

Public Document Pack

Audit & Governance Committee

Wednesday, 29th July, 2020

6.00 pm

Virtual Meeting

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AGENDA

1. **Welcome and Apologies**
2. **Minutes of the last meeting held on 14th January 2020**
Audit Governance Committee 14th January 2020 Minutes 5 - 9
3. **Declarations of Interest**
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4. **External Audit - Audit Scope and Fees**
The Council's External Auditors will provide the Committee with a report on their audit plan and fee for 2019/20, the 2020/21 Scale fee and the Public Sector Audit Appointments (PSAA) report on the Future Procurement and Market Supply.
Agenda Item 4a External Audit 2019-20 audit scope and fee 11 - 53
Agenda Item 4b External Audit 2020.21 Scale Fee
Agenda Item 4c PSAA Email to S151 officers Feb 2020
Agenda Item 4d Final Report - PSAA Review of Future Procurement Market Supply Options_
5. **Finalisation of External Audit Fees 2018/19**
The Director of Finance & Customer Services will provide the Committee with a report on the outcome of the PSAA adjudication on the 2018/19 External Audit fee variations.
Agenda Item 5 Finalisation of External Audit Fees 2018.19 54 - 56

- 6. External Audit Progress Report and Sector Update**
 The Council's External Auditors will provide the Committee with an update on the progress of their work.
- Agenda Item 6 -LG Audit Committee Progress Report July 2020 - FINAL** **57 - 70**
- 7. Treasury Management Report - March to May 2020**
Agenda Item 7 -Treasury Mgmt Report to Audit and Governance Cttee July 2020 V1 **71 - 82**
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- 8. Treasury Management Annual Report 2019/20**
 The Director of Finance & Customer Services will provide the Committee with an annual report on Treasury Management activity for the financial year 2019/20.
- Agenda Item 8 -Treasury Outturn Report AG Cttee 19-20 V2** **83 - 92**
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- 9. Audit and Assurance - Progress & Outcomes to June 2020**
 The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance in the period.
- Agenda Item 9 AA Progress Report June 2020.21** **93 - 100**

- 10. Audit & Assurance Plan 2020/21 and Internal Audit Charter**
- The Head of Audit & Assurance will present the 2020/21 Audit & Assurance Plan and Internal Audit Charter for approval.
- Agenda Item 10 AA Audit Plan 2020.21 Charter 101 -**
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- 11. Annual Risk Management Report 2019/20**
- The Director of Finance & Customer Services will provide the Committee with the Annual Risk Management Report for 2019/20.
- Agenda Item 11 Annual Risk Management Report 2019.2020 Final 125 -**
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- 12. Annual Counter Fraud Report 2019/20**
- The Head of Audit & Assurance will provide the Committee with the Annual Counter Fraud Report for 2019/20.
- Agenda Item 12 Counter Fraud Annual Report 147 -**
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- 13. Annual Internal Audit Opinion Report 2019/20**
- The Head of Audit & Assurance will provide the Committee with the Annual Internal Audit Report for 2019/20.
- Agenda Item 13 Audit Assurance Annual Opinion Report 2019.20 155 -**
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14. Annual Governance Statement for 2019/20

The Director of Finance & Customer Services will provide the Committee with the draft Annual Governance Statement for 2019/20.

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15. Audit & Governance Committee Annual Report 2019/20

The Chair of the Committee will present the draft Audit & Governance Committee Annual Report for 2019/20.

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

None.

Date Published: Tuesday, 21 July 2020
Denise Park, Chief Executive

AUDIT & GOVERNANCE COMMITTEE

Tuesday, 14 January 2020

PRESENT – Councillors, McGurk (in the Chair), Whittle, Davies, Fazal, Rawat and Slater, N.

OFFICERS – Louise Mattinson, Colin Ferguson, Moshin Mulla and Phil Llewellyn (BwDBC), John Farrar (Grant Thornton).

ALSO PRESENT – Councillor Andy Kay, Executive Member for Finance and Governance.

RESOLUTIONS

26 Welcome and Apologies

The Chair welcomed all present to the meeting.

27 Minutes of the meeting held on 15th October 2019

The Minutes of the last meeting were moved as a correct record. John Farrar stated that in his opinion, Minute Number 22 was not correct in terms of the following wording “John Farrar confirmed that there would be no additional fees for this work in 19/20”, John indicated that he had not made that commitment. He stated that some of the work required would be recurring and therefore would be an additional cost in future years.

The Chair stated that in her opinion the Minute was accurate and that the additional fees referred to were a one off cost. The Chair, seconded by Councillor Neil Slater then again moved the Minutes as a correct record.

RESOLVED – That the Minutes of the Meeting held on 15th October 2019 be agreed as a correct record.

28 Declarations of Interest

Councillor Ron Whittle declared an interest in Agenda Item 7 – Audit & Assurance Progress Report (School Governor at Roe Lee School).

29 Significant Partnerships Register

Mohsin Mulla, Policy and Partnerships Manager, reported on the Significant Partnerships Register, which identified all the significant partnerships the local authority was involved in as per the Audit & Governance Committee’s Terms of Reference, and which was reviewed and updated on a six monthly basis.

Members discussed potential omissions from the Register and also the significance of some the partnerships listed.

RESOLVED – That the significant partnerships submitted for inclusion in 2019/20 be noted.

(Councillor Tasleem Fazal in the Chair).

30 External Audit Annual Letter for Year Ended 31st March 2019.

The External Audit Annual Letter for Year Ended 31st March 2019 was submitted.

RESOLVED – That the External Audit Annual Letter for Year Ended 31st March 2019 be noted.

31 External Audit Progress Report and Sector Update

John Farrar reported on the progress of Grant Thornton in delivering their responsibilities as External Auditors, and highlighted the emerging issues and developments nationally.

Detailed planning of the 2019/20 audit commenced in January and interim fieldwork would begin in February.

The certification report for the Council's annual Housing Benefit Subsidy claim was issued on 21st November 2019, with the report relating to the annual Teacher's return issued on 23rd December 2019.

The Committee were advised that they would be kept informed of the independent review into local government audit being headed up by Tony Redmond.

John advised that Grant Thornton had recently recommended that the Audited Accounts deadline should return to the end of September each year, rather than the current deadline of the end of July.

In discussing the report, fees for 20/21 were raised, and John advised that would be liaising with Louise Mattinson as soon as possible on the fees.

RESOLVED – That the update be noted.

32 Audit & Assurance Progress Report November 2019

The Committee received a report which highlighted the achievements and progress made by Audit & Assurance in the period 1st October 2019 to 30th November 2019.

Further to discussions at the last meeting, Colin Ferguson updated the Committee on Counter Fraud activity, and Louise Mattinson provided information on the process for Private Care Home Payments via the Mosaic system and explained the circumstances where overpayments to Care Homes were made and how these were recovered. Colin Ferguson agreed to send further information on 28 cases to Councillor Whittle.

RESOLVED – That the report be noted.

33 Risk Management – 2019/20 Quarter 2 Review

The Committee were advised of risk management activity for the second

quarter – 1st July 2019 to 30th September 2019. There were 21 open risks at 30th September 2019.

During the year, officers continued to liaise with colleagues across the Council to identify areas to make use of the risk management support that was available from Zurich Municipal as part of the current long term insurance agreement. Colleagues from Zurich Risk Engineering (ZRE) had recently completed reviews of Lone Working arrangements and Inspection Regimes.

The Committee then considered a Corporate Risk to look at the next meeting, and agreed that No.10 which related to Community Cohesion Integration be reviewed.

