

# Public Document Pack

## Audit & Governance Committee

Tuesday, 15th October, 2019  
Meeting Room A, Town Hall, Blackburn  
6.30 pm

---

### AGENDA

1. **Welcome and Apologies**
2. **Minutes of the meeting held on 6th August 2019**  
**Audit Governance Committee August 2019** **3 - 5**
3. **Declarations of Interest**  
**DECLARATIONS OF INTEREST FORM** **6**
4. **External Audit Progress Report and Sector Update -  
Year Ended 31st March 2020**  
The Council's External Auditors will provide the Committee with a report on Treasury Management activity.  
**BwD Audit Committee Progress Report October 2019** **7 - 34**  
**Audit Findings Report**
5. **Treasury Management Report - June to August 2019**  
The Director of Finance & Customer Services will provide the Committee with a report on Treasury Management activity.  
**Treasury Mgmt Report to Audit and Governance Cttee** **35 - 49**  
**15 Oct 2019 - FINAL**  
**Appendix 1 T Mgt Report to Audit & Governance Cttee**  
**Oct 2019**  
**Copy of Appendix 2 T Mgt Report to Audit Governance**  
**Cttee Oct 2019**  
**Copy of Appendix 3 T Mgt Report to Audit Governance**  
**Cttee Oct 2019**  
**Copy of Appendix 4 T Mgt Report to Audit Governance**  
**Cttee Oct 2019**  
**Copy of Appendix 5 Glossary - T Mgt Report to Audit**  
**Governance Cttee Oct 2019**  
**Appendix 6 - Treasury Mgmt Mid-Year Review - FINAL**

**6. Audit & Assurance - Progress & Outcomes to September 2019**

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

**AA Progress Report Q2 2019.20**

**50 - 54**

**7. Risk Management - 2019/20 Quarter 1 Review**

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

**Risk Management 2019.20 Quarter 1**

**55 - 58**

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

None.

Date Published: Monday, 07 October 2019  
Denise Park, Chief Executive

## AUDIT & GOVERNANCE COMMITTEE Tuesday, 6 August 2019

**PRESENT** – Councillors McGurk (Chair), Rawat, Slater N, and Whittle.

**OFFICERS** – Louise Mattinson, Colin Ferguson, Simon Ross, Julie Jewson and Phil Llewellyn (Blackburn with Darwen BC), John Farrar (Grant Thornton).

**ALSO IN ATTENDANCE** – Councillor Andy Kay.

### RESOLUTIONS

**14**    **Welcome and Apologies**

The Chair welcomed everyone to the meeting. Apologies were received from Councillors Davies and Fazal.

**15**    **Minutes of the last meeting**

**RESOLVED** – That the Minutes of the meeting held on 25<sup>th</sup> June 2019 be confirmed as a correct record.

**16**    **Declarations of Interest**

Councillor Ron Whittle declared an interest (Member of Lancashire Pension Fund Committee).

**17**    **External Audit Findings Report 2018/19**

John Farrar, Engagement Lead, Grant Thornton, outlined the key Audit Findings for Blackburn with Darwen Borough Council for the Year ended 31<sup>st</sup> March 2019.

The majority of work was completed on site during June and July 2019. Recommendations for management were outlined in Appendix A of the report, with the follow up of recommendations from the prior year’s audit detailed in Appendix B. Audit adjustments were detailed in Appendix C. In terms of financial statements, the anticipated audit opinion would be unmodified.

Following a risk based review of the Council’s value for money arrangements, the audit concluded that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and it was therefore anticipated that an unqualified value for money conclusion would be issued, with work due to be completed to meet the deadline of 13<sup>th</sup> September 2019.

The significant finding, in terms of audit risks, related to the valuation of pension fund net liability, and reference was made to the recent McCloud Ruling. The valuation of the Authority’s pension fund net liability had been identified as a significant risk.

The report also highlighted other significant findings relating to recharges in

the Comprehensive Income and Expenditure Statement, Journal Control issues and Revenue Testing issues.

Members and Officers made comments and observations of the findings of the audit and thanks were passed to internal audit and finance officers for their assistance during field work.

**RESOLVED** – That the report be noted.

## **18**     **Statement of Accounts 2018/19**

A report was submitted, which outlined the issues arising from the external audit of the Council's 2018/19 Statement of Accounts, and requested Audit and Governance Committee approval of the audited accounts prior to their publication, as required by the Accounts and Audit Regulations 2015.

The Accounts and Audit Regulations 2015 required that the accounts should be considered and approved by members prior to publication by the 31st July following the year to which they related. This would enable the Audit and Governance Committee to review and approve the accounts, having considered the issues raised by the auditors in their Audit Findings Report.

The 2018/19 draft Statement of Accounts were certified by the Director of Finance and Customer Services on 31<sup>st</sup> May 2019, and subsequently published on the Council's website. The audit of those draft accounts commenced at the beginning of June 2019 and amendments had been made to the accounts in line with audit findings to date.

The external audit of the accounts was not concluded in time for the accounts to be published by 31 July, in the main due to the additional time required to collate further information regarding pensions, and the auditors requiring additional time to agree the Council's accounting treatment of its pension costs following the McCloud judgement. This was the case for numerous local authorities across the country.

In order to comply with the Accounts and Audit Regulations 2015, a notice had been published on the Council's website stating that the statement of accounts could not currently be published, and confirming that the accounts would be published as soon as reasonably practicable after the receipt of a report from the auditor which contains the auditor's final findings from their audit.

**RESOLVED** – That the Audit and Governance Committee:

1. Note the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2018/19 (previous agenda item).
2. Approve the Statement of Accounts for 2018/19.
3. Approve the letter of representation from the Director of Finance & Customer Services to the external auditors for which a draft is provided at Appendix 1, with the final version to be made available at the meeting; and

4. That delegated authority be granted for the Chair to sign the Statement of Accounts 2018/19 in consultation with the Director of Finance and Customer Services.

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 & GOVERNANCE COMMITTEE**

DATE:                                       **15<sup>TH</sup> OCTOBER 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)

# Audit Progress Report and Sector Update

Blackburn with Darwen Borough Council

Page 7

October 2019



Agenda Item 4

# Contents

Section	Page
Introduction	03
Progress at 7 October 2019	04
Audit Deliverables	05
Sector Update	06



# Introduction



**John Farrar**

**Engagement Lead**

T 0161 234 6384  
M 07880 456 200  
E [john.farrar@uk.gt.com](mailto: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)

Page 9



**Simon Hardman**

**Engagement Manager**

T 0161 234 6379  
M 07880 456 202  
E [simon.hardman@uk.gt.com](mailto: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](http://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 Borough Council 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.psa.co.uk](http://www.psa.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 page 13. 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 7 October 2019

## Financial Statements Audit

We have completed our audit on your 2018-19 financial statements audit and will update Members at the Audit and Governance Committee meeting. We issued our audit report and certificate of closure of the audit on 30 September 2019.

Our planning for the 2019-20 audit has already started, with meetings and the continued review of agendas and minutes.

## 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 three sub criteria for assessment to be able to give a conclusion overall are:

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

We have issued our 2018-19 VfM Conclusion on 30 September 2019 and our planning for 2019-20 is ongoing.

## 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 is in progress and will be completed by the 30 November deadline. We also review the Council's Teachers Pensions' return and we will complete our work to meet the deadline of 30 November.

### Meetings

We continue to meet regularly with Finance Officers to ensure the audit progresses

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will invite members of the Council's finance team to our 2019-20 Local Government Accountants' Workshop to be held in early 2020.

