED – That the report be noted.

29 External Audit - Audit & Governance Committee Progress Report and Update year ended 31st March 2019

The Council's External Auditors reported on progress up to 17th December 2018 and gave a Sector update.

Work had started on planning for the 2018/19 financial statements audit, with the interim audit due to commence during January.

In terms of Value for Money, an initial risk assessment to determine the approach started in December 2018, and a Value for Money Conclusion given by the deadline in July 2019.

RESOLVED- That the update be noted.

30 Treasury Management Report - October to November 2018

A report was submitted which summarised the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reported on the position against Treasury and Prudential Indicators established by the Council.

RESOLVED – That the Treasury Management position for the period and draft Treasury Management Strategy for 2019/20 be noted.

31 Audit & Assurance - Progress & Outcomes to November 2018

The Head of Audit & Assurance submitted a report which updated the Committee on achievements and progress made by Audit & Assurance in the period from 1st October 2018 to 30th November 2018.

The report focused on a number of key areas in the Audit & Assurance Plan, in particular Corporate Governance and Risk, Counter Fraud Activity and recent audits completed and finalised.

RESOLVED - That the Committee note the outcomes achieved to 30th November 2018 against the Audit & Assurance Plan, which was approved by Committee in April 2018.

32 Annual Governance Statement - Progress on 2017/18 Actions and Plan for 2018/19

Members received a report on the progress of the actions taken to address the significant governance issues identified in the 2017/18 AGS and the planned approach and timetable for producing the 2018/19 Statement.

The following significant issues were noted in the 2017/18 AGS: Children's Services Financial Position (action brought forward from 2016/17); and Highways Inspection Arrangements (2017/18 action).

The details of progress made to 30 November for each of these areas was shown in Appendix 1 of the report submitted. Appropriate steps had been taken by managers and senior officers in respect of the issues identified, although ongoing children's' social care pressures were noted. The actions taken and progress made were largely in accordance with expected targets.

The report also outlined the approach for 2018/19.

RESOLVED – That the Committee note the progress made to address the significant actions identified in the 2017/18 and note the approach/timetable for producing the 2018/19 AGS.

33 Risk Management - 2018/19 Quarter 2 Review

The Committee were provided with details of the risk management activity that had taken place in the period from 1st July 2018 to 30th September 2018.

The Corporate Risk Register currently contained a total of 14 open risks, a reduction of one from the number of risks at the end of Quarter 1 2018/19. Corporate Risk 5, the risk that that governance and decision making arrangements fail, had been reviewed and re-assessed. The controls in place relating to this area had been assessed as good and, as the new Constitution and the related governance arrangements had been confirmed as in place the risk identified had been accepted and the risk closed. This risk would continue to be managed as part of business as usual activity.

A summary of the corporate risk details was attached at Appendix 1 of the report. The report identified any changes in the residual risk score from the previous quarter to enable movements to be tracked. The only change to note in the period was the increase in the residual risk score relating to Risk 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. The residual risk for this area had increased from Low to Medium as a result of the likelihood of this risk being reassessed following an increase in the number of health and safety accidents and related matters reported recently. Steps were being taken to raise staff awareness on these matters.

Corporate Risk 14, that of a high profile serious/critical safeguarding incident/case occurring that is known to Council services, remained the top corporate risk as noted in the Quarter 1 2018/19 Risk Management Update reported to the October meeting of the Committee.

RESOLVED – That the Committee note:

- The progress made on the Corporate Risk Register as at the end of Quarter 2 2018/19;
- The risk management activity that has occurred during the period; and
- Will consider the selection of a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

34 Audit & Governance Committee - Effectiveness Assessment 2018/19

Members received a report which presented the results of the annual assessment of compliance of the Audit & Governance Committee against recognised best practise recommended by CIPFA as well as a summary of Committee members' self-assessments. The results of the various assessments were set out in appendices 1, 2 and 3 of the report, and further outlined in the report submitted.

RESOLVED – That the following be noted and approved:

- 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 on behalf of 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).

35 **Significant Partnerships Register 2018/19**

Members were provided with an update on the Significant Partnerships Register for 2018/19. The Register identified all the significant partnerships the local authority was involved in as per the Audit & Governance Committee's Terms of Reference.

In October 2018 the Audit and Assurance Team undertook an audit exercise of the Significant Partnerships Register to ascertain its effectiveness. Substantial Assurance was awarded for the Control environment and Adequate Assurance was awarded for Compliance.

The Significant Partnerships Register update 2018/19 was undertaken following the completion of the audit, and a six month update would be provided in June 2019.

RESOLVED – That the Audit & Governance Committee note and approve the significant partnerships submitted for inclusion in the 2018/19 register.

Signed:

Date:

Chair of the meeting
at which the minutes were confirmed

DECLARATIONS OF INTEREST IN ITEMS ON THIS AGENDA

Members attending a Council, Committee, Board or other meeting with a personal interest in a matter on the Agenda must disclose the existence and nature of the interest and, if it is a Disclosable Pecuniary Interest or an Other Interest under paragraph 16.1 of the Code of Conduct, should leave the meeting during discussion and voting on the item.

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

MEETING: **AUDIT COMMITTEE**

DATE: **16TH APRIL 2019**

AGENDA ITEM NO.:

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

DISCLOSABLE PECUNIARY/OTHER (delete as appropriate)

SIGNED :

PRINT NAME:

(Paragraphs 8 to 17 of the Code of Conduct for Members of the Council refer)

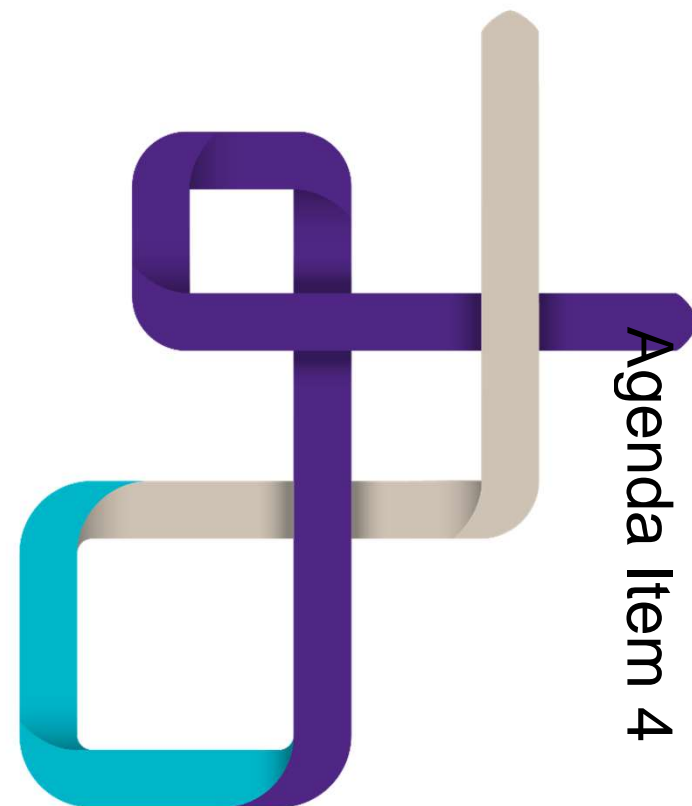
External Audit Plan

Year ending 31 March 2019

Blackburn with Darwen Council

5 April 2019

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**Your key Grant Thornton
team members are:**

Page 9
John Farrar
Engagement Lead
T: +44 (0)161 234 6384
E: John.Farrar@uk.gt.com

Simon Hardman
Engagement Manager
T: +44 (0)161 234 6379
E: Simon.Hardman@uk.gt.com

Chloe Edwards
In-Charge
T: +44 (0)20 7728 3276
E: Chloe.D.Edwards@uk.gt.com

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Blackburn with Darwen Borough Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Blackburn with Darwen Borough Council. We draw your attention to both of these documents on the [PSAA website](#). We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of pension fund net liability
- Valuation of land and buildings

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £7.2m (PY £8.0m), which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £360k (PY £395k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

- Financial sustainability

Audit logistics

Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £83,186 (PY: £106,839) for the Authority, subject to the Authority meeting our requirements set out on page 12.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Council reported that portfolio controllable budgets were overspent by almost £0.6 million at 31st March 2018, when compared to the revised budget approved by the Executive Board in February 2018.

The Q3 Revenue Monitoring Report for 2018-19 indicates that an overspend by the year end of £1.2m within Children, Young People and Education and £1.0m within Environment, with cost pressures totalling approximately £1.1m across Leisure and Culture, Neighbourhood & Prevention Schemes, and Regeneration having also been identified. Each of these will need to be addressed in order to deliver a balanced outturn position at the year end.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain at this time. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, service delivery, and support for local people and businesses.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

New audit methodology

We will be using our new audit methodology, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

Internal Factors

Local issues

An LGA review has been undertaken in the year, following which some recommendations have been raised in relation to meeting the challenges of the future and determining a “compelling vision for the Borough’s future”.