RESOLVED – 1). That the report be noted; and
2). That Corporate Risk No.10 be reviewed at the next meeting.

34 Annual Governance Statement (AGS) – Progress of 2018/19 Actions and 2019/20 Approach/Timetable

Members were informed on progress of the actions taken to address the significant governance issues identified in the 2018/19 AGS and the planned approach and timetable for producing the 2019/20 Statement.

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

The following significant issues were noted in the 2018/19 AGS:

- Children's Services Financial Position - action brought forward from 2017/18); and
- Compliance with the General Data Protection Regulation (GDPR) - 2018/19 action).

Details of the progress made to 30 November for each of these areas was provided in Appendix 1. These showed that appropriate steps had been taken by senior officers and managers in respect of the issues identified. However, the strategies taken in Children's Services to address the issue in this area would take time to affect real change and it was forecast that the Portfolio budget would overspend at 31 March 2020. The progress made regarding the action to address GDPR compliance was largely in accordance with the plan. The issue was still assessed as red in the half-year Digital & Business Change Director's Half-year Management Accountabilities Framework (MAF) Dashboard Report. The impact of the actions on this area would not be able to be assessed until the end of Quarter 3.

The approach and timetable for 2019/20 were also outlined.

RESOLVED – That the report and approach/timetable for producing the 2019/20 AGS be noted.

35 Audit & Governance Committee- Effectiveness Self Assessment

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

The details included at Appendix 3 provided a summary of the responses received from the Councillors who have been members of the Committee during the Municipal Year. This also includes a comparison with the results from the 2017/18 and 2018/19 scores. The overall results show that there is a belief by the members that the Committee is operating effectively, with average scores of satisfactory/partly agree or better for most questions.

The Council's Audit & Governance Committee arrangements were largely compliant with the recommended guidance. The only areas where full compliance could not be provided was:

- Question 7: The Committee's current terms of reference does not include reference to the ethical framework.
- Question 18: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.

However, it was recognised that that the Committee's Annual Report was presented to Full Council. This presents an opportunity to obtain feedback from Councillor colleagues at least annually.

The evaluation of effectiveness document (Appendix 2) had been completed by the Head of Audit & Assurance. The previous version was appended to the Audit & Governance Committee's annual report considered by this Committee on 25 June 2019. It noted the additional challenge of corporate risks that the Committee now carried out on a regular basis, the senior officer attendance at its meetings to update Members on progress of agreed actions from key reports. It also noted that the Committee now received a Counter Fraud Annual Report.

Across five areas the score was evaluated at 4 out of a possible 5, demonstrating: "clear evidence from some sources that the Committee is actively and effectively supporting improvement across some aspects of this area". For the remaining four areas evaluated, the assessed score was 5, demonstrating: "clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable".

RESOLVED – That the Committee note and approve:

- the Audit & Governance Committee's position when compared to the CIPFA good practice checklist (Appendix 1) and the additional actions noted;
- the Evaluation of Effectiveness of the Audit & Governance

Committee, produced by the Head of Audit & Assurance on behalf of the Chair of the Committee (Appendix 2); and,

- the summary results from the individual Committee member self-assessments of the overall effectiveness of the Committee (Appendix 3).

36 Treasury Management Report 2019/20 – 1st September to 30th November 2019

A report was submitted which updated Members with regard to the Treasury Management position to date and draft Strategy for 2020/21. The report summarised the interest rate environment for the period and borrowing and lending transactions undertaken, together with the Council's overall debt position, and the position against Treasury and Prudential Indicators established by the Council.

Louise Mattinson highlighted the recent increase in the cost of long term borrowing through the Public Works Loan Board, advising that short term and long term options would continue to be reviewed. Reference was also made to the recent refinancing of the Phase 2 PFI Scheme which had resulted in a financial benefit to the Council of £971,000. Additionally, it was reported that new employer contribution rates following the triennial valuation of the pension fund would commence from 1st April 2020, and options were being considered relating to prepayment savings.

RESOLVED – That the Committee note the Treasury Management position for the period and draft Treasury Management Strategy for 2020/1 appended to the report.

Signed:

Date:

Chair of the meeting
at which the minutes were confirmed



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2 March 2020

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Dear Louise,

Audit scope and additional work 2019/20

In recent conversations, including at Blackburn with Darwen Borough Council's Audit and Governance Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights:

“significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.”

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and the public and private sectors, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's audit.

Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

| Score | Description |
|---------|---|
| 1 or 2a | Acceptable with Limited Improvements Required |
| 2b | Improvements required |
| 3 | Significant Improvements Required |

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.

Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.
- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements

- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards, and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16 *Lease*. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 *Financial Instruments* and IFRS15 *Revenue from Contracts with Customers*. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

| | 2019/20 £ | 2018/19 £ | 2017/18 £ |
|---------------------------------------|---------------|---------------|----------------|
| PSAA Scale Fee | 79,186 | 79,186 | 102,839 |
| PIE status | 0 | 4,000 | 4,000 |
| Increased challenge and depth of work | 2,500 | 0 | 0 |
| PPE | 3,000 | 3,000* | 0 |
| Pensions | 3,000 | 3,000* | 0 |
| New standards/ developments | 1,500 | 0 | 0 |
| McCloud judgement and IAS 19 impact | 0 | 3,000 | 0 |
| Local issue – CIES restatement | 1,000 | 0 | 0 |
| Total adjustment | 11,000 | 13,000 | 4,000 |
| Overall fee | 90,186 | 92,186 | 106,839 |

*The Council disputes these additional fees which remain subject to PSAA determination.

This would give a scale fee for the statutory accounts audit for 2019/20 of £79,186 plus VAT plus a variation of £11,000 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff, but the pool of such staff is constrained in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which is currently planned to be completed by 30 September 2020.

Future changes to audit scope

As I have previously mentioned in meetings and at the Audit and Governance Committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is 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:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) 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.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,

Yours sincerely

John Farrar

John Farrar
Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

| | Scale fee for the audit 2020/21 | Scale fee for the audit 2019/20 |
|--|--|--|
| Blackburn with Darwen Borough Council | £79,186 | £79,186 |

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive

Dear S151 officer,

Given all of the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. Needless to say, that is an incredibly unsatisfactory position, particularly for all of the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish in the near future. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backcloth PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, their impact will be variable depending on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Appendix 1 explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

Appendix 1

PSAA's approach to fees

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include :

- i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
- ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;
- iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;
- iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

i). Linking tender prices to the extant scale of fees

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

ii). Pooling firms' costs

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all of the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the

same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii). Charging for additional audit work

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where it is clear that these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

iv). Amendments to scale fees

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions. In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.



TouchstoneRenard
Management Consultants



Future Procurement and Market Supply Options Review

Final Report

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Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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Acknowledgements

We would like to thank all the people involved throughout the review process, from PSAA and the firms, who gave us their help and support.

Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

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1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

Key issues

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

Firms that are not currently approved to operate in this market

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

Firms that are approved to operate in this market

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31st July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

Options available to PSAA

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

2. **PURPOSE AND SCOPE**

2.1 **Overview**

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as to **maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply market**.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

2.2 **Specific issues to be addressed**

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

2.3 **Other issues**

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.