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	Revised Planned Date	Status
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion. We originally expected to issue our report in July 2019 however, due to the need for additional testing, we agreed with the Council that the report would be delayed.</p>	September 2019	Completed
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	October 2019	In progress
2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2018/19.</p>	April 2019	Complete
<p><b>Accounts Audit Plan</b></p> <p>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 2019-20 financial statements.</p>	January 2020	Not yet due
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit and Governance Committee.</p>	July 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

# 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

# CIPFA – CFO confidence survey

## In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline."

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



## Financial confidence



### Challenge question:

How confident, is the Council, in relation to its financial position?  
Has this changed from previous years?

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Page 10 Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

**Stage 1** involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

**This stage of the consultation is now closed.** The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

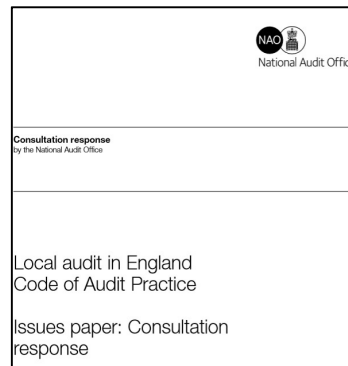
**Stage 2** of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



# LGA: Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial venture to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



## Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



**Challenge question:**

If your Authority is looking at commercial activity, have you considered the LGA report?



# MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.



The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We’ll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

## Brexit preparations

### Challenge question:

Who is your Brexit lead and how is your authority supporting Brexit preparations?



# Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

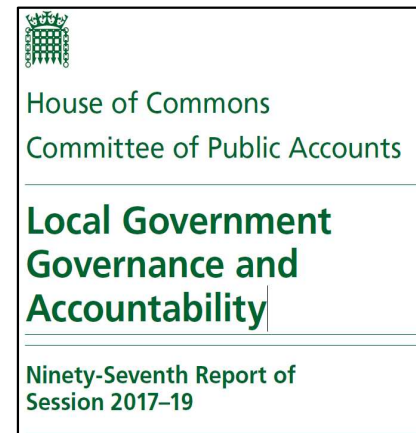
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



## 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

Page 19

*"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
- 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 AQR

### 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



# Addendum to the Audit Findings for Blackburn with Darwen Borough Council

---

Page 2  
Year ended 31 March 2019  
11 September 2019



# Contents



Your key Grant Thornton  
team members are:

Page  
22

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

## Section

1. Headlines
2. Financial statements

## Appendices

- A. Update to unadjusted errors
- B. Fees
- C. Audit Opinion

## Page

- 3
- 4
- 6
- 7
- 8

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

---

# Headlines

This addendum provides an update on those areas of our work which remained outstanding on 6 August 2019 and summarises our findings and conclusions on these issues. We have not repeated any messages in this addendum that featured in the main report and therefore it does not cover those areas of our work which were completed prior to the August Audit and Governance Committee meeting.

---

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our work is now complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters. In our audit findings report we highlighted that we needed to:

- Draft the final audit report
- Complete final internal reviews of the audit file
- Receive the management representation letter; and
- Review of the final set of financial statements.

We have completed all of our work and internal reviews. A draft of our proposed audit is included at Appendix C of this report. Our proposed audit report includes an unqualified opinion on the Council's financial statements and an unqualified Value for Money Conclusion.

The management representation letter has been updated to reflect our final work. The remainder of this report summarises where additional work has taken place after the Audit and Governance Committee on 6 August 2019, and also includes an update on the fee to be charged for the audit.

# Significant findings – audit risks

We set out below an update on the work completed to address the ‘valuation of land and buildings’ risk.

## Risks identified in our Audit Plan

### Valuation of land and buildings

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:

- 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.

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.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

## Commentary

### Auditor commentary

In our report to the Audit and Governance Committee we noted that we had substantially completed our review of the Property, Plant and Equipment balance. The main outstanding issues when we presented our report in August to the Committee were:

- Completing our challenge of the carrying value of your land and buildings
- Assessment of a second valuer who was used by the Council to revalue agricultural assets. We received the response to our request for information from this valuer in the final week of August
- The review of the ‘other’ PPE movement of £8.3million.

Our testing identified one further error in relation to PPE of £0.451million and this is now included in the revised unadjusted errors schedule at appendix A to this report.

# Significant findings - control issues

We set out below an update on the work completed to address outstanding control issues.

## Issue

## Commentary

### Revenue Testing

- Our testing of revenue income highlighted material uncertainties. Due to these uncertainties we had to extend our testing. Our testing has identified:
  - The inclusion of internal recharges, which has been reported elsewhere in our report
  - One item from the original sample where no evidence has been provided and a further 3 from the additional testing where we are still awaiting information from the Council
  - A credit note that has been recorded as income – such items should actually be a credit against expenditure
  - An item of income that was actually related to a capital charge

### Auditor view

- The Council agreed to amend the financial statements in relation to the internal recharges issue, with the exception of £3.850 million which has been reported as an unadjusted misstatement
- Evidence was provided for all our sampled items
- The Council explained that the credit note was included as income due to it being found in a specific exercise to identify duplicate payments
- After considering the above we were satisfied that no non-trivial issues remained



## Other communication requirements

We set out below an update on those other matters that have changed since the Audit Findings Report was presented to the Audit and Governance Committee on 6 August.

Issue	Commentary
<b>Written representations</b>	<ul style="list-style-type: none"> <li>An updated management letter of representation has been requested from the Council to be signed by the Chair of the Audit and Governance Committee and Director of Finance and Customer Services.</li> </ul>

## Other responsibilities under the Code

We set out below an update, further to the Audit Findings Report presented to the Audit and Governance Committee on 6 August 2019, of findings relating to our other responsibilities

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Our work concluded that the Council does not exceed the specified group reporting threshold and no further work is required on the WGA consolidation pack with the Council's audited financial statements.</p>
<b>Certification of the closure of the audit</b>	<p>Given that no further work is required on the Council's WGA consolidation pack, we intend to certify the closure of the 2018/19 audit of Blackburn with Darwen Borough Council in the audit opinion.</p>

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement (CIES) £'000	Statement of Financial Position £' 000	Impact on usable reserves £'000	Reason for not adjusting
1 The legal ruling around age discrimination (McCloud -Court of Appeal) has implications for pension schemes where transitional arrangements or changing benefits have been implemented. The Council received an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate also takes into account updated assumptions in relation to the return on assets (of 1m). The net impact is a possible increase in pension liabilities of £2.4m.	Dr: Past Service Cost 5,855	Cr: Net Pension liability (4,387)  Cr: Remeasurement of the net defined pension liability (1,468)	0	The item is below the Council's materiality threshold and therefore the Council does not deem it necessary to adjust for this item.
2 It was identified that a number of internal recharges have been included within gross income and gross expenditure as part of our work on income and expenditure. A large portion of this has been resolved by the Council and will be adjusted for in both the current and prior year financial statements, and a remainder will be reported as an unadjusted misstatement	Dr: Income (3,850) Cr: Expenditure (3,850)	0	0	Not material and also due to the complexities of identifying how it would be adjusted for in the CIES.
3 There is currently a provision in place for closed landfill sites for £400k. Upon further discussion with the Council it was confirmed that this does not meet the definition of a provision under IAS 37 and should instead be accounted for as an earmarked reserve	Cr: Expenditure (400)	Dr: Provisions 400	(400)	The item is below the Council's materiality threshold and therefore the Council does not deem it necessary to adjust for this item.
4 An item of capital expenditure for £604k relating to 2018/19 was recorded in 2019/20 incorrectly. This has been confirmed with the Council and we have confirmed that there are no other such items.		Dr: PPE Additions 604 Cr: Capital Creditors (604)	0	The item is below the Council's materiality threshold and therefore the Council does not deem it necessary to adjust for this item.
5 A revaluation was incorrectly posted to one component in the asset register, however it should be split with a second component resulting in £451k being included twice.		Dr: Revaluation Reserve 451 Cr Property, Plant and Equipment (451)		The item is below the Council's materiality threshold and therefore the Council does not deem it necessary to adjust for this item.
<b>Overall impact</b>	<b>£5,455</b>	<b>(£5,455)</b>	<b>(£400)</b>	

# Fees

We confirm below our final fees charged for the audit, which have been updated since our Audit Findings Report presented to the Audit and Governance Committee on 6 August 2019.