The Authority changed its financial ledger system to Civica in the prior year. Any such change does bring challenges, however it has created opportunities for efficiencies. In the current year there has been a change in your Fixed Asset Register system.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will continue to meet with senior managers and consider the Authority’s financial position and delivery of a balanced outturn position.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will be reviewing more of your controls over operating expenditure.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We will consider any impacts from the transfer of the Fixed Asset Register system in our audit of the Property, Plant and Equipment balance at year end.
- We will review the results of the LGA review as part of our VFM conclusion and consider whether there are any impacts that affect our conclusion.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Blackburn with Darwen Borough Council.</p>	<p>As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the:</p> <ul style="list-style-type: none"> • size of the numbers involved, with the pension scheme liability estimated at £249.2m as at 31 March 2018; and • the sensitivity of the estimate to changes in key assumptions. <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Lancashire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the:</p> <ul style="list-style-type: none"> • size of the numbers involved, for example the net book value of land and buildings as at 31 March 2018 was £227.3m; and • the sensitivity of this estimate to changes in key assumptions. <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value for surplus assets at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk..</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate and challenge management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

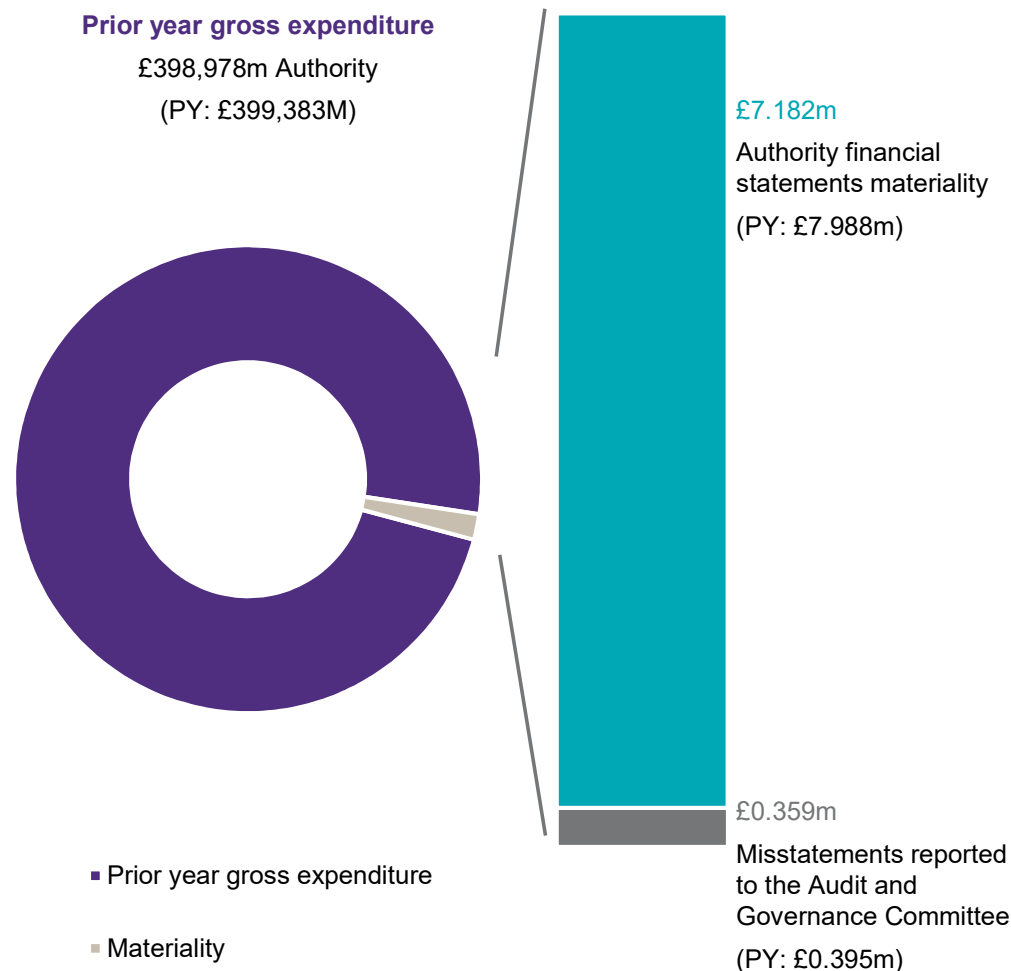
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7.182m (PY £7.988m), which equates to 1.8% of your prior year gross expenditure for the year.

We will consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.359m (PY £0.395m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

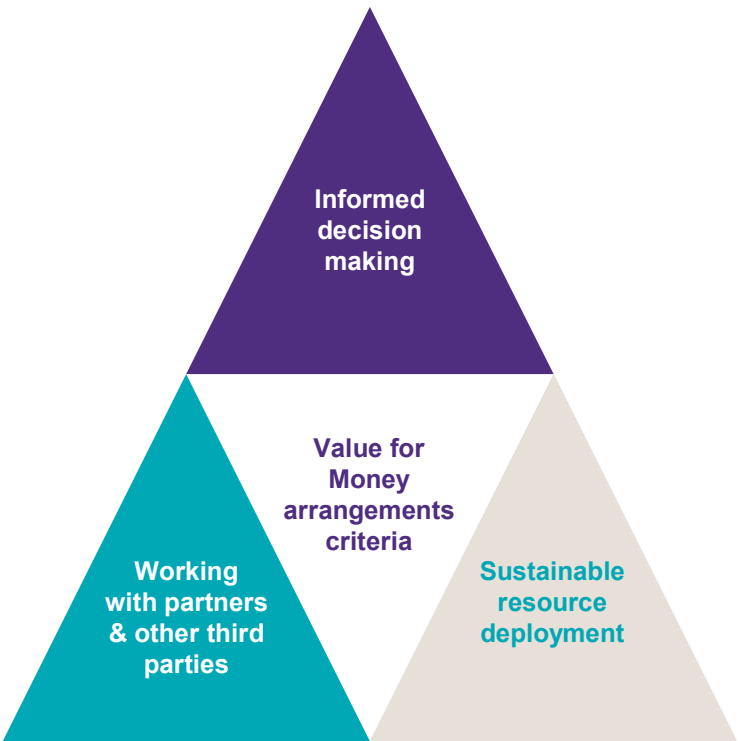
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial sustainability

Blackburn with Darwen, in line with other authorities, continues to operate under significant financial pressures. The Council has currently identified two directorates with projected overspends, and cost pressures within three others.

We will continue to monitor the Authority's financial position through regular meetings with senior management and review of key documents including:

- the Medium Term Financial Strategy
- budget monitoring reports.

We will consider how the Authority manages budget delivery and also the key assumptions made to financial plans to meet the challenges ahead.

We will link the VfM work to our audit of your financial statements. By doing this we will be able to consider the consistency of the messages in your budget monitoring reports and the year-end financial statements.

We will assess progress in the identification and delivery of plans to address the funding gaps into 2019/20 and beyond.

We will also review whether the Authority has considered the potential impact of Brexit on its future financial position.

Audit logistics, team & fees



John Farrar, Engagement Lead

John will be the main point of contact for the Chief Executive and Senior Officers. John will share his wealth of knowledge and experience across the sector providing challenge and acting as a sounding board with Senior Officers and the Audit and Governance Committee. John will ensure our audit is tailored specifically to you and is delivered efficiently. John will review all reports and the team's work, focussing his time on the key risk areas to your audit.



Simon Hardman, Audit Manager

Simon will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Simon will attend Audit Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all.



Chloe Edwards, Audit Incharge

Chloe will lead the onsite team and will be the day to day contact for the audit. Chloe will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Chloe will undertake the more technical aspects of the audit, coach the junior members of the team and assist in reviewing the team's work.

Audit fees

The planned audit fees are £83,186 (PY: £106,839) for the financial statements audit completed under the Code, which are based on the scale fee published by PSAA and an additional £4,000 as the Council is a Public Interest Entity requiring an enhanced audit report. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations, including the £4,000 referred to above, will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, we will work together with you so that you are able to:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Non-audit related			
Certification of Housing Benefit	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £83,186 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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.
CFO Insights Subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £83,186 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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. CFO Insights does not provide any advice; the tool provides only information and insight that help to inform decision-making by officers. It is the responsibility of your officers who use this service to undertake informed interpretation of the information provided.
Place Analytics License	14,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total fee for the audit of £83,186 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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. The license does not provide any advice; it is an online software service offering providing key data relating to the financial performance of a local authority. It is the responsibility of your officers who use this service to undertake informed interpretation of the information provided.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendix 1: Audit approach

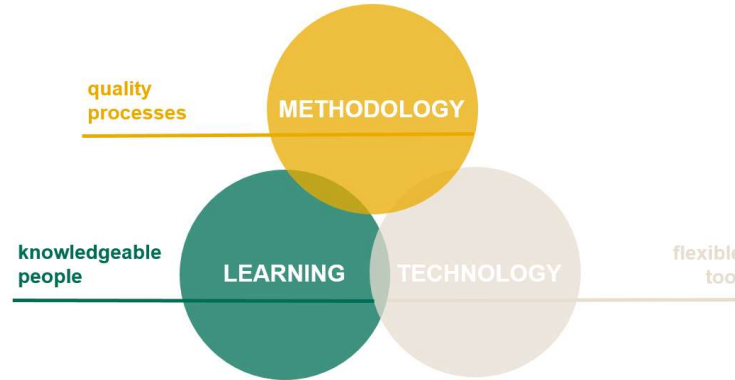
Use of audit, data interrogation and analytics software

LEAP

LEAP

Audit methodology

- A globally developed ISA-aligned methodology that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses



IDEA
Data Analytics Software

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Appian

Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on



Audit Progress Report and Sector Update

Blackburn with Darwen Council

March 2019

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Agenda Item 5

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Introduction



John Farrar

Engagement Lead

T [+44 \(0\)161 234 6384](tel:+441612346384)
M [+44 \(0\)7880 456200](tel:+441612346384)
E John.Farrar@uk.gt.com

This paper provides the Audit and Governance 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)

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Simon Hardman

Engagement Manager

T [+44 \(0\)161 234 6379](tel:+441612346379)
M [+44 \(0\)7880 456202](tel:+441612346379)
E Simon.Hardman@uk.gt.com

Members of the Audit and Governance 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

www.grantthornton.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.

PSAA Contract Monitoring

Blackburn with Darwen opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at 28 March 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork includes:

- 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

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin in June 2019 with findings reported to you in our Audit Findings Report. We will present our report at the July Audit and Governance Committee meeting and issue our audit opinion by the 31 July deadline.