3. WORK DONE AND METHODOLOGY

3.1 Interviews

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19th December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

3.2 Analysing responses

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

4. BACKGROUND

4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

Abolition of the Audit Commission

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

Establishment of PSAA

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

The current appointing period

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

Code of Audit Practice

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

Regulation

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

Registration and licensing

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

Continuing change in the external audit and local audit sectors

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

| Author | Publication date | Subject matter / Recommendations |
|---------------------------------------|------------------|--|
| MHCLG / Rand Europe | March 2018 | Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England. |
| Sir John Kingman | December 2018 | Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality. |
| NAO | January 2019 | Recommendations including: <ul style="list-style-type: none"> Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action. |
| The Competition and Markets Authority | April 2019 | Recommendations re: <ul style="list-style-type: none"> Separation of audit from consulting services. Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. Introduction of statutory regulatory powers to increase accountability of audit committees. |
| Sir Donald Brydon | December 2019 | Recommendations on quality and effectiveness of audit, including: <ul style="list-style-type: none"> A redefinition of audit and its purpose. The creation of a corporate auditing profession governed by principles. The introduction of suspicion into the qualities of auditing. The extension of the concept of auditing to areas beyond financial statements. |
| Sir Tony Redmond | Due 2020 | The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act. |

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other 'Big 4' firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other 'top 10' audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the 'top 10' audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the 'top 10', acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other 'top 20' audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

| Firm | Current work for PSAA eligible bodies | Number of KAPs |
|---|--|----------------|
| <i>Incumbents</i> | | |
| GT | 40% by value of opted in bodies (183 audits) | 26 |
| EY | 30% by value of opted in bodies (162 audits) | 15 |
| Mazars | 18% by value of opted in bodies (85 audits) | 9 |
| Deloitte | 6% by value of opted in bodies (31 audits) | 8 |
| BDO / Moore Stephens | 6% by value of opted in bodies (26 audits) | 6 |
| <i>Others</i> | | |
| Scott Moncrieff / Baldwins | Scotland only | 3 |
| KPMG | East Hants only | 21 |
| PWC | None | 8 |
| Cardens | None | 1 |
| Total number of key audit partners | | 97 |

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this 'follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.' We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation's closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31st July 2019:

"The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019.** The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31st July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31st July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

5.2 In the current contract, what works well and what works less well? (Contract holders only)

What works well

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

What works less well

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31st July was mentioned as an issue by every firm, without any prompting from us.** Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

5.3 Number of lots and lot sizes

Six out of the nine approved firms said that they would like to see a larger number of smaller lots. Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.

5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31st July (compared to the pre-2017/18 target date of 30th September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

5.12 Other issues – fees

All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking. Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

Local auditing is more or less unanimously regarded as being unattractive at present, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?

Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts. Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

It has been difficult to persuade non-approved firms to engage with our review. Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA's role in it; while the remaining two firms had very little knowledge of this area.

6.4 Would your firm consider bidding for any local audits in the next round of procurement?

There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.

The following table summarises the position of each of the firms we spoke to:

| Firm | Overall position | Comments |
|------|-----------------------------|--|
| 1 | Mildly interested | Very limited understanding of what local audit involves. |
| 2 | Would not rule anything out | The balance of risk and reward is critical. 'If fees are high enough, why not consider it?'. The partnership would have to approve the business case for getting involved. 'The more hurdles there are, the more benefits there would need to be'. |
| 3 | Doubtful | They see many obstacles to getting involved in this market. They would need 'very positive assurances' that they had a near certainty of winning some work before they would consider bidding. |
| 4 | Negative | 'We should stick to our knitting'. |
| 5 | Doubtful | Current fee levels would negate any interest. |
| 6 | Interested | Would need guidance, support and a small lot(s) to bid for. |

6.5 How important would the following factors be?

The need to register as an approved firm / key audit partners

Those firms that were aware of the requirements saw them as a deterrent to entry.

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant 'learning curve'.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

Advice and support being available to assist with your entry to the market

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

Other factors

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?

Lot sizes, locations, values and composition of lots

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

The duration of the contract

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

The balance between price and quality used to evaluate the tenders

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

Whether lots include audits subject to FRC review

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

The legal right of electors to object

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

6.9 Would your firm consider participating in a joint audit appointment? On what basis?

Four of the six firms said they would be prepared to consider a joint audit appointment. Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

7. ISSUES AND OPTIONS

7.1 Introduction

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

7.2 SWOT analysis for the market for audits of PSAA's eligible bodies

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA's eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

| Strengths | Weaknesses |
|--|--|
| <ul style="list-style-type: none"> ▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people's lives. | <ul style="list-style-type: none"> ▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA's eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies). ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work. |

| Opportunities | Threats |
|--|---|
| <ul style="list-style-type: none"> ▪ The Redmond review could make recommendations that address the firms' current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest | <ul style="list-style-type: none"> ▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements. |

7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected 'lessons learned' that CBS highlighted in their report and how these relate to our own findings.

| CBS 'Lesson' | Our comments / current situation |
|--|--|
| A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues. | This remains the case. Our comments are set out below. |
| There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including... | The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this. |
| <ul style="list-style-type: none"> ▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market). | <p>These factors remain and are now more strongly felt than before.</p> <p>It is no longer the case that 'firms are intending to stay in the market'. Their position is now less certain and dependent on developments ahead of the next procurement.</p> |
| <ul style="list-style-type: none"> ▪ there is evidence that gaining new entrants will be challenging. | This remains the case. |
| <ul style="list-style-type: none"> ▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality. | We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market. |
| Given the above factors, positive 'market making' action may be advisable. | If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants. |

| CBS 'Lesson' | Our comments / current situation |
|---|---|
| There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted. | This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis. |
| In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality. | This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality. |

7.4 Opening up the market to new entrants

Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

In May 2019 the Cabinet Office made the following statement:

'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'

7.5 Supply side resources

Issues

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A ‘lost generation’ of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

Options for PSAA

PSAA could consider setting a specific target to keep all the approved firms, especially the ‘Big 4’, active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

7.6 Timing of audits

Issues

The government has set a target date of 31st July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30th September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

Options for PSAA

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

7.7 Fees and quality

Issues

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks. Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

Options for PSAA

Of all the issues that PSAA can influence, fees are by far the most important to the firms. Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

7.8 Number of lots and lot sizes

Number of lots

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

Size of lots

All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total. Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

Options for PSAA

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

7.9 Composition and location of lots

Allocation of audits

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

Locations

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

Specialist lots

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

Options for PSAA

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms.** However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

7.10 Contract duration

Issues

The **5 year contract duration is popular with firms and any shorter period would not be welcomed.** There was little support for a longer duration.

Options for PSAA

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

7.11 Contract structure

Issues

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies.....including: local government.....'

Options for PSAA

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

7.12 Joint audit options

Issues

Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms. However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

Options for PSAA

Consider tendering for joint audits as a potential future option. Consider whether there is potential for 'match-making' between approved and non-approved firms.

7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

SAAA

The Smaller Authorities' Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors' objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

NAO

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

Scotland, Wales and Northern Ireland

Some of PSAA's current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing 'best value' in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

Options for PSAA

PSAA's options are constrained by the current fragmented structure of the market and by PSAA's precisely defined role within it.

7.14 Creating a not-for-profit supplier

Issues

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

Options for PSAA

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.