## Audit Fees

	Proposed fee	Final fee	2017/18 fee
Council Audit	£83,186	£92,186	£106,839
<b>Total audit fees (excluding VAT)</b>	<b>£83,186</b>	<b>£92,186</b>	<b>£106,839</b>

The proposed fee, as set out in the audit plan, included an additional £4,000 due to the Council being a 'Public Interest Entity'. The additional £9,000 relates to the additional work we have had to complete, as set out below:

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3,000
<b>Total</b>		<b>£9,000</b>

# Draft Independent auditor's report to the members of Blackburn with Darwen Borough Council

## Report on the Audit of the Financial Statements

### Opinion

#### Our opinion on the financial statements is unmodified

We have audited the financial statements of Blackburn with Darwen Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Financial Statements, the Notes to the Collection Fund Statement and the Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Overview of our audit approach

#### Financial statements audit

- Overall materiality: £7,182,000, which represents 1.8% of the Authority's gross expenditure;
- Key audit matters were identified as:
  - Valuation of land and buildings
  - Valuation of the pension fund net liability
- We tested, on a sample basis, the Authority's material income and expenditure streams and assets and liabilities, covering 99% of income, 99% of expenditure, 99% of assets and 99% of liabilities.

#### Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

- We identified one significant risk in respect of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of financial sustainability (see Report on other legal and regulatory requirements section).

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

##### Risk 1 Valuation of land and buildings

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: size of the numbers involved, for example the net book value of land and buildings as at 31 March 2019 was £240.4 million; and the sensitivity of this estimate to changes in key assumptions.

Management need to ensure the carrying value in the Authority financial statements for assets not formally revalued during the year is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

# Draft Independent auditor's report to the members of Blackburn with Darwen Borough Council

## How the matter was addressed in the audit

Our audit work included, but was not restricted to:

- evaluating and challenging management's processes and assumptions for the calculation of the estimate, the instructions issued to the Authority's valuation expert and the scope of their work;
- evaluating the competence, capabilities and objectivity of the valuation expert;
- writing to the valuer to confirm the basis on which the valuation was carried out;
- challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- testing a sample of revaluations made during the year to assess if they have been input correctly into the Authority's asset register; and
- evaluating 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.

The Authority's accounting policy on the valuation of land and buildings is shown in the Accounting Policies section titled 'Property, Plant and Equipment' on pages 96 to 100 of the Statement of Accounts within the financial statements and related disclosures are included in note 13.

## Key observations

From the work performed we identified a revaluation which was applied to the wrong school on the asset register. This error resulted in land and buildings being overstated by £5 million. The Authority amended the financial statements on audit to correct this overstatement.

Subject to amendment noted above, we obtained sufficient audit evidence to conclude:

- the basis of the valuation of land and buildings was appropriate, and the assumptions and processes used by management in determining the estimate were reasonable; and
- the valuation of the land and buildings disclosed in the financial statements is reasonable.

## Risk 2 Valuation of the pension fund net liability

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.

The pension fund net liability is considered a significant estimate due to the:

- size of the numbers involved, with the pension scheme liability estimated at £264.7 million as at 31 March 2019; and
- the sensitivity of the estimate to changes in key assumptions.

A recent legal ruling around age discrimination (McCloud - Court of Appeal) has implications for the local government pension scheme resulting in a potential increase in pension fund liabilities. The Authority asked its actuary to estimate the value of this ruling on its pension liability. The actuary quantified the impact and the Council decided not to amend, as it was not material to the financial statement. We therefore identified the valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

## How the matter was addressed in the audit

Our audit work included, but was not restricted to:

- updating 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 evaluating the design of the associated controls;
- evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessing the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- critically evaluating 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
- assessing the updated actuary report in relation to potential adjustments as a result of McCloud and used our own internal and external auditor experts to assess the reasonableness and validity of the assumptions used.

The Authority's accounting policy on the valuation of the pension fund net liability is shown in the Employee Benefits section of the (pages 87 to 89) of the Accounting Policies section to the financial statements and related disclosures are included in note 31.

## Key observations

The pension fund net liability included in the balance sheet does not include any allowance for pension fund liabilities related to the McCloud legal judgement. The Authority's actuary has estimated the gross value of these potential liabilities to be £5.9 million. We have reported this as an unadjusted error that management have chosen not to amend for.

Subject to the above, we obtained sufficient audit evidence to conclude:

- the basis of the valuation included in the balance sheet was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and
- the valuation of the pension fund net liability recognised in the financial statements is reasonable.

# Draft Independent auditor's report to the members of Blackburn with Darwen Borough Council

## Our application of materiality

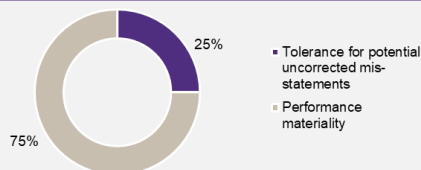
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Authority
Financial Statements as a whole	£7,182,000 which is 1.8% of the Authority's gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding.  We determined a lower percentage materiality for the current year compared to that used in the prior year to reflect our current assessment of risk for the audit.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality
Specific materiality	We determined a lower level of specific materiality for certain areas such as senior employee remuneration and related party transactions.
Communication of misstatements to the Audit and Governance Committee	£359,000 and misstatements below that threshold will, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Authority



## An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Authority's business and is risk based, and in particular included:

- Gaining an understanding of and evaluating the Authority's internal control environment, including its financial and IT systems and controls;
- Obtaining supporting evidence, on a sample basis, for all of the Authority's material income streams covering 99% of the Authority's income;
- Obtaining supporting evidence, on a sample basis, for 99% of the Authority's expenditure; and
- Obtaining supporting evidence, on a sample basis, for 99% of the Authority's assets including property plant and equipment and 99% of the Authority's liabilities.

There were no key changes in scope from the prior year.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of fraud, including irregularities and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Authority and sector in which it operates. We determined that the following laws and regulations were most significant:
  - the Accounts and Audit Regulations 2015
  - the Local Government Finance Act 2012
  - the Local Government Act 2003.
- We understood how the Authority is complying with those legal and regulatory frameworks by making enquiries to the Authority's monitoring officer. We corroborated our enquiries through our review of minutes and papers provided to the Audit and Governance Committee and the full Council.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:

# Draft Independent auditor's report to the members of Blackburn with Darwen Borough Council

## Report on the Audit of the Financial Statements

- identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence by management over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates, for example in relation to the valuation of land and buildings and the pension liability;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- We did not identify any key audit matters relating to irregularities, including fraud.

### Other information

The Director of Finance & Customer Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Director of Finance & Customer Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 20, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Customer Services. The Director of Finance & Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance & Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance & Customer Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided. The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

# Independent auditor's report to the members of Blackburn with Darwen Borough Council

## Report on the Audit of the Financial Statements

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other matters which we are required to address

We were reappointed by Public Sector Audit Appointments Limited in December 2017 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ending 31 March 2013 to 31 March 2019. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

We have provided the following services in addition to the audit, to the Authority since 1 April 2018 that have not been disclosed separately in the Statement of Accounts:

- Agreed-upon procedures in relation to the Housing Benefit Subsidy Claim and the Teachers' Pensions return for 2018/19
- CFO Insights subscription and Place Analytics license both providing data and insight to officers. It is the responsibility of those officers who use the services to undertake informed interpretation of the information provided.