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified one significant Value for Money Risk in relation to financial sustainability and work on the risk is progressing.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We are in the process of agreeing our overall project plan for completing this work with officers.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, to help keep up to date with the latest financial reporting

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Complete
Interim Audit Findings We will report to you any early findings from our interim audit and our initial value for money risk assessment within our Progress Reports	June 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plan presented to the Audit Committee we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Sector Update

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

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

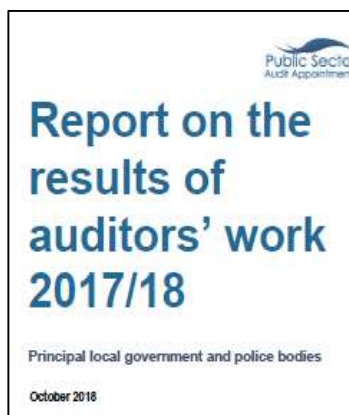
The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority considered the report?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

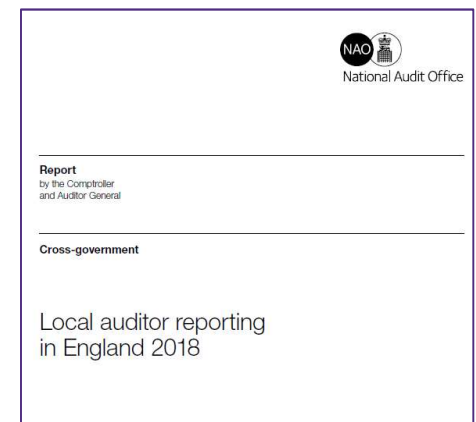
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to issues raised by the External Auditor in 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

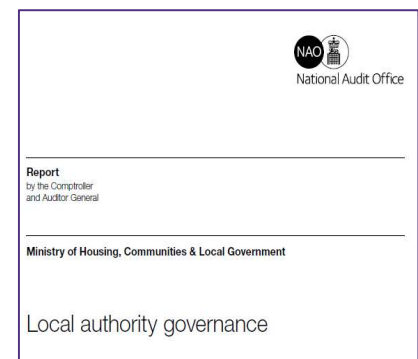
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has your Authority appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



NAO Report

Challenge question:

Has your Authority got a robust plan in place to deliver the additional houses needed over the next five years?



National Audit Office – Pressures on children's social care

The Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children's social care. In extreme cases they may use their statutory powers to place children in need on protection plans or even take them into care. Local authorities are also responsible for delivering non-statutory services for all children and young people, such as children's centres. The Department for Education (the Department) provides statutory guidance on delivering these functions. It also has overall policy responsibility for children's services, and has the strategic vision that all vulnerable children, no matter where they live, should have access to high-quality support by 2022.

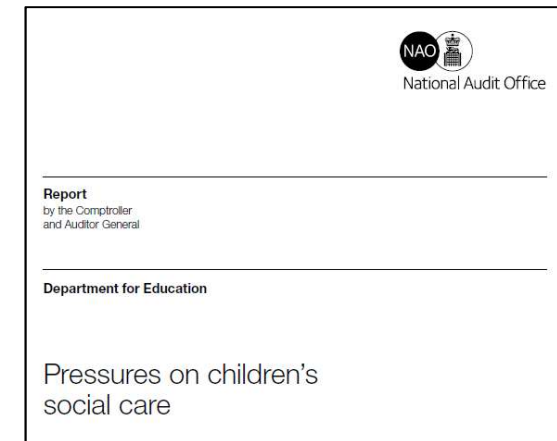
The report sets out recent trends in pressures on children's social care demand and activity and the response of both national and local government to these pressures. It also sets out analysis the NAO conducted about what is causing variations in children's social care demand and activity between different local authorities. The report covers:

- the pressures on children's social care;
- the response of national and local government to increasing demand for children's social care; and
- NAO analysis of what is causing variations in demand for children's social care between local authorities.

The report notes that, while the Department has put in place a programme of reform, it still does not fully understand what is driving demand for children's social care or why there is such wide variation between local authorities in their children's social care activity and costs. It has not yet done the work to tie together available sources of information and therefore lacks a well-informed pathway to achieve its goal. While the Department has recognised the need for this analysis, it will not complete the work until summer 2019. Even if its analysis is completed successfully it will be a tall order for the Department to achieve its goal within three years.

The report is available on the NAO website:

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>



NAO Report

Challenge question:

Has your Authority considered the NAO report, and how any local variations in demands can be addressed?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

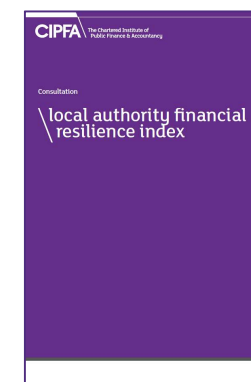
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Has your s151 Officer briefed members on the Council’s response to the Financial Resilience Index consultation?



CIPFA – Social Care risk tool

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Directors of Adult Social Services' (ADASS) have updated the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

To download the tool:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



CIPFA Social Care risk tool

Challenge question:

Has your Authority completed the Social Care risk tool? Have your Directors shared the results and responses with you?



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your Authority's plans for Brexit?



Links

Grant Thornton

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

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

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

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Our team

John Farrar
Engagement Lead



T [+44 \(0\)161 234 6384](tel:+441612346384)
M [+44 \(0\)7880 456200](tel:+441612346384)
E John.Farrar@uk.gt.com

Simon Hardman
Engagement Manager



T [+44 \(0\)161 234 6379](tel:+441612346379)
M [+44 \(0\)7880 456202](tel:+441612346379)
E Simon.Hardman@uk.gt.com

Chloe Edwards
Audit Executive



T [+44 \(0\)161 234 6379](tel:+441612346379)
M [+44 \(0\)7880 456202](tel:+441612346379)
E Simon.Hardman@uk.gt.com

"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

BRIEFING PAPER



REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance And Customer Services

DATE: 16th April 2019

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2018/19

Based on monitoring information for the period 16th December – 28th February 2019

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 2018/19, approved at Finance Council in February 2018, complied with both the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

The CIPFA Code, the Investment Guidance issued by MHCLG and the Internal Audit & Assurance reviews of Treasury Management activities all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the 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 Bank of England Bank Rate

The Bank of England's Bank Rate held steady at 0.75%, having last gone up in August.

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). These had increased significantly in December after £35M was borrowed from the Public Works Loans Board (PWLB), and have been falling as short term borrowing has been repaid.

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on such MMF holdings are slowly improving, now paying a little over 0.70%. Bank account rates vary, paying from 0.20% to 0.65%.

For limited periods, funds were also placed with the Government’s Debt Management Office (at 0.5%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
17-Dec-18	18-Mar-19	London Borough of Newham	£5,000,000	0.75%
18-Dec-18	18-Mar-19	Wirral Council	£5,000,000	0.75%
18-Dec-18	18-Mar-19	London Borough of Southwark	£5,000,000	0.75%
14-Dec-18	22-Mar-19	National Counties Building Society	£1,000,000	0.83%
16-Jan-19	31-Jan-19	Thurrock MBC	£2,000,000	0.60%
15-Jan-19	22-Feb-19	Humberside Police	£4,000,000	0.60%
31-Jan-19	25-Mar-19	Thurrock MBC	£3,000,000	0.65%
01-Feb-19	25-Mar-19	Cornwall Council	£2,500,000	0.65%
27-Feb-19	27-Mar-19	Lincolnshire County Council	£4,000,000	0.70%
15-Feb-19	27-Mar-19	Thurrock MBC	£2,000,000	0.75%
27-Feb-19	25-Mar-19	Dumfries & Galloway	£5,000,000	0.80%

At 28th February, the Council had approximately £49.6 M invested, compared to £65.5 M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance

The Council’s investment return over the period was approximately 0.71%.

For comparison, benchmark LIBID (London Interbank Bid) rates were

- (a) 1 month lending - stable at around 0.6%
- (b) 3 month lending - rising then falling over the period, averaging 0.78% and ending at 0.73%

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. These rates moved up and down across the period, at their lowest in mid-December and then again mid-February – but, overall, they are historically low.

The cost of short term borrowing, based on loans from other councils, had moved up a little by the end of the period, with loans from 3 months out to a year being priced at from 0.95% to 1.10%

Though the medium term trend in interest rates has been, and is expected to continue slowly upwards, it is unclear how rates will move in the coming months.

4.4 Short Term Borrowing 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 is significantly below the CFR – the gap has widened as long term debt has been repaid. We have been using “internal borrowing” from available revenue cash balances to partly cover this gap. The remaining gap has been 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. This has resulted in net interest savings.

Up to the end of February, there was an decrease in short term borrowing of £15M, as loans of £21M were repaid and £6M of new loans were taken (listed below).

New loans taken in the period				
Start Date	End Date	Counterparty	Amount £	Rate
25/02/2019	30/08/2019	Gwent Police	5,000,000	0.90%
12/02/2019	13/05/2019	Humber Bridge Board	1,000,000	0.85%
			6,000,000	

Future deals already agreed by end of period				
Start Date	End Date	Counterparty	Amount £	Rate
25/03/2019	13/06/2019	London Borough of Haringey	5,000,000	1.00%
28/03/2019	30/09/2019	Tendring District Council	4,000,000	0.95%
			9,000,000	

4.5 Current debt outstanding -

	15 th Dec 2018		28 th Feb 2019	
	£000	£000	£000	£000
TEMPORARY DEBT				
Less than 3 months	3,000		0	
Greater than 3 months (full duration)	<u>75,000</u>		<u>63,000</u>	
		78,000		63,000
LONGER TERM DEBT				
Bonds	18,003		18,003	
Mortgages	17		17	
PWLB	138,002		138,002	
Stock & Annuities	<u>258</u>		<u>258</u>	
		156,280		156,280
Lancashire County Council transferred debt		15,045		14,892
Recognition of Debt re PFI Arrangements		<u>65,703</u>		<u>65,273</u>
TOTAL DEBT		315,028		299,445

Less: Temporary Lending - fixed term	(45,575)	(32,500)
- instant access	(19,950)	(17,116)
NET DEBT	249,503	249,829

The key elements of long term borrowing set out above are:

- (a) £18M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%
- (b) £138M borrowed from the PWLB at fixed rates, at an overall *average* rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.73% 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 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 payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

4.7 Treasury Management Strategy for 2019/20

Following new guidance from MHCLG and CIPFA, applying from the start of 2019/20, the Council increased its focus on its Capital Strategy and Investment Strategy (including Non-Treasury Investments) at Finance Council, and has considered its Treasury Management Strategy at Executive Board in March. A draft Treasury Management Strategy was circulated to Audit and Governance Committee in January.