GLOSSARY

| Initials | Definition |
|----------|--|
| AC | Audit Commission |
| ARGA | Audit, Reporting and Governance Authority |
| AS | Audit Scotland |
| CBS | Cardiff Business School |
| CFO | Chief Finance Officer |
| CIPFA | Chartered Institute of Public Finance Accountants |
| FRC | Financial Reporting Council |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| ICAS | Institute of Chartered Accountants of Scotland |
| KAP | Key Audit Partner |
| LGA | Local Government Association |
| MHCLG | Ministry of Housing, Communities and Local Government |
| NAO | National Audit Office |
| NFP | Not for profit |
| PIE | Public Interest Entity |
| PSAA | Public Sector Audit Appointments Ltd. |
| RSB | Recognised Supervisory Body |
| SAAA | Smaller Authorities' Audit Appointments |
| TUPE | Transfer of Undertakings (Protection of Employment) Regulations 2006 |
| WAO | Wales Audit Office |



TO: Audit & Governance Committee

FROM: Director of Finance & Customer Services

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Finalisation of External Audit Fees 2018/19

1. PURPOSE

- 1.1 To advise the Committee of the outcome of the adjudication by Public Sector Audit Appointments Limited (PSAA) regarding the 2018/19 fee variation requested by the Council's External Auditors relating to the additional work needed to be carried out in respect of the 2018/19 Statement of Accounts.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to:
Note the outcome of the adjudication by PSAA in respect of the 2018/19 External Audit fee variation and approve the proposed variation of £10,000.

3. BACKGROUND

- 3.1 The Council's External Auditors, Grant Thornton, requested the following variations to the PSAA Scale Fee in respect of completion of the Council's 2018/19 Financial Statements and work on the Value for Money conclusion; the original scale fee was set out in the Audit Fee letter presented to the Audit & Governance Committee in October 2018.
- 3.2 The additional work was required in respect of:
- additional work, as the Council is deemed to be a public interest entity (PIE) due to some of the investments it held (disposed of in 2019/20);
 - the pension issues arising from the McCloud legal case (relating to the subsequent transitional arrangements included in public sector pension reforms introduced in 2014 and 2015 which have since been deemed age discriminatory);
 - pensions valuations; and
 - Property, Plant & Equipment (PPE) valuations.

| | | |
|-------------------------------------|-------------------|----------------|
| PSAA Scale Fee | | £79,186 |
| PIE status | (agreed by BwD) | £4,000 |
| PPE | (disputed by BwD) | £3,000 |
| Pensions | (disputed by BwD) | £3,000 |
| McCloud judgement and IAS 19 impact | (agreed by BwD) | £3,000 |
| Total adjustment | | £13,000 |
| Revised Overall Fee | | £92,186 |

- 3.3 Following the PSAA adjudication, the adjustments were amended to £10,000 further to an email from the PSAA on 29 April 2020, which stated:

We have now carefully considered and reviewed all of the information provided to us, and have identified that a variation of £10,000 is appropriate. This has been reduced to reflect the matters raised about the audit process, including issues regarding staffing and communication.

Please note that in respect of the additional audit work undertaken by Grant Thornton (GT) we have reviewed the relevant areas of their audit programme and established that elements of the testing required for 2018/19 had not previously been needed. This increase in work reflects in part the areas identified by the Financial Reporting Council (FRC) as requiring improvement.

GT have also confirmed that significant changes have been made to their audit programme over the past couple of years. This has reflected the emphasis from the FRC on Information Provided by the Entity and the increased focus on PPE and Pensions.

- 3.4 The PSAA noted that these variations are largely similar to other submissions they have received and approved.

4. RATIONALE

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

5. KEY ISSUES AND RISKS

- 5.1 During 2017, PSAA awarded contracts for local authority external audit for a five year period beginning on 1 April 2018. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.
- 5.2 The External Auditors work in the Local Government sector in 2018/19 highlighted areas where financial reporting, in particular, PPE and pensions, needed to improve. There was also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with

the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating meant that additional audit work was required.

- 5.3 One of the consequences of the multiple pressures and challenges which arose in 2018/19 audits was an increase in the number of proposed fee variations for additional audit work that was required. In previous years, the level of such variations has remained relatively stable at around 5% of the sector’s aggregate audit fees.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

- 7.1 The Council provides for the external audit fees in its revenue budget.

8. LEGAL IMPLICATIONS

- 8.1 There are no resource implications arising from this report.

9. RESOURCE IMPLICATIONS

- 9.1 There are no resource implications arising from this report.

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Nil

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

Date: 17 July 2020

Background Papers: External Audit 2018/19 Audit Fee Letter
External Audit Progress Report and Sector Update 6 January 2020

Audit Progress Report and Sector Update

Blackburn with Darwen Borough Council

Year ending 31 March 2020

16 July 2020



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Introduction



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

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

Progress at July 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in March and our work on your draft financial statements will commence during the summer.

Since our planning work, global events have moved in an unexpected and tragic direction. None of us could have foreseen the impact that the COVID-19 crisis has had on the world. As a local authority, you are at the forefront of efforts to support local people, and clearly your focus will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts ahead of the 30 November 2020 deadline.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

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

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

We have undertaken our VFM risk assessment and as part of our work later in the year will be focusing on two VFM significant risks, namely:

Financial Sustainability

The Council faces increasing financial pressures and in year budget monitoring reports highlighted a number of directorates with significant overspends. In addition, the Council's Medium Term Financial Strategy up to 2022 indicated the need to address cost pressures and a budget gap of £8.2m in 2019/20.

We will review the arrangements that are in place for the regular monitoring of the in year financial position and assess how the future financial challenges including the need to deliver savings are being addressed.

Implementation of regulator recommendations

The Council has been subject to a number of inspections and focused visits by external inspectors during 2019/20. It is essential that recommendations are acted upon in a timely manner to ensure quality services are delivered. We will review the arrangements the Council has implemented to ensure recommendations raised by inspectors are appropriately considered and addressed.

Progress at July 2020 (Cont.)

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 (DWP). Although it should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021, we have already started discussions with the Council's Housing Benefit Section about this work and will be certifying the claim ahead of the deadline.

We also certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in line with the national deadline.

Meetings

We have held virtual Microsoft Teams meetings with Finance Officers as part of our liaison meetings and continue to be in discussions regarding emerging developments to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

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 Fees

During 2017, PSAA awarded audit contracts for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes and have discussed this with your Director of Finance including proposed variations to the Scale Fee set by PSAA Limited. The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities.

| | | |
|--|--------|---|
| Scale fee (£) | 79,186 | |
| Raising the bar, new developments, local issues (£) | 5,000 | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19 (£) | 3,000 | We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. |
| PPE Valuation (£) | 3,000 | As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore increased the increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. |
| Revised scale fee (to be approved by PSAA £) | 90,186 | |

COVID-19 Update

Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- we will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of impact in annual report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements:

- the Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020.
- for principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Sector Update

Councils continue to try 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 local government sector 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

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

Page 04

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

We shared the report with your officers and discussed relevant issues with them in a timely manner.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Nondomestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>

Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

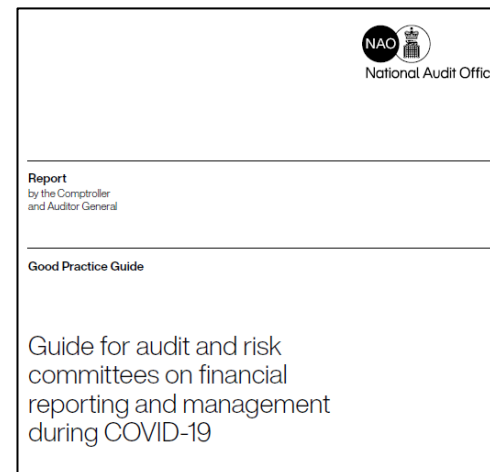
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.