Our audit opinion is consistent with the additional report to the Audit and Governance Committee.

### Report on other legal and regulatory requirements – Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Significant risks

Under the Code of Audit Practice, we are required to report on how our work addressed the significant risks we identified in forming our conclusion on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Significant risks are those risks that in our view

had the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The table below sets out the significant risks we have identified. These significant risks were addressed in the context of our conclusion on the Authority's arrangements as a whole, and in forming our conclusion thereon, and we do not provide a separate opinion on these risks.

Significant risk	How the matter was addressed in the audit
<p><b>Financial Sustainability</b></p> <p>The Authority has a good track record of setting appropriate levels of savings in order to achieve a sustainable financial position. However, there is increasing pressure on budgets due to growing demands around services and rising financial constraints.</p> <p>The Authority's revenue monitoring report identified budget pressures of £3.6 million, up to 31 December 2018, in February 2019. Of these pressures, £1.2million related to the Children and Young People directorate and a further £1million to Environmental Services. The report highlighted that reserves may need to be used to cover some of the cost pressures reported if additional savings could not be identified.</p> <p>The risk for the Authority is that they need to continue to ensure budgets are both achievable and are based on reasonable assumptions about the use of its reserves.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Evaluating how the Authority monitors its financial position through regular meetings with senior management and reviewing key documents; and</li> <li>• Assessing progress in the identification and delivery of the Authority's plans to address funding gaps.</li> </ul> <p><b>Key findings</b></p> <p>The Authority prepares quarterly budget monitoring reports that are presented to the Executive Board.</p> <p>The Authority's overspend of £2.8million against its budget for 2018/19 was primarily due to overspends in the Children and Young People and Environmental Services directorates. The Authority was able to cover this overspend through the achievement of savings elsewhere, for example £1.1million of savings in interest and debt repayment costs, and the release of £0.5million of provisions no longer required.</p> <p>The Authority's General Fund reserves, which includes Earmarked Reserves, were £32.9 million as at 31 March 2019.</p> <p>The Authority has set a balanced budget for 2019/20 and has updated its Medium-Term Financial Strategy to assess potential funding gaps up to and including 2021/22.</p>



# Draft Independent auditor's report to the members of Blackburn with Darwen Borough Council

## Report on the Audit of the Financial Statements

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects, the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*To be signed*

John Farrar, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

Date to be added on signing



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

## BRIEFING PAPER



**REPORT to :** Audit and Governance Committee

**LEAD OFFICER:** Director of Finance and Customer Services

**DATE:** 15<sup>th</sup> October 2019

**WARD/S AFFECTED:** All

### TREASURY MANAGEMENT REPORT – 2019/20

Based on monitoring information for the period 1<sup>st</sup> June – 31<sup>st</sup> August 2019

#### 1. PURPOSE

To allow scrutiny of the Treasury Management function and to update Members with regard to the Treasury Management position to date and proposed Strategy for the remainder of 2019/20.

#### 2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period, and the proposed Strategy for the remainder of the year.

#### 3. BACKGROUND

3.1 The Treasury Management Strategy for 2019/20, approved at Executive Board in March 2019, complies with 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 increased in August 2018.

##### 4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated across the period, but have ranged around £20M. It is intended that these will reduce further in future in the range of £10 M and £20 M.

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 had fallen a little by the end of the period, to around 0.67%. Bank account rates vary, paying between 0.20% and 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
21-Jun-19	27-Sep-19	National Counties Bldg Soc	£1,000,000	0.92%

At 31<sup>st</sup> August, the Council had approximately £18.0 M invested, compared to £21.2 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 0.65%.

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

- (a) 1 month lending - stable at around 0.6%
- (b) 3 month lending - falling a little over the period, averaging 0.65% and ending at 0.63%

#### 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 have continued to fall over the period – they again reached new historic lows at the start of September.

The cost of short term borrowing, based on loans from other councils, continued to fall slightly over the period. By the end of the period, loans from 3 months out to one year were priced between 0.65% to 0.8%.

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 August, there was an increase in short term borrowing of £4M, as loans of £11M were repaid and £15M of new loans were taken (listed below).

<b>New loans taken in the period</b>				
<b>Start Date</b>	<b>End Date</b>	<b>Counterparty</b>	<b>Amount £</b>	<b>Rate</b>
27/08/2019	27/02/2020	Kent County	5,000,000	0.87%
27/08/2019	27/02/2020	Thurrock Council	5,000,000	0.83%
30/08/2019	28/02/2020	Gwent Police	5,000,000	0.78%
			<b>15,000,000</b>	

<b>Future deals already agreed by end of period</b>				
<b>Start Date</b>	<b>End Date</b>	<b>Counterparty</b>	<b>Amount £</b>	<b>Rate</b>
30/09/2019	30/03/2020	Tendring District Council	4,000,000	0.74%
27/09/2019	29/06/2020	Fylde Borough Council	2,000,000	0.78%
			<b>6,000,000</b>	

#### 4.5 Current debt outstanding -

	31 <sup>st</sup> May 2019		31 <sup>st</sup> Aug 2019	
	£000	£000	£000	£000
<b>TEMPORARY DEBT</b>				
Less than 3 months		6,000		10,000
Greater than 3 months (full duration)		<u>27,000</u>		<u>27,000</u>
		33,000		37,000
<b>LONGER TERM DEBT</b>				
Bonds		18,000		18,000
PWLB		135,885		135,885
Stock & Other Minor Loans		<u>263</u>		<u>263</u>
		154,148		154,148
Lancashire County Council transferred debt		14,738		14,738
Recognition of Debt re PFI Arrangements		<u>64,844</u>		<u>64,415</u>
<b>TOTAL DEBT</b>		<b>266,730</b>		<b>270,301</b>
Less: Temporary Lending - fixed term		(1,000)		(1,000)
- instant access		<u>(20,154)</u>		<u>(17,029)</u>
<b>NET DEBT</b>		<b>245,576</b>		<b>252,272</b>

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) £135.9M 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 1.7% 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 Performance against Prudential and Treasury Indicators

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

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 31<sup>st</sup> August 2019 was £270.3M, which is below both our Operational Boundary (£326.1M) and our Authorised Borrowing Limit (£336.1M) for 2019/20.

This year we have remained within both our Operational Boundary – which is set for management guidance - and 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 £32.0M, against the **limit** set for this year of £102.8M.

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 £141.2M, against the **limit** of £233.9M. 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. There are still significant levels of short term debt.

#### 4.8 Mid-Year Treasury Management Strategy Review

Executive Board approved the Treasury Management Strategy for 2019/20 on 14th March 2019. A mid-year review has been undertaken, a copy of which is appended (Appendix 6), which will be taken to Executive Board in November as part of the budget monitoring process.

The conclusion of the review is that an amendment be made to the Investment Criteria within the Strategy to allow for the long-term investment in property funds. The remaining Investment Criteria and Treasury Indicators set before the start of the financial year can remain unchanged.