4.8 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 – Total Borrowing against the Authorised Borrowing Limit – are shown as the first graph in Appendix 4. Total borrowing at 28th February 2019 was £299.5M, below both our Operational Boundary (£309.5M) and Authorised Borrowing Limit (£319.5M) for 2018/19.

As previously reported, early in December we took £35M in PWLB borrowing, when PWLB rates were low, diversifying the borrowing portfolio. As we were aware, these loans took us above our Operational Boundary – which is set for management guidance - and we remained within the (higher) Authorised Borrowing Limit. The Authorised 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 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.

The Council still holds a large part of its debt portfolio in loans of less than a year’s duration - short term loans still represent a cheap way to funding marginal changes in its debt.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £27.6M, against the **limit** set for this year of £95M.

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 is then offset by
- (b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** was around £143M, against the **limit** of £217.5M. 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 much higher levels of new long term, fixed rate borrowing. Though the £35M taken has moved this indicator upwards, there are still significant levels of short term debt.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

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

7. LEGAL IMPLICATIONS

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

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

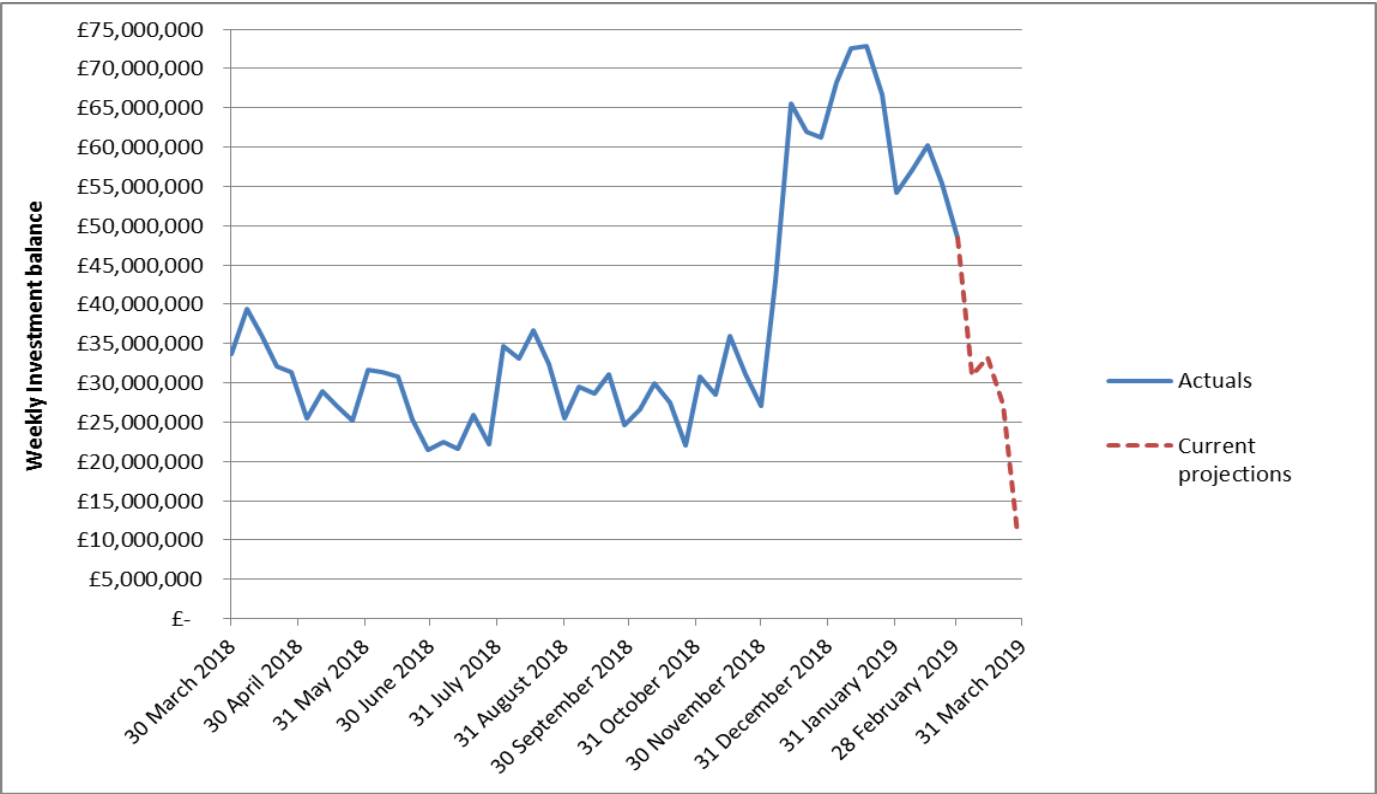
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect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

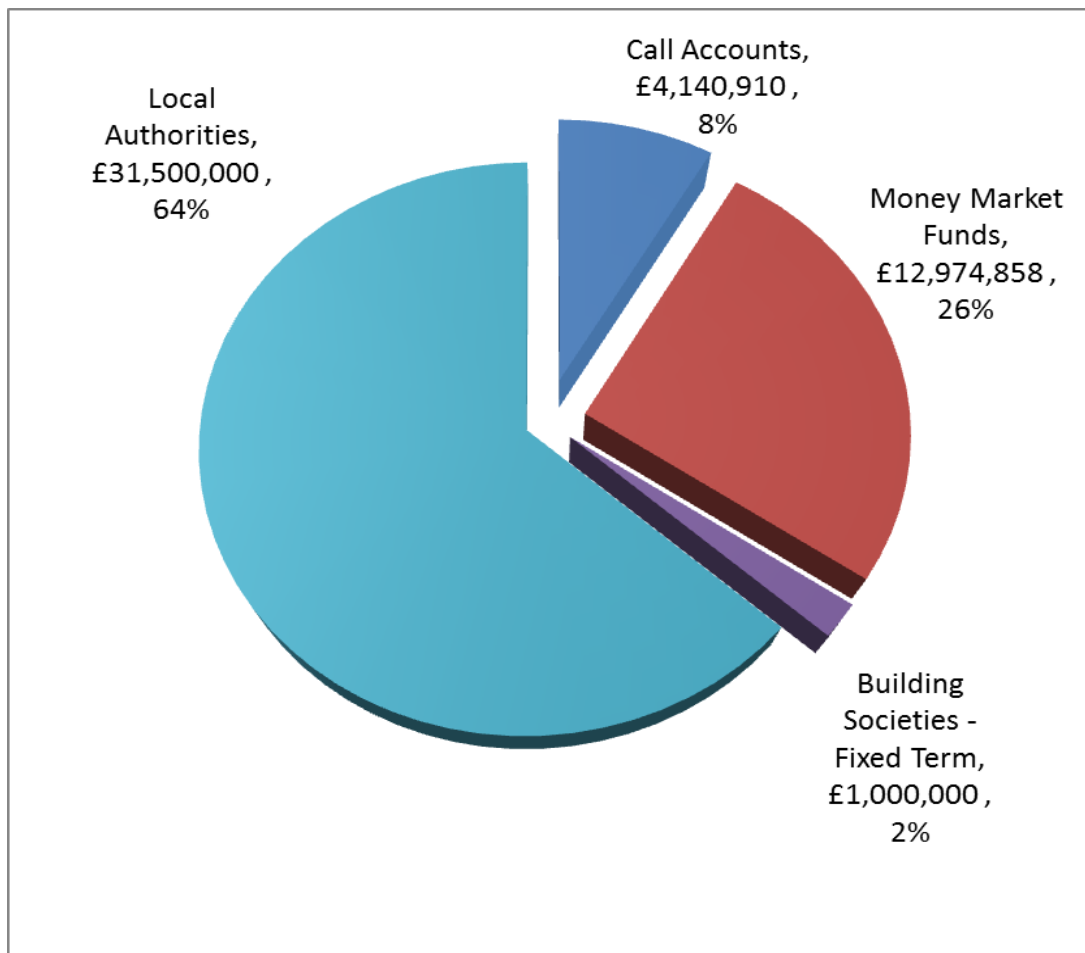
VERSION: 0.03

CONTACT OFFICER:	Ron Turvey- Deputy Finance Manager	extn 5303
	Louise Mattinson	Director of Finance & Customer Services extn 5600
DATE:	28 th March 2019	
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 26 th February 2018	

Weekly Investment balances

Apr 18 to Mar 19





Performance against Treasury & Prudential Indicators 2018-19 (approved by Council 26th Feb 2018)

Appendix 4

Indicator 2018/19

As approved Feb 18

Current Monitoring

Commentary

Local Authority has adopted CIPFA
1 Treasury Management Code of Practice CIPFA TM Code of Practice adopted March 2012

2 Estimated Capital Expenditure £30.3 M £28.7 M

3 Estimated total Capital Financing Requirement at end of year £303.8 Million (incl projections re LCC debt £15.6M and accumulated PFI / Lease debt £69.7M)