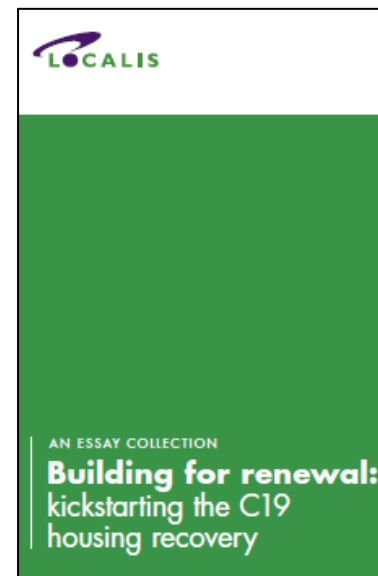
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

BRIEFING PAPER



REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance and Customer Services

DATE: 29th July 2020

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2020/21

Based on monitoring information for the period 1st March – 31st May 2020

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

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

3. BACKGROUND

3.1 The Treasury Management Strategy for 2020/21, approved at Executive Board in March 2020, 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

At the start of the period the Bank of England's Bank Rate had held steady at 0.75% since August 2018. The Bank of England's Bank Rate reduced twice in quick succession at the start of the COVID-19 pandemic, firstly on 11 March 2020 to 0.25% and again on 19 March 2020 to 0.10%.

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 significantly across the period, ranging between £45M and £110M. Investment balances were unusually high during this period, firstly due to the Council having taken borrowings towards the advance pension payment, made in April 2020, and secondly because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to small businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £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). During the period, the Council has opened additional MMFs with the aim of achieving slightly higher returns on investments in such funds and mitigating risk. The Council is now spreading its holdings more broadly across all MMFs available to manage risk. Returns on such MMFs holdings had decreased significantly by the end of the period, in line with the reductions in the Bank of England Bank Rate, to around 0.27%. Bank account rates vary, paying around 0.20%.

For limited periods, funds were also placed with the Government’s Debt Management Office (between 0.02% and 0.10%). The other fixed term investments made were:

| Start Date | End Date | Counterparty | Amount £ | Rate |
|------------|-----------|---------------------------------------|------------|-------|
| 10-Jan-20 | 27-Apr-20 | Thurrock Metropolitan Borough Council | £2,000,000 | 0.85% |
| 13-Jan-20 | 14-Apr-20 | Flintshire County Council | £5,000,000 | 0.85% |
| 27-Jan-20 | 15-Apr-20 | Knowsley Metropolitan Borough Council | £5,000,000 | 0.85% |
| 28-Jan-20 | 15-Apr-20 | Birmingham City Council | £5,000,000 | 0.83% |
| 18-Feb-20 | 27-Apr-20 | Thurrock Metropolitan Borough Council | £3,000,000 | 0.85% |
| 19-Feb-20 | 09-Apr-20 | Kirklees Metropolitan Borough Council | £5,000,000 | 0.75% |
| 25-Feb-20 | 15-Apr-20 | Gloucester City Council | £2,000,000 | 0.90% |
| 26-Feb-20 | 15-Apr-20 | Aberdeen City Council | £4,000,000 | 0.95% |
| 28-Feb-20 | 15-Apr-20 | Gloucester City Council | £2,000,000 | 0.90% |
| 03-Mar-20 | 03-Apr-20 | Conwy Council | £5,000,000 | 0.73% |

At 31st May, the Council had approximately £45.7 M invested, compared to £47.2 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 0.38%.

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

- (a) 1 month lending - decreasing significantly over the period, averaging 0.12% and ending at -0.03%
- (b) 3 month lending - decreasing significantly over the period, averaging 0.38% and ending at 0.10%

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.

The cost of short-term borrowing, based on loans from other councils, fluctuated significantly during the period. Interest rates on loans from 3 months out to a year reached highs of over 2.00%, at the start of the COVID-19 pandemic, and were priced at exceptionally low rates between 0.40% to 0.75% by the end of the period.

The Council continues using short-term borrowing, with balances having increased during the period in respect of the advance pension payment made in April 2020, but should we need to borrow over the

longer term this may be more expensive. It is uncertain as to how the long term borrowing market will develop, but should the need arise, we will review the options available.

It is expected that interest rates will remain low for the foreseeable future.

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 May, there was an increase in short term borrowing of £15M, as loans of £24M were repaid and £39M of new loans were taken (listed below). As mentioned above, this increase in short term borrowings is due to the Council having taken borrowings towards the advance pension payment, made in April 2020.

| New loans taken in the period | | | | |
|--------------------------------------|-----------------|---|-------------------|-------------|
| Start Date | End Date | Counterparty | Amount £ | Rate |
| 27/03/2020 | 28/09/2020 | Trafford Council | 2,500,000 | 0.95% |
| 27/03/2020 | 28/09/2020 | South Derbyshire District Council | 2,500,000 | 0.95% |
| 02/03/2020 | 02/09/2020 | Derbyshire Council Pension Fund | 5,000,000 | 0.95% |
| 03/04/2020 | 04/01/2021 | North West Leicestershire District Council | 2,000,000 | 0.97% |
| 30/03/2020 | 30/12/2020 | Hertsmere Borough Council | 5,000,000 | 0.97% |
| 20/04/2020 | 19/10/2020 | North Kesteven District Council | 2,000,000 | 0.90% |
| 30/03/2020 | 29/01/2021 | Tendring District Council | 4,000,000 | 0.89% |
| 05/05/2020 | 05/11/2020 | Renfrewshire Council | 5,000,000 | 0.98% |
| 22/05/2020 | 21/05/2021 | Ryedale District Council | 1,000,000 | 1.05% |
| 30/04/2020 | 30/10/2020 | Tewkesbury Borough Council | 2,000,000 | 1.00% |
| 30/04/2020 | 29/01/2021 | East Ridings of Yorkshire Council Pension Fund | 5,000,000 | 1.00% |
| 24/04/2020 | 24/11/2020 | Police and Crime Commissioner for Avon & Somerset | 3,000,000 | 0.89% |
| | | | 39,000,000 | |

Future deals already agreed by end of period

| Start Date | End Date | Counterparty | Amount £ | Rate |
|------------|------------|---|-----------|-------|
| 01/06/2020 | 01/12/2020 | Craven District Council | 2,000,000 | 0.90% |
| 07/07/2020 | 07/01/2021 | Police and Crime Commissioner for Northumbria | 5,000,000 | 0.70% |
| 31/07/2020 | 29/01/2021 | West Yorkshire Fire and Rescue | 5,000,000 | 0.80% |
| 07/07/2020 | 07/01/2021 | Police and Crime Commissioner for Northumbria | 5,000,000 | 1.00% |
| 05/08/2020 | 04/08/2021 | North of Tyne Combined Authority | 5,000,000 | 0.80% |
| 01/10/2020 | 30/09/2021 | Vale of Glamorgan Council | 2,250,000 | 0.55% |

24,250,000

4.5 Current debt outstanding -

| | 29 th Feb 2020 | | 31 st May 2020 | |
|--|---------------------------|----------------|---------------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| TEMPORARY DEBT | | | | |
| Less than 3 months | 24,000 | | 25,000 | |
| Greater than 3 months (full duration) | 45,000 | | 59,000 | |
| | | 69,000 | | 84,000 |
| LONGER TERM DEBT | | | | |
| Bonds | 18,000 | | 18,000 | |
| PWLB | 133,768 | | 131,652 | |
| Stock & Other Minor Loans | 263 | | 263 | |
| | | 152,031 | | 149,915 |
| Lancashire Council County – Transferred Debt | | 14,296 | | 14,148 |
| Recognition of Debt re PFI Arrangements | | 63,700 | | 63,414 |
| TOTAL DEBT | | 299,027 | | 311,477 |
| LESS: TEMPORARY LENDING | | | | |
| Fixed Term | | (33,000) | | (23,300) |
| Instant Access | | (14,151) | | (22,397) |
| NET DEBT | | 251,876 | | 265,780 |

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

- £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%
- £131.7M 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%.
- Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2%.
- 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.