#### **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:** 0.02

<b>CONTACT OFFICER:</b>	Ron Turvey- Deputy Finance Manager extn 5303 Louise Mattinson Director of Finance & Customer Services extn 5600
<b>DATE:</b>	16 <sup>th</sup> September 2019
<b>BACKGROUND PAPERS:</b>	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 14 <sup>th</sup> March 2019

### 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**

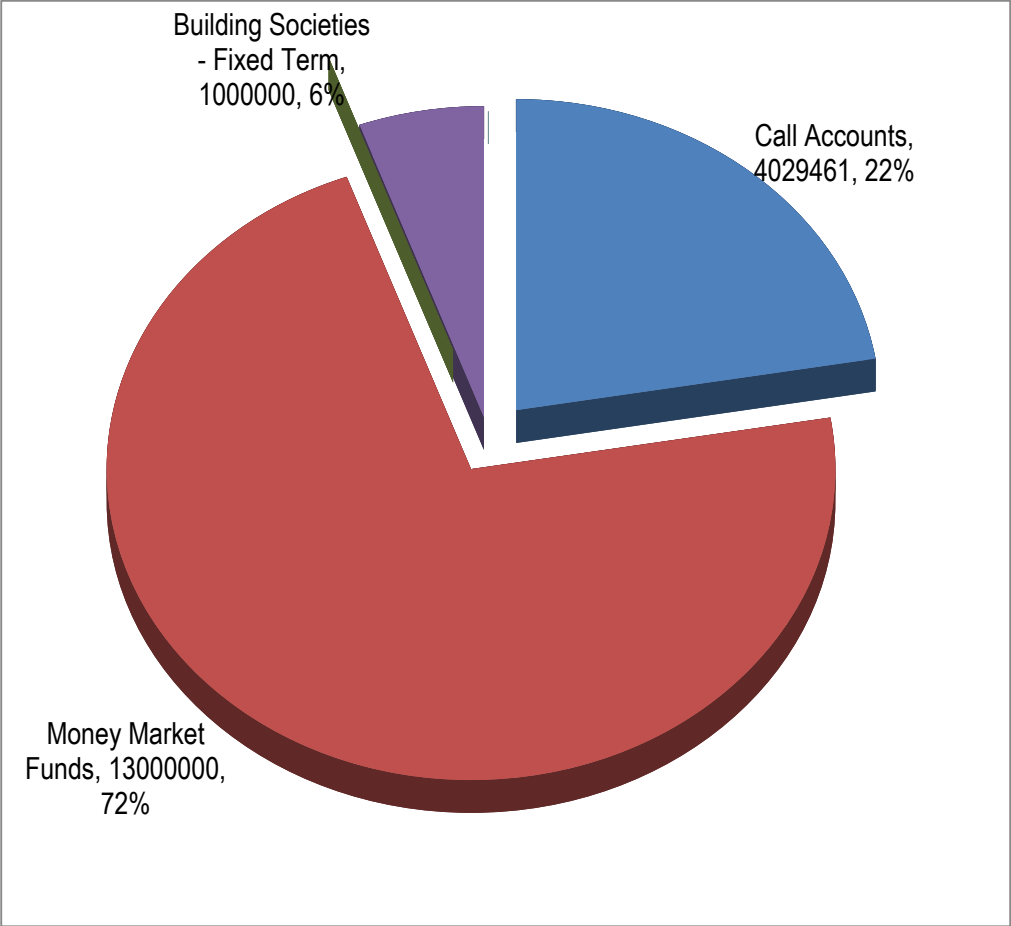
Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular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

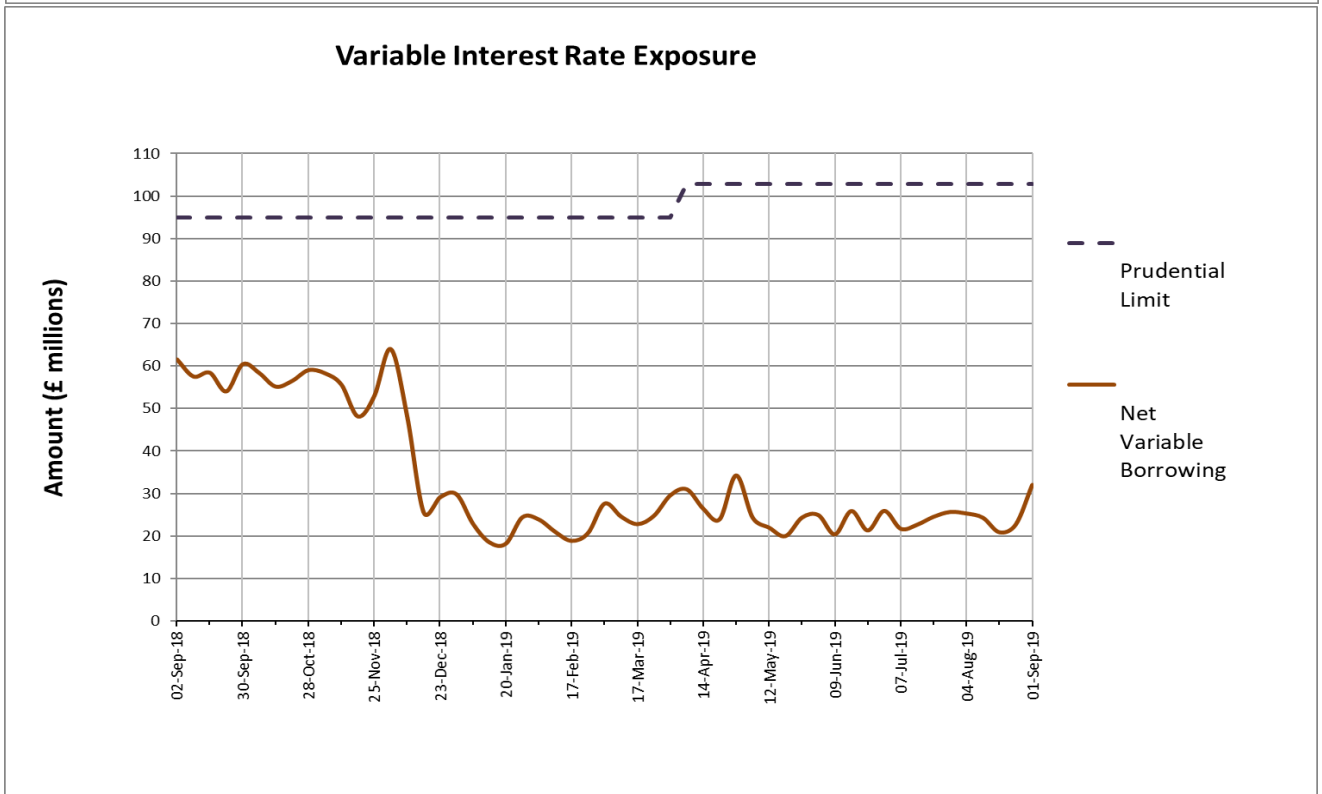
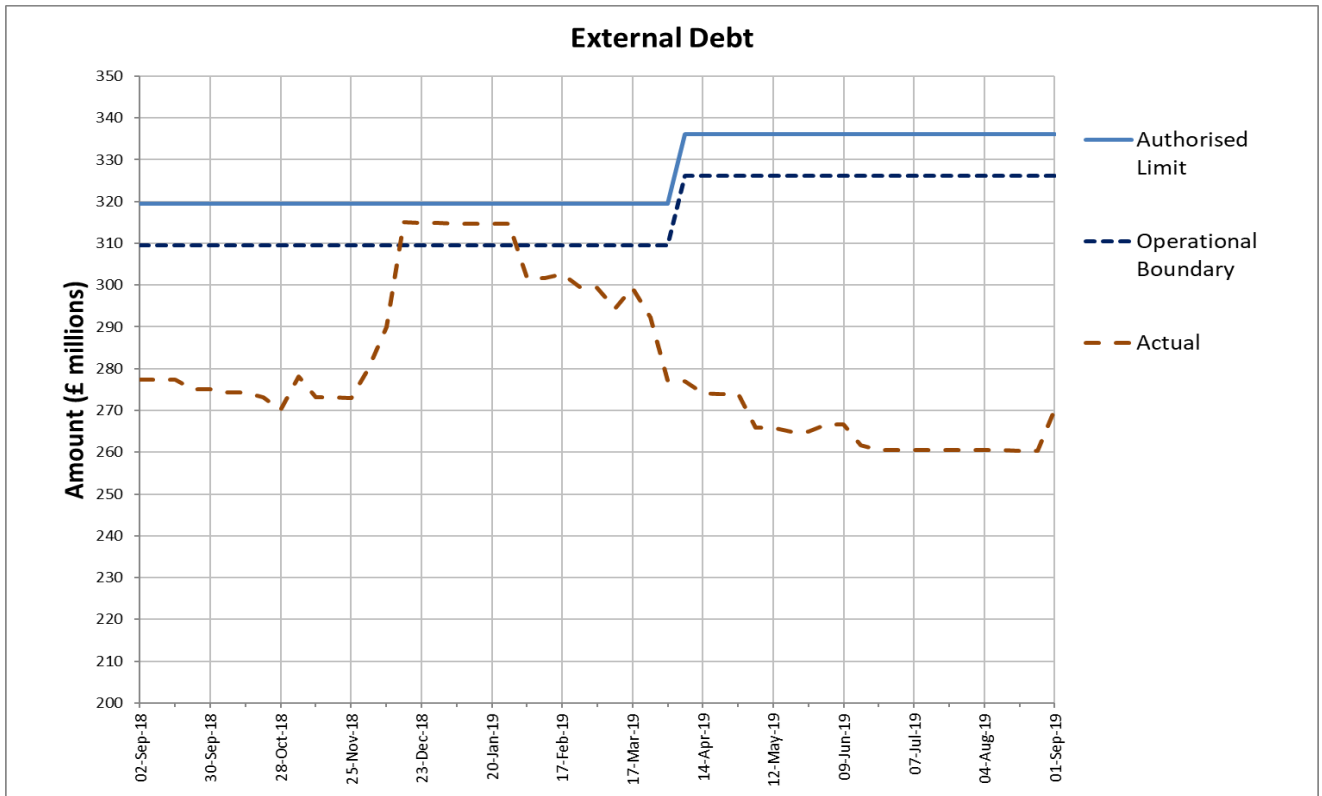
On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised 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).