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 13.93% (Main Programme Capital Spend)

Outturn External Debt prudential Indicators
LCC Debt 15.6M
PFI elements (no lease) 69.7M
Remaining elements 224.20M
Operational Borrowing Limit 309.5M
Authorised Borrowing Limit 319.5M

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

Borrowing to date	£M
LCC Debt	14.9
PFI Elements	65.2
BwD	219.3
Total	299.4

LCC debt and BSF PFI debt will both fall across the year, as debt payments are made

7 Variable Interest Rate Exposure £95 Million Exposure to date £27.6 M Limit not breached during the year

8 Fixed Interest Rate Exposure £217.5 Million Exposure to date £143.3 M Limit not breached during the year

9 Prudential limits for maturity structure of borrowing

Lower Limit	Upper Limit	Period (Years)
0	50%	<1
0	20%	1-2
0	30%	2-5
0	30%	5-10
25%	95%	>10

Actual maturity structure to date		
Period (Years)	£M	%
<1	63.1	28.8%
1-2	2.3	1.0%
2-5	3.7	1.7%
5-10	20.2	9.2%
>10	130.0	59.3%
Total	219.3	100%

PRUDENTIAL INDICATORS

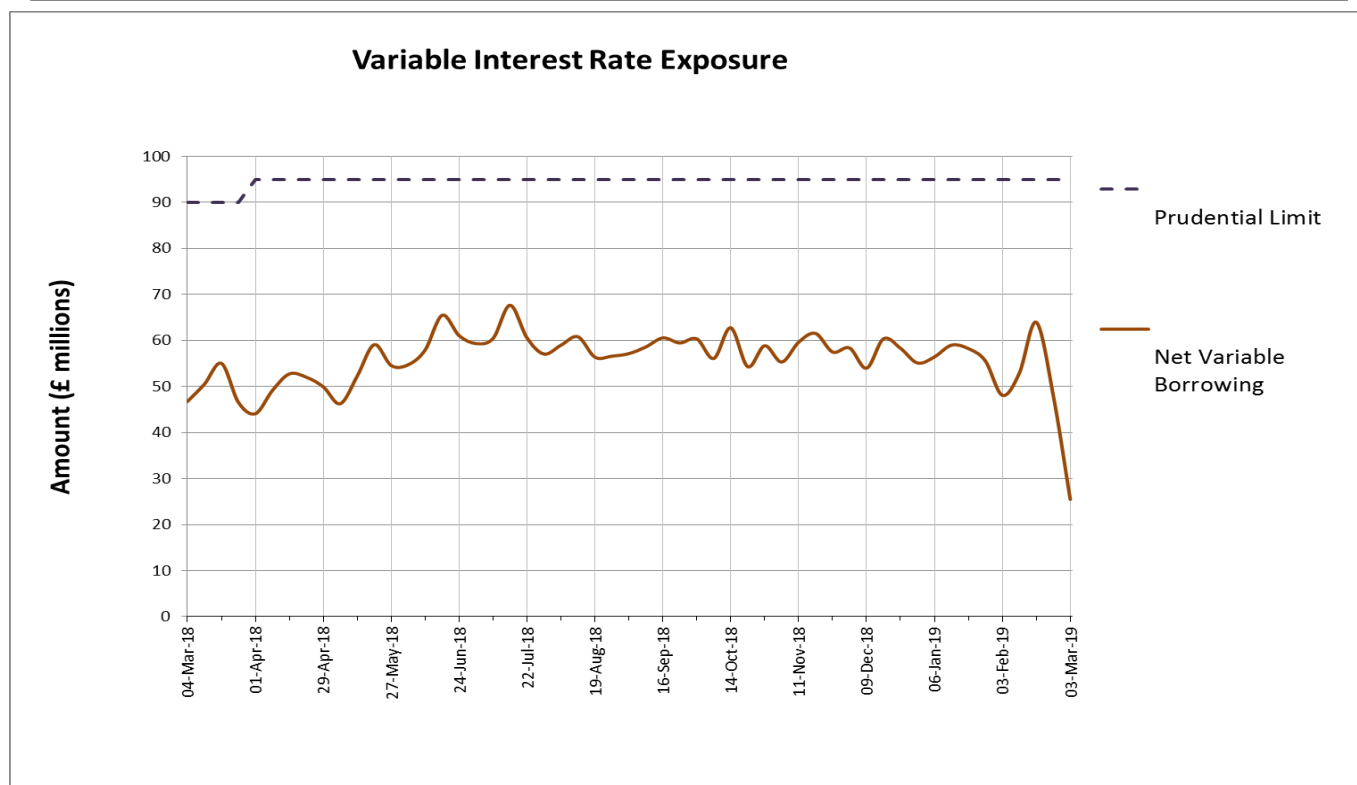
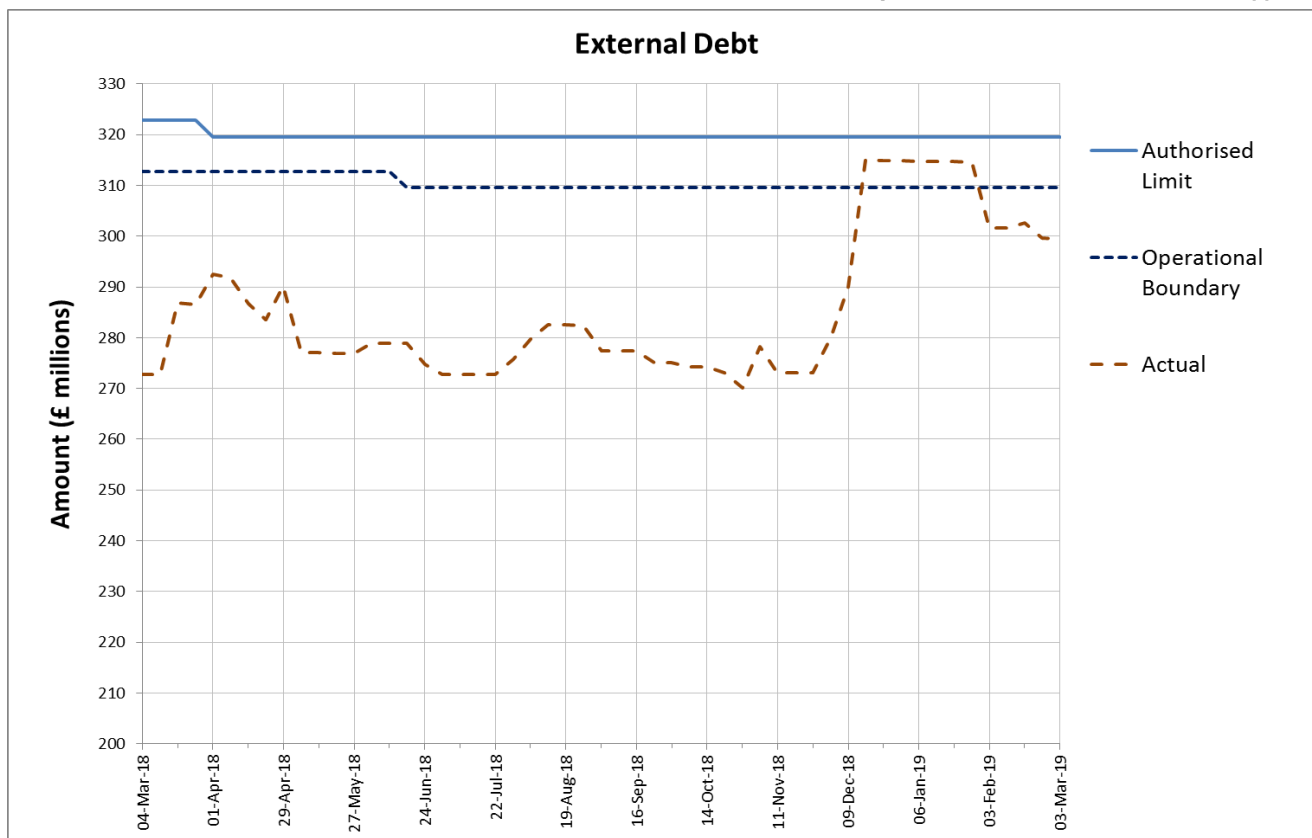
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TREASURY

10 Total investments for longer than
364 days

£7 Million

NO LONG TERM INVESTMENTS MADE



GLOSSARY OF TERMS

Investment Rates

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

Borrowing Rates

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

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

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

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

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

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

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

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

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

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

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

Prudential Indicators

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

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

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

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

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



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 16 April 2019

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 28 February 2019

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 December 2018 to 28 February 2019.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 28 February 2019 against the annual Audit & Assurance Plan, which was approved by Committee on 10 April 2018.

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

Counter Fraud Activity

National Fraud Initiative

A total of 6,496 data matches were received from the Cabinet Office in January as part of the 2018/19 National Fraud Initiative exercise (NFI 2018/19). An initial sift of these matches is currently taking place to ensure that follow up action is taken where appropriate. To date, 237 matches have been processed and a further 199 investigations are ongoing. A total of 36 fraud/errors have been found to date resulting in savings of £95,997 and arrangements are already in place to recover this money from the individuals concerned. 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)	8	£20,395
Private Residential Care Homes	28	£75,602
TOTAL	36	£95,997

Other investigations

During the period Audit & Assurance has also reviewed the cash security arrangements at one location following the report of missing money. Whilst fraud/theft was suspected, insufficient evidence was available to confirm that this was the case. Following discussion with management, internal controls have been strengthened to prevent a reoccurrence.

As part of its proactive plan of counter fraud work, Audit & Assurance is currently undertaking an exercise to validate the VAT status of a sample of suppliers to ensure that VAT is only paid in appropriate circumstances. The results of this exercise will be communicated in the next report to Committee.