4.6 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 31st May 2020 was £311.5M, which is below both our Operational Boundary (£360.8M) and our Authorised Borrowing Limit (£370.8M) for 2020/21.

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 fund marginal changes in its debt. This remains under review, with regular updates from the Council’s treasury management advisors, Arlingclose.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £51.3M, against the **limit** set for this year of £116.4M.

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 £136.9M, against the **limit** of £267.2M. 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.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

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

7. LEGAL IMPLICATIONS

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

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

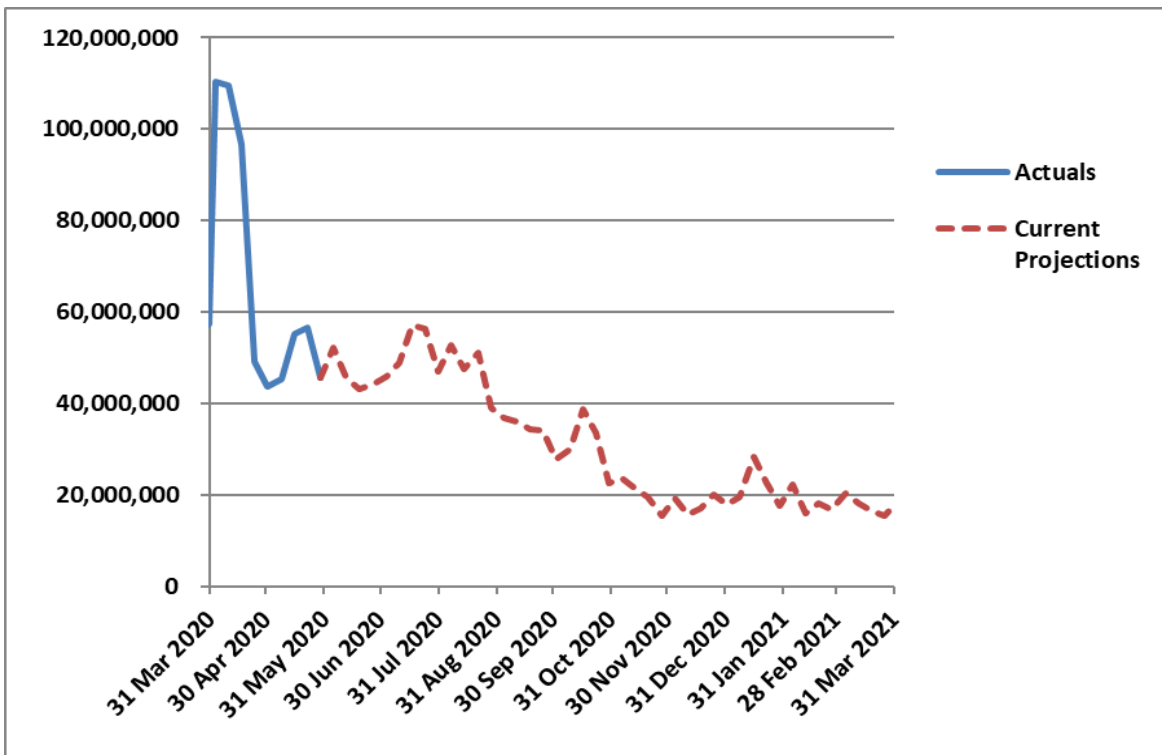
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect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

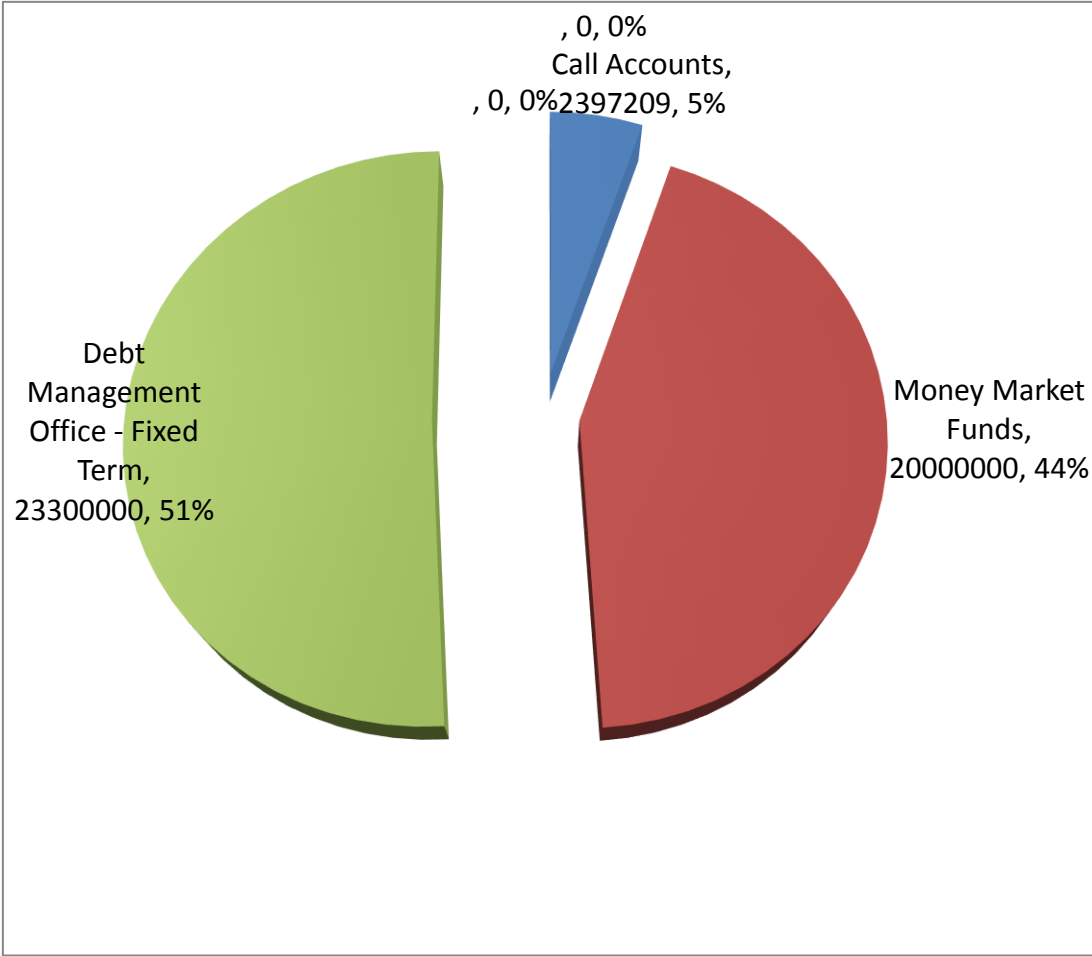
| | |
|-----------------|-------------|
| VERSION: | 0.01 |
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| | | |
|---------------------------|---|-------------|
| CONTACT OFFICER: | Jody Spencer-Anforth – Finance Manager | extn 507748 |
| | Louise Mattinson - Director of Finance & Customer Services | extn 5600 |
| DATE: | 2 nd July 2020 | |
| BACKGROUND PAPERS: | CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 12 th March 2020 | |