	Indicator 2019/20	As approved Feb/Mar 19	Current Monitoring	Commentary																																									
PRUDENTIAL INDICATORS	Estimated Capital Expenditure	£35 M	£37.8 M																																										
	Estimated total Capital Financing Requirement at end of year	£310.6 Million (incl projections re LCC debt £15.3M and accumulated PFI / Lease debt £69.5M)	<table border="1"> <tr> <td colspan="2">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</td> </tr> <tr> <td><b>Borrowing to date</b></td> <td><b>£M</b></td> </tr> <tr> <td>LCC Debt</td> <td>14.7</td> </tr> <tr> <td>PFI Elements</td> <td>64.4</td> </tr> <tr> <td>BwD</td> <td>191.1</td> </tr> <tr> <td><b>Total</b></td> <td><b>270.2</b></td> </tr> </table>	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		<b>Borrowing to date</b>	<b>£M</b>	LCC Debt	14.7	PFI Elements	64.4	BwD	191.1	<b>Total</b>	<b>270.2</b>																														
	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																																												
	<b>Borrowing to date</b>	<b>£M</b>																																											
LCC Debt	14.7																																												
PFI Elements	64.4																																												
BwD	191.1																																												
<b>Total</b>	<b>270.2</b>																																												
Estimated ratio of financing costs to net revenue stream	14.25% (Main Programme Capital Spend)																																												
Outturn External Debt prudential Indicators	<table border="1"> <tr> <td>LCC Debt</td> <td>15.3M</td> </tr> <tr> <td>PFI elements (no lease)</td> <td>69.5M</td> </tr> <tr> <td>Remaining elements</td> <td>240.8M</td> </tr> <tr> <td><b>Operational Boundary</b></td> <td><b>326.1M</b></td> </tr> <tr> <td><b>Authorised Borrowing Limit</b></td> <td><b>336.1M</b></td> </tr> </table>	LCC Debt	15.3M	PFI elements (no lease)	69.5M	Remaining elements	240.8M	<b>Operational Boundary</b>	<b>326.1M</b>	<b>Authorised Borrowing Limit</b>	<b>336.1M</b>	<table border="1"> <tr> <td>LCC Debt</td> <td>14.7</td> </tr> <tr> <td>PFI Elements</td> <td>64.4</td> </tr> <tr> <td>BwD</td> <td>191.1</td> </tr> <tr> <td><b>Total</b></td> <td><b>270.2</b></td> </tr> </table>	LCC Debt	14.7	PFI Elements	64.4	BwD	191.1	<b>Total</b>	<b>270.2</b>	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made																								
LCC Debt	15.3M																																												
PFI elements (no lease)	69.5M																																												
Remaining elements	240.8M																																												
<b>Operational Boundary</b>	<b>326.1M</b>																																												
<b>Authorised Borrowing Limit</b>	<b>336.1M</b>																																												
LCC Debt	14.7																																												
PFI Elements	64.4																																												
BwD	191.1																																												
<b>Total</b>	<b>270.2</b>																																												
TREASURY	Variable Interest Rate Exposure	£102.8 M	Exposure to date	£32.0 M	Limit not breached during the year																																								
	Fixed Interest Rate Exposure	£233.9 M	Exposure to date	£141.2 M	Limit not breached during the year																																								
	Prudential limits for maturity structure of borrowing	<table border="1"> <thead> <tr> <th>Lower Limit</th> <th>Upper Limit</th> <th>Period (Years)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>50%</td> <td>&lt;1</td> </tr> <tr> <td>0</td> <td>20%</td> <td>1-2</td> </tr> <tr> <td>0</td> <td>30%</td> <td>2-5</td> </tr> <tr> <td>0</td> <td>30%</td> <td>5-10</td> </tr> <tr> <td>25%</td> <td>95%</td> <td>&gt;10</td> </tr> </tbody> </table>	Lower Limit	Upper Limit	Period (Years)	0	50%	<1	0	20%	1-2	0	30%	2-5	0	30%	5-10	25%	95%	>10	<table border="1"> <thead> <tr> <th colspan="3">Actual maturity structure to date</th> </tr> <tr> <th>Period (Years)</th> <th>£M</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>&lt;1</td> <td>41.2</td> <td>22%</td> </tr> <tr> <td>1-2</td> <td>4.2</td> <td>2%</td> </tr> <tr> <td>2-5</td> <td>10.8</td> <td>6%</td> </tr> <tr> <td>5-10</td> <td>37.3</td> <td>19%</td> </tr> <tr> <td>&gt;10</td> <td>97.6</td> <td>51%</td> </tr> <tr> <td><b>Total</b></td> <td><b>191.1</b></td> <td><b>100%</b></td> </tr> </tbody> </table>	Actual maturity structure to date			Period (Years)	£M	%	<1	41.2	22%	1-2	4.2	2%	2-5	10.8	6%	5-10	37.3	19%	>10	97.6	51%	<b>Total</b>	<b>191.1</b>	<b>100%</b>
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	41.2	22%																																											
1-2	4.2	2%																																											
2-5	10.8	6%																																											
5-10	37.3	19%																																											
>10	97.6	51%																																											
<b>Total</b>	<b>191.1</b>	<b>100%</b>																																											
Total investments for longer than 364 days	£7 Million	<b>NO LONG TERM INVESTMENTS MADE</b>																																											



**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).

## **MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW 2019/20**

### **1 Original Strategy for 2019/20**

1.1 The Treasury Management Strategy for 2019/20 was approved by Executive Board on 14<sup>th</sup> March 2019.

The broad strategy continued the approach of looking to minimise borrowing costs, in the context of the Council's long-term debt being considerably lower than its accumulated Capital Financing Requirement, with the difference covered by the use of short-term borrowing and any available balances. This approach had generated savings on interest costs over the last few years.