Audit & Assurance is currently liaising with the Police regarding two separate cases of suspected overpayments in respect of social care clients who are in receipt of Direct Payments for their care provision. The most recent case involves the identification of a £20,000 overpayment after it was established that the client's circumstances had changed and Direct Payments had been falsely claimed for over a year. Payments have been suspended and recovery will be sought from the client.

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Highways	Adequate	Adequate	7
National Non-Domestic Rates (NNDR)	Adequate	Substantial	4
Equality Act Reporting	Adequate	Adequate	7

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Police & Crime Commissioner Grant	Adequate	Limited	11
Ashworth Nursery	Adequate	Adequate	21
Longshaw Junior School	Adequate	Adequate	16

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

Police & Crime Commissioner (PCP) Grant: The audit objective was to ensure that the conditions attached to the Council's PCP Grant award, by the Home Office, were fully complied with for the financial year 2017/18. **Adequate** assurance was provided for the control environment and **limited** assurance for compliance with the controls identified in place. A number of areas were identified for management attention. These included improving the recording of expenditure and storing of related documentation, and identifying the costs of overheads and staff resources used to support the PCP to fully utilise the grant available.

Current internal audit reviews

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

- Mileage Payments;
- Overtime/Additional Hours;
- Social Determinants of Health/Public Health Internal Spend
- VAT Management;
- Council tax;
- Adults Client Care Assessment/Case Management
- Personalised Budgets/Direct Payments;
- Highways Asset Valuation
- Pupil Transport;
- Payroll Core System;
- St Francis CE Primary School; and
- Cedars Primary School.

Internal Audit Performance

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

Performance Measure	Target	Q3 2018/19	Q2 2018/19
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	66%	63%
3. Final Reports Issued Within Deadline	90%	100%	88%

4. Follow Ups Undertaken Within Deadline	90%	63%	100%
5. Recommendations Implemented	90%	100%	100%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measure where performance (Q3, 2018/19) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Two of the six audits, (33%), completed in the period were over budget. The Police & Crime Commissioner and Highways reviews required additional time to complete as the work was carried out by the apprentice, under supervision, and additional time was spent to ensure that the work and related reports met the required quality standards.

4. Follow Ups Undertaken Within Deadline

Three follow ups due to be carried out in the period were only issued in March due to the way these had been recorded in the Audit & Assurance time management system. There were no must recommendations identified in these reports which were due for implementation in the period. The results from these follow ups will be included in the next report.

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: 04 April 2019

Background Papers: Audit & Assurance Plan 2018/19, approved by the Audit & Governance Committee on 10 April 2018.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 16 April 2019

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT	Audit & Assurance Plan 2019/20 and Internal Audit Charter
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1. PURPOSE

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

2. RECOMMENDATIONS

The Committee is asked to:

- approve the 2019/20 Audit & Assurance Plan (as set out in Appendices 1 and 2);
- approve the Internal Audit Charter (as set out in Appendix 3)
- note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- note that Plan changes will be reported during the year.

3. BACKGROUND

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

The PSIAS also require an internal audit charter to be in place. The charter should set out the purpose, authority and responsibility of internal audit. They require the Head of Audit & Assurance to review the charter periodically. However the final approval resides with the Audit & Governance Committee. The charter was last approved in April 2017.

4. RATIONALE

The Plan and Charter define the scope and the rationale of the approach being followed. They allow Audit & Assurance, independently, to provide assurance to managers, the Chief Executive, the Section 151 Officer and

other stakeholders about the effectiveness of controls and the management of risk. They also enable Audit and Assurance to assist this Committee with its responsibility to oversee the effectiveness of governance arrangements in the Council and in its partnerships through the reporting arrangements in place.

5. KEY ISSUES

The Plan:

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

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

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

Consultations:

The Plan, as a whole, is also a product of consultations with Directors and their Management Teams, and the Management Board, which were undertaken in February/March. Later in 2019/20 further consultations will be held to ensure that the Plan continues to meet the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.

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

Resources:

Audit & Assurance has had to make adjustments to its staffing establishment to meet the demands currently placed upon the Council. The audit resources currently available are considered sufficient to deliver an effective Audit Plan.

The planned resources for the audit function for this year are 677 work-days. In addition, there are 679 work-days for Risk Management (51 days), Counter Fraud (58 days), Insurance (528 days) and Financial Support/Other (42 days).

Internal Audit Charter:

The Internal Audit Charter is a requirement of the PSIAS, which became mandatory from 1 April 2013. The Charter was last re-approved at the Audit & Governance Committee meeting on 11 April 2017 following the publication of updated PSIAS in March 2016. The Charter has been reviewed and updated

to reflect recent changes in the senior management structure and job titles. No other changes are deemed necessary for 2019/20.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

There are no additional 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 and Executive Team

Contact Officer:	Colin Ferguson, Head of Audit & Assurance - Ext: 5326
Date:	4 April 2019
Background Papers:	Audit & Assurance Planning papers; Risk Registers; 2018/19 Audit & Assurance Plan, Strategic Statement and Internal Audit Charter.

Strategic Statement Supporting the 2019/20 Audit & Assurance Plan

1. Introduction & Purpose

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

2. Scope and Independence

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

3. Standards and Ethics

- 3.1 All internal audit work will be delivered in line with the requirements of the PSIAS.
- 3.2 The PSIAS contain a mandatory Code of Ethics for all internal auditors in UK public sector organisations. Individual members of the internal audit staff within Audit & Assurance are also bound by the codes of ethics of their respective professional institutes. They are also required annually to declare that they comply with the Council’s Code of Ethics for Internal Audit and that they have no conflicts of interest.

4. Internal Audit Planning Strategy

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

- to deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations (2015).
- to meet the requirements of the PSIAS (2017) by producing a risk based audit plan which takes into account the Council's organisational strategies, objectives, risks and priorities.
- to focus assurance effort on the most important issues for the Council, by assessing critical business processes and principal risks, at both strategic and operational levels.
- to support the Directors of Finance & Customer S and HR, Legal & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.
- to liaise with the external auditor, Grant Thornton, to coordinate the approach and scope of work so that they can place reliance on the work of Audit & Assurance in delivering their own programme of work, where appropriate.
- to add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money and promoting organisational improvement.
- to consult with key stakeholders to ensure provision of an appropriate level of assurance within the available resource, accepting that not all requests can or will be met.
- to provide sufficient flexibility to allow the plan to evolve to meet any significant emerging risks during the year and to respond where appropriate to management requests for assistance, advice and consultancy.

5. Internal Audit Planning Methodology

5.1 The approach to audit planning for 2019/20 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate & Departmental Risk Registers, the Departmental Management Accountability Framework Dashboard Reports, and from a review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

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

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

- Priority 1 (highest): A corporate risk, strategic governance or fundamental control review, not subject to a recent satisfactory audit

review (adequate/substantial assurance opinion) within the previous 12 months. Or a grant claim certification, which must be endorsed by internal audit to comply with the funding requirements of central government departments. (Red)

- Priority 2: A significant departmental risk, governance, control or improvement issue identified by Directors and/or their departmental management teams not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Orange)
- Priority 3: A significant departmental risk, governance or control issue identified from a review of corporate/departmental risk registers, MAF returns or Council minutes not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Yellow)
- Priority 4: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 2 years. (Green)
- Priority 5: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 3 years. (Pink)
- Priority 6 (lowest): Departmental risk, governance or control issue removed, no longer applicable or not auditable. (White).

6. Key Challenges & Opportunities

6.1 Transformation of services throughout the Council continues to result in significant changes to the control framework, and risks can increase as skilled and experienced staff leave the organisation or when new and innovative ways of working are developed and implemented. We need to be aware of the challenges that face the Council and maintain awareness of these risks as they emerge. The audit plan has been developed to provide assurance that basic risk, governance and control arrangements continue to operate effectively, minimising the risks of misappropriation, loss and error and to ensure that key risks are identified and adequately managed or mitigated.

6.2 To add value, Audit & Assurance needs to take into account the key changes affecting the Council. Consequently, the specific challenges and opportunities facing the Council at the current time have been considered as part of the planning strategy. Those which are considered to have a high strategic risk are discussed below together with an outline of how the internal audit programme will contribute to the Council's assurance requirements.

Welfare Reform:

6.3 The impact of Welfare Reform is expected to continue through 2019/20. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries, leading to increased demand for services from residents. The Audit Plan includes time for proactive and reactive counter fraud initiatives and counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy 2016/21 through the review of fraud risk registers. The Audit

Plan also provides for a review of controls relating to the implementation of the Council's Homelessness Strategy.

Local Government Finance

- 6.4 Under the Localism Act 2011 proposals for local business rate retention came into effect from April 2013. Since then the Government has been reporting its intention to fundamentally change the way councils are funded. This includes a 'Fair Funding' review which will review and reset the funding requirements of each council area, developing mechanisms to move to a 75% Business Rates Retention scheme by 2020, and a review of Adults Social Care funding. These areas will significantly change the way Councils are funded. Previous audits of the Council's council tax and business rate systems have provided adequate assurance on these areas.

Health Reform

- 6.5 Central government is continuing to signal greater integration between health and social care in order to find ways to tackle unsustainable increases in service demand in this area. However the publication of the Green Paper on adult social care continues to be delayed. It is now expected to be published during 2019, though a date has yet to be confirmed. The Care Act 2014 led to changes in the funding of social care, which impact the assessment process. Internal audit reviews of adult social care assessments, governance arrangements for the social determinants of health fund, the implementation of the Volunteering/Demand Management Strategy and social care commissioning arrangements are planned. We will also be able to provide advice and support regarding the governance arrangements relating to the implementation of the Integrated Care Organisation

Education Reform

- 6.6 There have been changes in national legislation over recent years which have given schools increased freedoms which will potentially impact on the business model for the existing educational support services offered by the Council. The Government is also starting the first stages for the introduction of a new national funding formula for schools, which will mean that all schools will receive a consistent and fair share of the schools budget. This is expected to be fully implemented for 2020/21. This will potentially lead to a reduction in funding for some schools. Reviews of the Council's maintained schools will continue to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

- 6.7 The Council remains committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough's future be secured and sustained. The planned audit work for 2018/19 included a review of the LSP Growth Strategy governance framework. This is currently in progress and will be reported on as part of the 2018/19 annual audit opinion report.