Weekly Investment balances

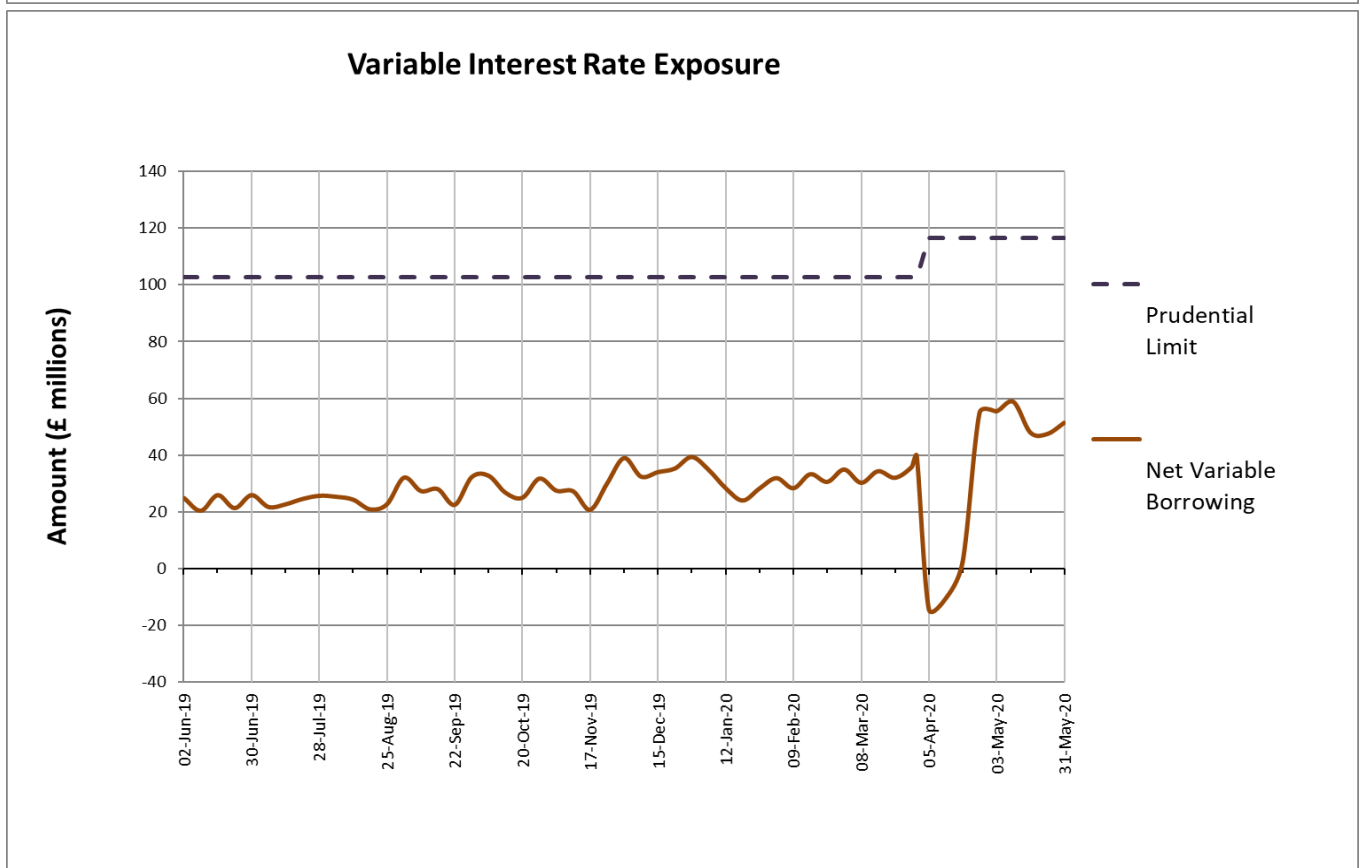
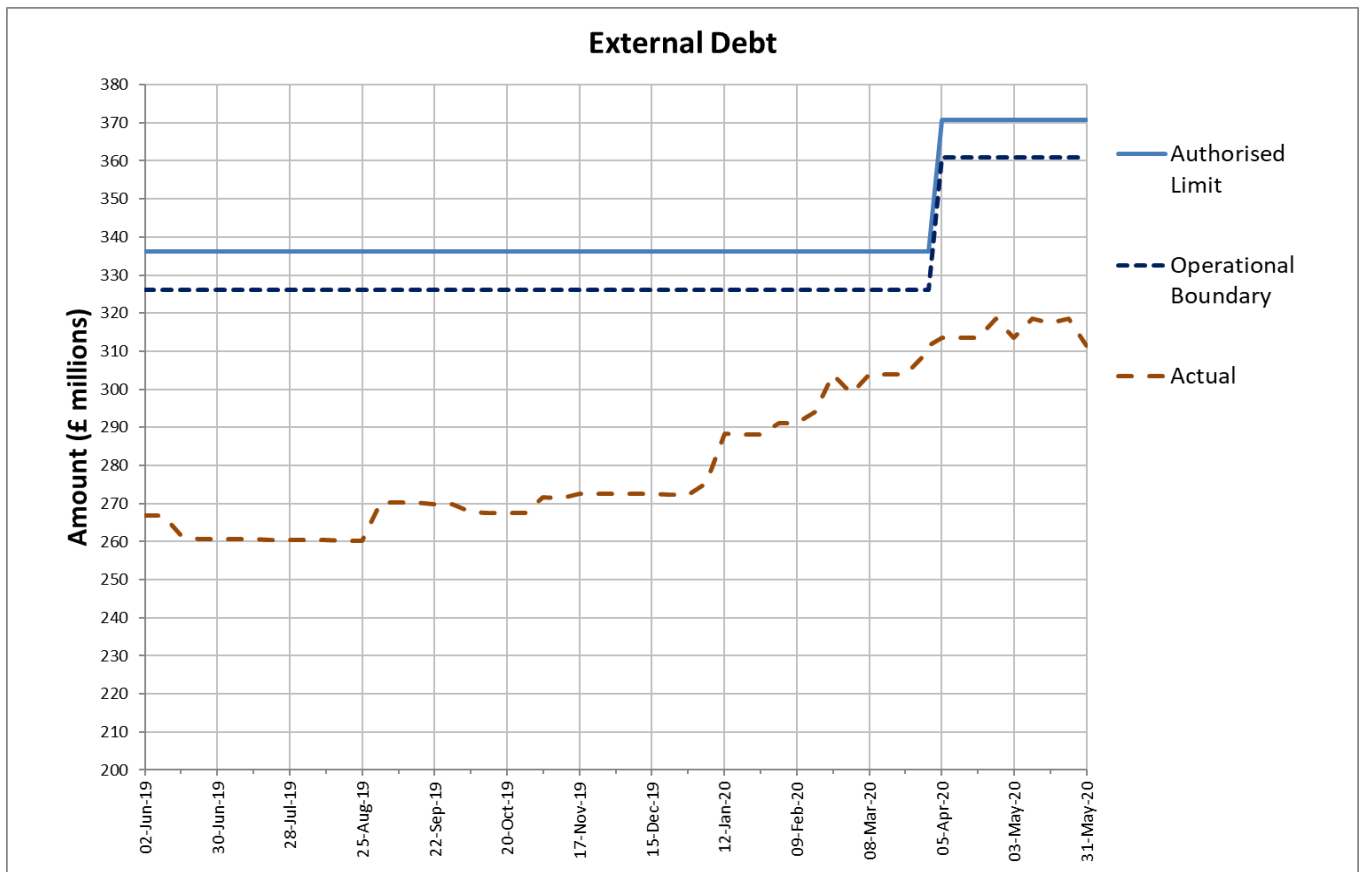
2020/21 (Feb 20 to Mar 21)