At the time, it was expected that interest rates could increase slowly, so it was noted that it might be possible that it could become appropriate to take out more long-term borrowing.

1.2 The Original 2019/20 Investment Limits were set by reference to amount, duration and credit rating – and distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, where there was less risk. The limits set were largely comparable to those applying in previous years.

### **2 Economic Review 2019/20**

2.1 The UK economy's performance and interest rate expectations have continued to be heavily shaped by the uncertainty over the British exit from the European Union. There has been a falling off in economic growth, and the first estimate of Q2 GDP growth showed the UK economy contracted by 0.2%, following the 0.5% gain in Q1 (which reflected stockpiling ahead of Brexit). However, employment levels remain at a record high.

2.2 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment, and confirmed that monetary policy decisions related to Brexit could be in either direction, depending on whether or not a deal is ultimately reached by 31st October 2019.

2.3 Our treasury advisor Arlingclose now expects Bank Rate to remain at 0.75% for the foreseeable future but notes that there are significant risks of a fall in rates, dependant on Brexit outcomes and the evolution of the global economy.

### **3 Treasury Performance to date**

3.1 Thus far, cash balances have typically averaged between £15M and £25M. These levels have been supported by short-term borrowing (at rates averaging around 0.9%). No further long-term borrowing has been taken, while short-term borrowing levels have fluctuated, currently standing at around the same level as the start of the year.

3.2 Investments have continued to be made with a limited range of banks, building societies and Money Market Funds, along with other local authorities, and the Government's Debt Management Office (DMO), earning interest at low levels. Average interest earned on balances was around 0.67% in the first half of the year. It is likely that investment returns will remain low

in the second half of the year.

#### **4 Investment and Borrowing Strategy for the rest of the year**

- 4.1 Both the CIPFA Code and government guidance require that funds be invested prudently, and with regard to security and liquidity, before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.2 The Council's Investment Criteria allow investment in a range of other organisations and structures, but there are limited opportunities for straightforward trading in Secured Deposits, and as priority is given to maintaining liquidity, short-dated and simpler options are mainly used. Investments are made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office. It is expected that these will continue to be the main investment options taken up across the remainder of the year.
- 4.3 In order to maintain the professional client status with its providers of financial services, the Council is required to hold a minimum investment balance of £10M. Consequently, the Council has long-term funds available that are not required to meet any liquidity need. These funds should therefore be considered for investment with a greater emphasis on achieving higher returns.

For such monies the Council could explore investment in a property fund. These are Pooled Fund investments investing in a diversified portfolio of UK commercial property, receiving income by way of dividends. These funds also give the opportunity for capital growth.

Such funds can result in increased yields, but due to their exposure to fluctuations in the property market should be considered as a long-term investment (advised minimum of 5 years), to give the best opportunity for capital appreciation.

- 4.4 It is proposed that the Investment Criteria only be amended to allow for the long-term investment in property funds. The existing criteria should remain for all other investments.
- 4.5 The Council's key objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should long-term plans, change is a further, secondary objective.
- 4.6 It is proposed that the Borrowing Strategy also remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in actual and projected long-term interest rates.

#### **5 Risk Management**

- 5.1 The Council's main objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. Therefore, most surplus cash is held in short-term investments with government bodies, and with highly rated banks



and pooled funds. In addition, the Council can hold investments that entail a slightly higher level of risk, such as unrated building society deposits, but such risks are mitigated by limiting the amount and duration of exposure.

- 5.2 The Council's main objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the PWLB at long-term fixed rates of interest.
- 5.3 Another significant element of the Council's long-term debt is £18M of loans from banks and other institutions. £13M worth are "lender's option, borrower's option" (LOBO) loans, under which the Lender can, at pre-determined times, exercise an Option to increase the rate payable on the debt, and the Borrower has the Option to either accept the proposed increase or repay the whole loan.

These loans have interest rates fixed at levels that were relatively low when they began, but if the Lender Option is exercised, the Borrower has to deal with whatever interest rates turn out to be at that later date. This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Current projected future interest rates suggest LOBOs are unlikely to be called in the next 5 years.

- 5.4 A combination of short duration investments and long duration debt exposes the Council to the risk of falling investment income during periods of low interest rates. However, the risk of low investment returns is viewed as of lower priority compared to the benefits of optimising the security and liquidity of investments, and the savings made on borrowing costs. Also, though the Council has no long term investments, at this stage, it is hedged against the investment return risk by its short term debt holdings.

## **6 Indicators and Limits**

- 6.1 The originally approved Indicators were set at cautious levels and can remain unchanged.



**TO:** Audit & Governance Committee

**FROM:** Head of Audit & Assurance

**DATE:** 15 October 2019

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

---

**TITLE OF REPORT:** **Audit & Assurance - Progress and Outcomes to 30 September 2019**

---

**1. PURPOSE**

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 June 2019 to 30 September 2019.

**2. RECOMMENDATIONS**

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 September 2019 against the annual Audit & Assurance Plan, which was approved by Committee on 16 April 2019.

**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.

The work completed to date has not identified any significant governance, risk management or control issues to bring to the Committee's attention at this time. However, the Committee should consider the information provided in the following sections regarding the work carried out during the period and the summary of issues in respect of the limited assurance audit noted.

**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 the Public Sector Internal Audit Standards (PSIASs).

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

- an objective and independent opinion can be provided at the year-end which meets the PSIAS and statutory governance requirements;
- it demonstrates the effectiveness of the internal audit function; and
- support is provided to Members, Directors and managers in their particular

areas of responsibility throughout the year.

## 5. KEY ISSUES

### Outcomes achieved in the year to 31 September 2019:

#### Counter Fraud Activity

##### **National Fraud Initiative**

A total of 4,716 data matches were initially received from the Cabinet Office in February 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, 479 matches have been processed and a further 176 investigations are ongoing. A total of 59 errors have been found to date resulting in savings of £109,380 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.

A further 636 matches were received in August 2019 as a result of comparisons made with HMRC data. These are currently being reviewed by staff within the Revenues & Benefits section.

##### **Summary of Results**

<b>Area</b>	<b>No. of Errors</b>	<b>Value (£)</b>
Benefits (Housing/Council Tax Support)	17	£33,778
Private Residential Care Homes	28	£75,602
Resident Parking Permits*	14	-
<b>TOTAL</b>	<b>59</b>	<b>£109,380</b>

\* Residents parking permits cancelled & system updated as a result of NFI information

The Council received additional reports from the Cabinet Office in February, March and August 2019, which included 9,005 Council Tax Single Person Discount data matches for further review. The reports were generated after council tax records were matched with various data sets including the electoral register and HMRC records. The matches indicate that entitlement to Single Person's Discount is incorrect and further enquiries need to be made. The reports have been forwarded to the Revenues section for follow up and further action.