Capital Investment

- 6.6 The Council's capital programme includes major commitments, which require strong project management and effective monitoring to ensure they are achieved on time and within budget. Failure to deliver against externally funded schemes could lead to potential overspends, which could impact on the overall future capital programme and the Council's ability to win future

funding bids. There will be a project management review to consider arrangements for the use of the Contractor and Development Framework that the Council has put in place and the management monitoring and reporting arrangements in respect of the Reel Cinema project. Provision has also been included to provide assurance regarding the Highways asset Valuation process and the certification requirements relating to the Local Transport Funding that the Council receives.

7. Categories of Internal Audit Work

7.1 The overall opinion on the Council's control framework is derived from a range of Audit & Assurance work over a number of areas. The work of the service is broadly categorised as follows:

- Planning – a risk based internal audit plan will be created on an annual basis which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy.
- Risk-based system audits – one of the main ways that Audit & Assurance will form a view on the overall control system is by carrying out reviews of the component systems and processes (e.g. using process maps that identify risks and controls; drafting system notes) established within respective business entities. These are commonly known as risk-based system audits and will allow Audit & Assurance to assess the effectiveness of internal controls within each system in managing business risks, enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in an efficient way, whilst maximising the benefit which can be derived from it.
- Compliance / regularity / establishment / school audits – these audits are intended to assess if systems are operating properly in practice. They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems (not necessarily just financial systems). This will also provide information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.
- Key Control Testing – a variation on compliance audit but focusing on a small number of material or 'key' controls that provide assurance on the completeness and adequacy of the Council's accounts. This can provide the basis for external audit to place reliance on the work of Audit & Assurance.
- Procurement – This will use the risk based methodology to assess compliance with the Council's corporate procurement strategy and the Constitution, with reference, in particular, to major contracts.
- Service Reviews / Value for Money – these reviews will use the risk-based methodology, working often in a multi-departmental team, to review specific processes. Value for money will be a consideration in both these and more general audit reviews.
- Control Risk Self Assessment – facilitating the review by services of their own risks and controls in a structured way, for example, via

questionnaires or workshops. This can service both the requirements for assurance or as consultancy.

- Systems Development Audit – phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage, thus minimising the need for re-working.
- Counter Fraud – preventing, detecting and investigating fraud and corruption is, ultimately, a responsibility of management – as part of management's general responsibility for the integrity of the Council's activities. Most cases of fraud and corruption exploit the same weaknesses in systems that, in other circumstances, might have led to nothing more than a mistake. Internal audit will assist management by:
 - verifying management's arrangements for ensuring systems are secure against fraud and corruption and report on any weaknesses;
 - investigate, using the fraud response plan, cases where there is evidence of fraud and irregularity;
 - when requested, undertake investigations into suspected or alleged fraud or corruption. These will be conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff;
 - review weaknesses revealed by instances of proven fraud or corruption, including review of National Fraud Initiative (NFI) data matches to ensure that appropriate action is taken to strengthen internal control arrangements;
 - verify that the risk of fraud and corruption is specifically considered in the Council's overall risk management process; and
 - develop counter fraud awareness and understanding of fraud risk.
- ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.
- Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These services apply the professional skills of Audit & Assurance through a systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.
- Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.
- Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
- Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

8. Reporting Arrangements

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

8.2 Recommendations included in the report are classified as follows:

Must Critical in that failure to address the issue or progress the work will lead to one of the following occurring: loss, fraud, impropriety, poor value for money or failure to achieve against organisational objectives. Examples include failure to comply with legislation or organisational policy or procedures. *Remedial action must be taken immediately.*

Should Not critical but failure to address the issue or progress the work could impact on operational objectives and should be a concern to senior management. *Prompt specific action should be taken.*

Consider Areas that individually have no major impact on achieving objectives or on the work programme, but where combined with others could have an effect at the process level which could give cause for concern. *Specific remedial action is desirable.*

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

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

- 8.4 For the consultancy reviews, where Audit & Assurance is providing independent advice and support to departments during the implementation of new systems and procedures an opinion may be provided, which reflects progress on these developments. This opinion may contribute to the Head of Audit & Assurance's annual audit opinion.
- 8.5 A final report containing management responses to any issues identified is subsequently distributed to:
- The Director responsible for the area reviewed;
 - The Director of Finance & Customer Services (Section 151 Officer);
 - The Chief Executive (Limited Assurance Reports Only); and
 - Grant Thornton (the Council's external auditor) (Limited Assurance Reports Only).

9. Monitoring Arrangements.

- 9.1 The Audit & Assurance Plan will be monitored via weekly progress meetings of the Audit & Assurance management team, regular meetings with the Director of Finance & Customer Services and external audit. Periodic updates will also be provided to the Directorate Management Teams along with individual reports to relevant Senior Managers.
- 9.2 The plan reflects the assurance need, however, it is recognised that priorities may be subject to change. In addition to the contingency that is available, we accept that there may be a need to amend our planned audits during the year so that we continue to reflect the priorities and risks of the Council. We will discuss minor changes with the Director of Finance & Customer Services. Any significant matters that impact upon completion of the plan or require substantial changes will be reported to Management Board and to the Audit & Governance Committee.
- 9.3 Report recommendations from individual audits are followed up to ensure they have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions confirmed, and ensures audit resources are directed towards priority areas. It is the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable agreed in the management action plan included in the audit report.
- 9.4 Where we issue a *limited* or *no* assurance report we will undertake "standard" follow ups after 3 months. For all other assurance reports we will undertake a "standard" follow up after 6 months. Where we have particular concerns about the implementation of recommendations we will undertake further "physical" follow up exercises where documentation will be reviewed and further testing undertaken.
- 9.5 In addition summaries of finalised Audit & Assurance reports are presented to each Audit & Governance Committee meeting to provide an update of audit progress and coverage and to outline the key issues arising from this work. This also includes information on the implementation of agreed recommendations.
- 9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit & Governance Committee through the progress & outcomes report. The

defined targets included within the Finance & IT Department's Business Plan for Audit & Assurance in 2019/20 are:

Achievement:

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

Quality:

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

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

10. Audit & Assurance Resources

- 10.1 As at 1 April 2019 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.4 full-time equivalent (FTE) posts:

- 1 Head of Audit & Assurance (0.70 FTE)
- 2 Principal A & A Officers (2.0 FTE)
- 2 A & A Officers (2.0 FTE)
- 1 Apprentice (0.7 FTE)

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

Name	Qualifications	Experience	Specialism
Colin Ferguson Head of A & A	ACCA	36 years	Strategic Risk & Governance Audit
Chris O' Halloran Principal Internal Auditor	PIIA	9 years	Counter Fraud Contract Audit
Andrew Tordoff Principal Internal Auditor	HND in Accounting Foundation Diploma in Business Analysis	19 years	IT Audit Risk & Governance Audit
Catherine Bibby Internal Auditor	Honours Degree/ AAT Part Qualified	5 years	Risk & Governance Audit
Luke Richardson Apprentice	GCSE	18 months	Risk & Governance Audit

ACCA - Association of Chartered Certified Accountants

CIPFA - Chartered Institute of Public Finance & Accountancy

PIIA - Practitioner of the Institute of Internal Auditors

AAT - Association of Accounting Technicians

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

- 10.3 Currently, this establishment is regarded as adequate for the Council's needs in ensuring that it meets the requirements of the Accounts and Audit Regulations. There will, however, often be significant changes affecting either what the Council does or how it arranges delivery to fulfil its statutory obligations. The impact on the Audit & Assurance function of such changes will be reviewed, each year, so that Members can assess the adequacy of its resource needs.
- 10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2019/20. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan which is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & Customer Services Department's training plan is as follows:

Name	Professional Training	2019/20 Commitment
Catherine Bibby	AAT	5 days
Luke Richardson/Apprentice	AAT/NVQ in Business Administration	30 days

- 10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below, with 2018/19 figures for comparison.

Category	2019/20	2018/19
Total available days	2,009	1,992
Deduct: annual leave, sickness & bank holidays.	(331)	(334)
Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.)	(320)	(320)
Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)	(679)	(639)
Days available for Audit & Assurance reviews	679	699

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

Audit & Assurance - Draft Audit Proposals 2019/20	Classification	Priority	19/20 Days
Adult & Prevention			
Client case management systems - Mosaic Access Controls	Risk	1	10
Commissioning/Contract Management and Social Care Commissioning budget	Control	2	10
Volunteers/ Demand Management Strategy	Control	2	10
Homelessness Prevention Strategy - Impact of Universal Credit	Risk	2	10
Care Act 2014 - Mental Health Trust Arrangements	Risk	2	10
Health & Social Care Integration - Sustainability & Transformation Plan	Governance	3	10
Sub total			60
Children's Services & Education			
Protocol ICS System	Risk	1	10
Commissioning/Contract Management	Control	2	10
Ofsted Inspection Framework	Risk	2	10
Finance Transactional Team	Control	3	10
Petty Cash	Control	3	10
Audits of Schools Finance systems	Control	3	60
Adoptions - Regional contract	Control	3	10
Sub total			120
Public Health & Wellbeing			
Football Foundation Investment - Witton park	Control	1	10
Sports England Grant - Pennine Lancashire Pilot Moved from E&L 2019/20	Governance	2	10
Social Determinants of Health Fund - Governance	Governance	2	10
Museums and Turton Tower	Control	3	10
Sub total			40
Digital & Business Change			
Device Management/ Software licencing/Asset Management/PC Inventory Controls	Risk	2	15
Business Continuity/Disaster Recovery	Risk	2	10
Change Control	Control	2	10
Sub total			35
Growth & Development			
Local Transport Capital Funding/LTP Grant Certification Requirement	Control	1	5
Bus Subsidy Grant	Control	1	5
Building Control. Compliance with Building Control Performance Standards	Control	2	10
Arrangements re use of Contractor and Development Framework	Control	2	10
Planning Performance Improvement Plan / New Planning system/Under performance on planning.	Departmental Risk	2	10
Reel Cinema - Capital Project. Project delays and budget over-runs for the Blackburn Cinema, Undercroft Carpark and Public Realm Scheme	Control	2	10
Commercial Property Rental Management	Control	2	10
New Section 106 Procedures	Control	2	10
Health & Safety - Failure to comply with H&S legislation & Council standards	Risk	3	10
Sub total			80
Environment & Operations			
Highways maintenance - procurement and contracting arrangements re highways external spend.	Control	2	10
Deterioration of the highways network in particular road surfaces. HAMIS Moved from G&D 2019/20	Departmental Risk	2	10
Transport Procurement/Fleet Management - implement 2018/19 fleet vehicle replacement programme.	Risk	3	10
Income billing and collection - parking/bus lane enforcement and bereavement services	Control	3	10
Sub total			40
HR, Legal & Governance			
Police & Crime Commissioner Grant	Control	1	5

Audit & Assurance - Draft Audit Proposals 2019/20	Classification	Priority	19/20 Days
Ownership disputes relating to sale of land and buildings	Control	2	10
RIPA processes	Control	2	10
Governance and decision making and reporting arrangements	Control	2	10
Payroll - Core system/Failure of HR & payroll system incl staff & Mgr. self service.	Control	2	15
Apprenticeship levy	Control	2	10
ResourceLink System	Control	2	10
Off payroll engagement (IR35)	Control	3	5
Sub total			75
Finance & Customer Services			
Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS	Risk	1	10
Main Accounting System - including account reconciliation's	Control	2	10
Creditors/E-Procurement	Control	2	10
Mosaic - Financial Assessment module	Control	2	10
Sundry Debtors	Control	2	10
Council Tax	Control	3	10
Treasury/Cash flow Management	Control	3	10
Corporate Appointee/Guardianship	Risk	3	10
Sub total			80
Corporate Audits			
Equality Impact Assessments	Governance	2	10
Partnership Scrutiny/Accountability	Risk	2	10
Review of Financial Regulations, SFIs, etc	Governance	2	5
Social Media	Risk	3	10
Sub total			35
Other Audit Work			
2018/19 Work in progress	Governance	1	32
Follow up work	Governance	1	10
Audit Committee	Governance	1	15
Liaison with external audit	Other	1	2
Audit Committee Annual Report/Evaluation	Governance	1	4
HoIA Annual Report	Governance	1	4
A & A Client liaison/Queries	Other	2	10
A & A Client liaison/DMT attendance	Other	2	10
A & A Client liaison/Project Groups	Other	2	5
Contingency	Other	2	20
Sub total			112
Other Risk & Governance Work			
Annual Gov Statement	Governance	1	10
MAF and MAF Challenges	Governance	1	10
Risk Management Support	Risk	1	5
Road Risk Mgmt Group	Risk	1	5
Review/Monitor Corporate Risks	Risk	1	5
Review Monitor Departmental Risks	Risk	1	10
Business Continuity Champions Meetings	Risk	1	2
Risk Annual Plan/Report	Risk	2	4
Sub total			51
Other Fraud Work			
National Fraud Initiative (NFI)	Governance	1	20
Counter Fraud Annual Plan/Report	Governance	1	4
Proactive Fraud Testing	Governance	2	10
Reactive investigations	Governance	2	15
Review/Monitor Fraud Risk Register	Control	2	5
Fraud awareness and whistle blowing initiatives	Control	2	4
Sub total			58
Total Planned Audit Days 2019/2020			786

Blackburn with Darwen Borough Council



Internal Audit Charter

**Audit & Assurance
Finance & Customer Services Department**

Latest Approval: Audit Committee 11 April 2017

Background

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

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

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

The Internal Audit Mission

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

Definition

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

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

Core Principles for the Professional Practice of Internal Auditing

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

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.

- Communicate effectively.
- Provide risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promote organisational improvement.

Standards

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

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.
- The Accounts and Audit Regulations 2015 also state that: “a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance.”

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

Responsibilities and Objectives of Internal Audit

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

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

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

Responsibilities of the Council

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

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

Independence and Objectivity of Internal Audit

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

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

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

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

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

Head of Audit & Assurance

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

Relationships

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

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

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

Scope of Internal Audit

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

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

Opinion Work

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

Governance

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

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

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

Risk Management

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

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

Internal Control

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

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

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

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

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

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

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

Non-Opinion Work

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

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

Fraud

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

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

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

Reporting

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

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

The Head of Audit & Assurance will present a formal report annually to the Chief Executive, Director of Finance & Customer Services and the Audit & Governance Committee giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control. The report will also

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

Internal Audit Access Rights

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

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

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

Internal Audit Resources

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

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

Review

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



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 16 April 2019

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2018/19 Quarter 3 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 October 2018 to 31 December 2018.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 3 2018/19; and
- Note the risk management activity that has occurred during the period.

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 Council's Corporate Plan priorities and objectives. Effective risk management arrangements should be embedded in the Council's culture and decision making processes as well as being an inherent part of 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 satisfies both these requirements.

5. KEY ISSUES AND RISKS

The Corporate Risk Register contained a total of 14 open risks at 31 December 2018. A summary of the corporate risk details is attached at Appendix 1 of this report. There has not been any change in the residual risk score assessed for any of the risks identified since the previous quarter.

Corporate Risk 14, that of a high profile serious/critical safeguarding incident/case occurring that is known to Council services, remains the top corporate risk as noted in previous report to the January meeting of this Committee.

As part of the Council's Risk Management process we review and monitor the risks on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. Management Board review the details recorded as part of the Management Accountability Framework reporting arrangements, as well as the on-going review and update of the risks by the designated risk owners and key contacts

The Road Risk Management Group continues to meet 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. The Group also reviews a range of management reports to identify and monitor themes and trends in fleet driving behaviour and insurance claims to consider any training needs. We have also continued to liaise with colleagues across the Council to identify areas to make use the risk management support that is available from Zurich Municipal as part of the current long term insurance agreement during the year. This can be used to provide additional support to managers and senior officers regarding specific risk management arrangements and training or to carry out strategic or operation risk management reviews.

6. POLICY IMPLICATIONS

There are no policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or health implications arising from this report.

11. CONSULTATIONS

The Corporate Risk Register has been reviewed by Risk Owners and Key Contacts and agreed by Management Board.

Contact Officer:	Colin Ferguson Head of Audit & Assurance – Ext: 5326
Date:	4 April 2019
Background Papers:	Corporate Risk Management Strategy 2015/2020, 2017/18 Annual Risk Management Report (including Quarter 4 Review) and Risk Management 2018/19 Quarter 2 Review

Summary Risk Register

Directorate: _____
 Department: Corporate Risk Register
 Service: _____
 Quarter and Year: Quarter 3 - 2018/19 Date of last review: 30-Jun-18
 Date: 31-Dec-18 Date of next review: 31-Mar-19

Update

Create

Insert

Risk No	Risk Description	Date Raised	Strength of Existing Controls	Inherent			Residual			Target			Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	Previous Residual			Change in Score
				L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating					L	I	Risk Rating	
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Government Commission taking control of the authority's finances	26-Jan-15	Good	5	5	HIGH	2	3	LOW	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	11-Oct-18	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	Lee Kinder, Stuart Scott	Open	10-Oct-18	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	Denise Park	Alison Schmid / Heather Taylor	Open	06-Sep-18	2	3	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	19-Oct-18	1	3	LOW	-
7	Ensure BwD delivers its statutory function- Emergency Preparedness, Planning, Response, Recovery & BC Promotion (small & med businesses) to protect the community/enhance the Council's resilience, 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	David Fairclough, Rachel Hutchinson, Sarah Riley	Open	10-Oct-18	1	5	LOW	-
7b	Ensure delivery of statutory Civil Contingencies function - Business Continuity Management arrangements in place, planning, training testing & validating & exercising procedures & plans: to protect Council's resilience, protect the community, & mitigate financial & reputational damage. Corpo Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Harry Catherall	David Fairclough, Paul Fleming, Rachel Hutchinson, Sarah Riley	Open	10-Oct-18	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	3	4	MEDIUM	1	3	LOW	Dominic Harrison	Gifford Kerr	Open	31-Jan-19	3	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesipn, 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	Heather Taylor/Mark Aspin	Open	31-Oct-18	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	Jayne Ivory	Mark Carriline	Open	14-Jan-19	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	Paul Fleming	Sarah Critchley	Open	09-Jan-19	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	Sayyed Osman / Jayne Ivory (DCS)	Paul Lee	Open	31-Jan-19	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	3	3	MEDIUM	2	3	LOW	David Fairclough	Fiona Eastwood	Open	19-Oct-18	3	3	MEDIUM	-
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	Paul Fleming	Steve Rowe	Open	09-Jan-19	3	4	MEDIUM	-
18	Insufficient budget for service delivery if MTFs income targets from the Growth Agenda are not met.	29-Nov-16	Good	4	5	HIGH	3	4	MEDIUM	3	4	MEDIUM	Denise Park,	Simon Jones	Open	01-Oct-18	3	4	MEDIUM	-