##### **Other investigations**

Audit & Assurance is continuing to liaise 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. It was established that this client's circumstances had changed, which were not notified to the Council, 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 nine audits completed and finalised since the last report to Committee are detailed below:

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Personalised Budgets/ Direct Payments	Adequate	Limited	11
Fostering Recruitment and Payments	Adequate	Adequate	7
Petty Cash	Adequate	Adequate	3
Highways Asset Valuation	Adequate	Adequate	5
Payroll Core System	Adequate	Adequate	6
Growth Strategy	Substantial	Substantial	1
Football Foundation Investment	Substantial	Substantial	0
Adults Client Care Assessment/Case Management and Payments	Adequate	Adequate	6
Performance Indicators	Adequate	Adequate	2

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

**Personalised Budgets:** The audit objective was to ensure that there were effective arrangements in place for managing personalised budgets/direct payments and preventing fraud or misuse of those payments. **Adequate** assurance was provided for the control environment and **limited** assurance for compliance with the controls identified in place. The areas identified for management attention included ensuring that:

- planned reviews were carried out in line with the legislation and Council policy;
- support plans were checked, agreed and appropriately authorised in accordance with the agreed procedures;
- Financial monitoring risk assessments were carried out for all new service users and an annual review conducted in all cases; and
- cases where no charge element was shown on Mosaic needed to be investigated to ensure the correct direct debit payment was paid and the charge element was correctly shown.

In addition to the above audit reviews, Audit & Assurance staff have also completed additional work to follow up a number of potential duplicate mileage claims identified as part of the Mileage Payments review reported to the last Committee meeting. A small number of duplicate payments were confirmed, and arrangements have been

made to recover the amounts concerned via payroll.

Audit & Assurance staff also completed reviews during the period to enable the annual Local Authority Bus Subsidy Ring-Fenced (Revenue) and Local Transport Settlement 2018/19 Grant Declarations to be signed by the Chief Executive and Head of Audit & Assurance in respect of the year ended 31 March 2019. The results of the work confirmed that, in our opinion, the conditions attached to the grant determinations had been complied with in all significant respects.

### **Current internal audit reviews**

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

- Overtime/Additional Hours;
- Social Determinants of Health/Public Health Internal Spend;
- Main Accounting System;
- Budgetary Control;
- Information Governance;
- New Section 106 Procedures;
- Pupil Transport;
- Highways Maintenance – Procurement;
- Young Peoples Service – Educational Visits Risk Assessments;
- Sundry Debtors; and
- Protocol System – Access Controls.

### **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:

<b>Performance Measure</b>	<b>Target</b>	<b>Q2 2019/20</b>	<b>Q1 2019/20</b>
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	<b>75%</b>	60%
3. Final Reports Issued Within Deadline	90%	100%	80%
4. Follow Ups Undertaken Within Deadline	90%	<b>100%</b>	80%
5. Recommendations Implemented	90%	<b>84%</b>	94%
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 (Q2, 2019/20) has fallen below the agreed target:

#### 2. Planned Assignments Completed Within Budget

Two of the eight audits, (25%), completed in the period were over budget. Additional time was required to complete the Adult Care Assessment review due issues accessing the system to carry out the testing, and additional time required to follow up audit queries and obtain responses from staff. Extra time was spent on the on the Direct Payments review due to the limited compliance opinion and testing carried out in respect a fraud identified.

#### 5. Recommendations Implemented

Of the follow up responses received back 118 (84%) of the 140 recommendations due for implementation on or before 30 September 2019 had been fully or partially implemented. Only one of the 22 recommendations not yet implemented was categorised as 'must'. This related to the use of confirmation orders at St Francis Primary School.

#### **6. POLICY IMPLICATIONS**

The 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: 4 October 2019

Background Papers: Audit & Assurance Plan 2019/20, approved by the Audit & Governance Committee on 16 April 2019.



**TO: Audit & Governance Committee**

**FROM: Head of Audit & Assurance**

**DATE: 15 October 2019**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

---

**TITLE OF REPORT: Risk Management – 2019/20 Quarter 1 Review**

---

**1. PURPOSE**

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2019 to 30 June 2019.

**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 1 2019/20;
- Note the risk management activity that has occurred during the period; and
- Consider the selection of a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

**3. BACKGROUND**

The Council recognises that risk management is not simply a compliance issue, but rather it is a process to help ensure the successful delivery of the 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 13 open risks at 30 June 2019. A summary of the corporate risk details is set out in Appendix 1 of this report. There has not been any change in the residual risk score for any of the risks

identified since the previous quarter. As at 30 June 2019 the Council's top corporate risks were those relating to the risk of a high profile serious or critical safeguarding case, and the risk of data loss or privacy incidents, as noted in the 2018/19 Annual Risk Management Report presented to the June meeting of this Committee.

As part of the Council's Risk Management process we review and monitor the Corporate Risks on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. Management Board review the risk details 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.

We have also continued to liaise with colleagues across the Council during the period, 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. Colleagues from Zurich have recently completed a Highways Asset Management and Liability Grading Review. The review evaluated the current asset and risk management arrangements in place for this area. This compared the arrangements in place within the Council with the Zurich Highways Review Standard, which is based on the new Highways Code of Practice 'Well Maintained Highways Infrastructure'. It also assessed the robustness of arrangements for preventing and defending highways claims.

The review found that officers were all very positively engaged in the Highways Grading process and displayed an excellent awareness of the needs for a risk based approach to meet the new Code of Practice. In the event of a claim framed around the new 'Code', Zurich's opinion was that the Council would be reasonably able to provide a sufficient claims defence. The report graded the arrangements in place overall as good. Five risk improvement actions were noted for the Council to address.

Zurich colleagues have also recently carried out reviews of the following areas:

- Property Inspection Regime – to compare the property inspection records, system and procedures with good practice and Zurich's experience of liability cases/claims; and
- Lone Worker Review – a targeted risk management review of existing lone working procedures and arrangements for dealing with incidents of violence and aggression.

The results from these reviews will be reported to a future meeting of the Committee.

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.



**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: 3 October 2019

Background Papers: Corporate Risk Management Strategy 2015/2020,  
2018/19 Annual Risk Management Report (including  
Quarter 4 Review)



# Summary Risk Register

Directorate: \_\_\_\_\_  
 Department: Corporate Risk Register  
 Service: \_\_\_\_\_  
 Quarter and Year: Quarter 1 - 2019/20      Date of last review: 31-Mar-19  
 Date: 30-Jun-19      Date of next review: 30-Sep-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	23-Apr-19	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	Martin Kelly/ Martin Eden	Lee Kinder, Matthew Joyce	Open	01-Apr-19	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	22-May-19	2	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	Denise Park	David Fairclough, Rachel Hutchinson, Sarah Riley	Open	17.04.2019	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. Corporate Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	David Fairclough, Paul Fleming, Rachel Hutchinson, Sarah Riley	Open	17.04.2019	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	16-Jul-19	3	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesion, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Sayyed Osman	Heather Taylor/Mark Aspin	Open	24-Apr-19	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	Jo Siddle	Open	02-May-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	4	HIGH	3	2	LOW	Paul Fleming	Sarah Critchley	Open	02-Aug-19	4	4	HIGH	-
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 (DASS) / Jayne Ivory (DCS)	Paul Lee	Open	16-Jul-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	30-Apr-19	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	02-Aug-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	Martin Kelly	Simon Jones	Open	01-Apr-19	3	4	MEDIUM	-

**Summary of closed risks**

- 3 IT Infrastructure (Resilience) - OTH. The risk is now incorporated into the Business Continuity risk above.
- 5 There is a risk that governance and decision making arrangements fail. New constitution and related governance arrangements confirmed as in place. Risk accepted as part of business as usual.
- Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget. Risk closed following discussion at Mgmt Board 12 June 2019. May require re-opening again during 2019/20 depending on budget pressures identified.
- 8 Failure to contribute effectively to economic growth within Blackburn with Darwen. Risk merged with Risk 18
- 12 The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax. Risk merged into Risk 18
- 16 Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services. Merged with Risk 1
- 19 EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements on the 29.03, 12.04, 31.10.19. Risk retained but closed temporarily until end of December 2019.