| | Indicator 2020/21 | As approved Feb/Mar 20 | Current Monitoring | Commentary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|---|------------------------------------|----------------|-------------------------|-------|--------------------|--------|-----------------------------|---------------|-----------------------------------|---------------|---|--------------------------|-----------|----------|------|--------------|------|---|-----------------------------------|--------------|--------------|---|----|---|----|------|-----|-----|-----|----|-----|------|----|------|------|-----|-----|------|-----|--------------|--------------|-------------|--|
| PRUDENTIAL INDICATORS | Estimated Capital Expenditure | £40 M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Estimated total Capital Financing Requirement at end of year | £307.3 Million (incl projections re LCC debt £15.0M and accumulated PFI / Lease debt £69.3M) | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Estimated ratio of financing costs to net revenue stream | 13.68% (Main Programme Capital Spend) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Outturn External Debt prudential Indicators | <table border="1"> <tr> <td>LCC Debt</td> <td>15.0M</td> </tr> <tr> <td>PFI elements (no lease)</td> <td>69.3M</td> </tr> <tr> <td>Remaining elements</td> <td>276.5M</td> </tr> <tr> <td>Operational Boundary</td> <td>360.8M</td> </tr> <tr> <td>Authorised Borrowing Limit</td> <td>370.8M</td> </tr> </table> | | LCC Debt | 15.0M | PFI elements (no lease) | 69.3M | Remaining elements | 276.5M | Operational Boundary | 360.8M | Authorised Borrowing Limit | 370.8M | <table border="1"> <tr> <td>Borrowing to date</td> <td>£M</td> </tr> <tr> <td>LCC Debt</td> <td>14.2</td> </tr> <tr> <td>PFI Elements</td> <td>63.4</td> </tr> <tr> <td>BwD</td> <td>233.9</td> </tr> <tr> <td>Total</td> <td>311.5</td> </tr> </table> | Borrowing to date | £M | LCC Debt | 14.2 | PFI Elements | 63.4 | BwD | 233.9 | Total | 311.5 | LCC debt and BSF PFI debt will both fall across the year, as debt payments are made | | | | | | | | | | | | | | | | | | | | | |
| | LCC Debt | 15.0M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PFI elements (no lease) | 69.3M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Remaining elements | 276.5M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operational Boundary | 360.8M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Authorised Borrowing Limit | 370.8M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Borrowing to date | £M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LCC Debt | 14.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PFI Elements | 63.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BwD | 233.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 311.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Variable Interest Rate Exposure | £116.4 M | Exposure to date | £45.7 M | Limit not breached during the year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fixed Interest Rate Exposure | £267.2 M | Exposure to date | £136.9 M | Limit not breached during the year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TREASURY | 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><1</td> </tr> <tr> <td>0</td> <td>30%</td> <td>1-2</td> </tr> <tr> <td>0</td> <td>30%</td> <td>2-5</td> </tr> <tr> <td>0</td> <td>30%</td> <td>5-10</td> </tr> <tr> <td>25%</td> <td>95%</td> <td>>10</td> </tr> </tbody> </table> | Lower Limit | Upper Limit | Period (Years) | 0 | 50% | <1 | 0 | 30% | 1-2 | 0 | 30% | 2-5 | 0 | 30% | 5-10 | 25% | 95% | >10 | <table border="1"> <thead> <tr> <th colspan="3">Actual maturity structure to date</th> </tr> <tr> <th>Period (Years)</th> <th>£M</th> <th>%</th> </tr> </thead> <tbody> <tr> <td><1</td> <td>96.2</td> <td>41%</td> </tr> <tr> <td>1-2</td> <td>3.9</td> <td>2%</td> </tr> <tr> <td>2-5</td> <td>22.1</td> <td>9%</td> </tr> <tr> <td>5-10</td> <td>34.0</td> <td>15%</td> </tr> <tr> <td>>10</td> <td>77.7</td> <td>33%</td> </tr> <tr> <td>Total</td> <td>233.9</td> <td>100%</td> </tr> </tbody> </table> | Actual maturity structure to date | | | Period (Years) | £M | % | <1 | 96.2 | 41% | 1-2 | 3.9 | 2% | 2-5 | 22.1 | 9% | 5-10 | 34.0 | 15% | >10 | 77.7 | 33% | Total | 233.9 | 100% | |
| | | Lower Limit | Upper Limit | Period (Years) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0 | 50% | <1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0 | 30% | 1-2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0 | 30% | 2-5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0 | 30% | 5-10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 25% | 95% | >10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actual maturity structure to date | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Period (Years) | £M | % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <1 | 96.2 | 41% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1-2 | 3.9 | 2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2-5 | 22.1 | 9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5-10 | 34.0 | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| >10 | 77.7 | 33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 233.9 | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investments for longer than 364 days | £7 Million | NO LONG TERM INVESTMENTS MADE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Movements in Prudential Indicators - Total Debt and Variable Interest Exposure
Year to 31st May 2020



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).



REPORT to : Audit & Governance Committee

LEAD OFFICER: Director of Finance and Customer Services

DATE: 29th July 2020

WARD/S AFFECTED: All

Treasury Management Annual Report 2019/20

1. PURPOSE

1.1 To formally report the Treasury outturn for 2019/20, as also reflected in the 2019/20 Outturn Corporate Monitoring Report (9th July Executive Board).

2. RECOMMENDATIONS

2.1 Audit and Governance Committee is recommended to note the Outturn position for 2019/20.

3. BACKGROUND

- 3.1 In February/March 2019 the Council agreed a Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy for 2019/20.
- 3.2 The CIPFA Treasury Management Code required the Council to approve a Treasury Management Strategy (including various Treasury Management indicators) before the start of each financial year, and to consider the outturn after each year end. This report is to update Audit and Governance Committee on the overall outturn position for 2019/20.

4. KEY ISSUES AND RISKS

4.1 Treasury Priorities

The Council has operated within CIPFA and statutory guidance and requirements in respect of Treasury Management practice. The approved Treasury Management Policy Statement, together with the more detailed Treasury Management Practices and each year's Annual Strategy have all emphasised the importance of security and liquidity over yield.

5. 2019/20 OUTTURN

5.1 Original Strategy for 2019/20

5.1.1 The Strategy for 2019/20 was approved by Executive Board on 14th March 2019. The main aspects of the strategy are outlined below :

- With short-term interest rates expected to continue to be lower than long-term rates it was acknowledged, for another year, that it may continue to be more cost effective not to borrow and instead reduce the level of investments.
- Long-term borrowing would be taken if it became apparent that there was a risk of significantly increased interest rates.
- Any balances over and above those required to maintain basic liquidity could be invested either in the medium term (out to a year) or the longer term (over a year), though it was recognised that long term investment was unlikely. Priority was given to security of funds and liquidity (accessibility) over yield (or return).
- The limits to investment by reference to amount, duration and credit rating were largely unchanged from those applying in previous years

5.2 Economic Review 2019/20

5.2.1 The UK's exit from the European Union and future trading arrangements, had remained one of the major influences on the UK economy and sentiment during 2019/20. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

5.2.2 The headline rate of UK Consumer Price Inflation fell to 1.7% year on year in February, below the Bank of England's target of 2%. Labour market data remained positive. The unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay, both including and excluding bonuses, was 3.1% in January 2020.

5.2.3 Growth Domestic Product (GDP) growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

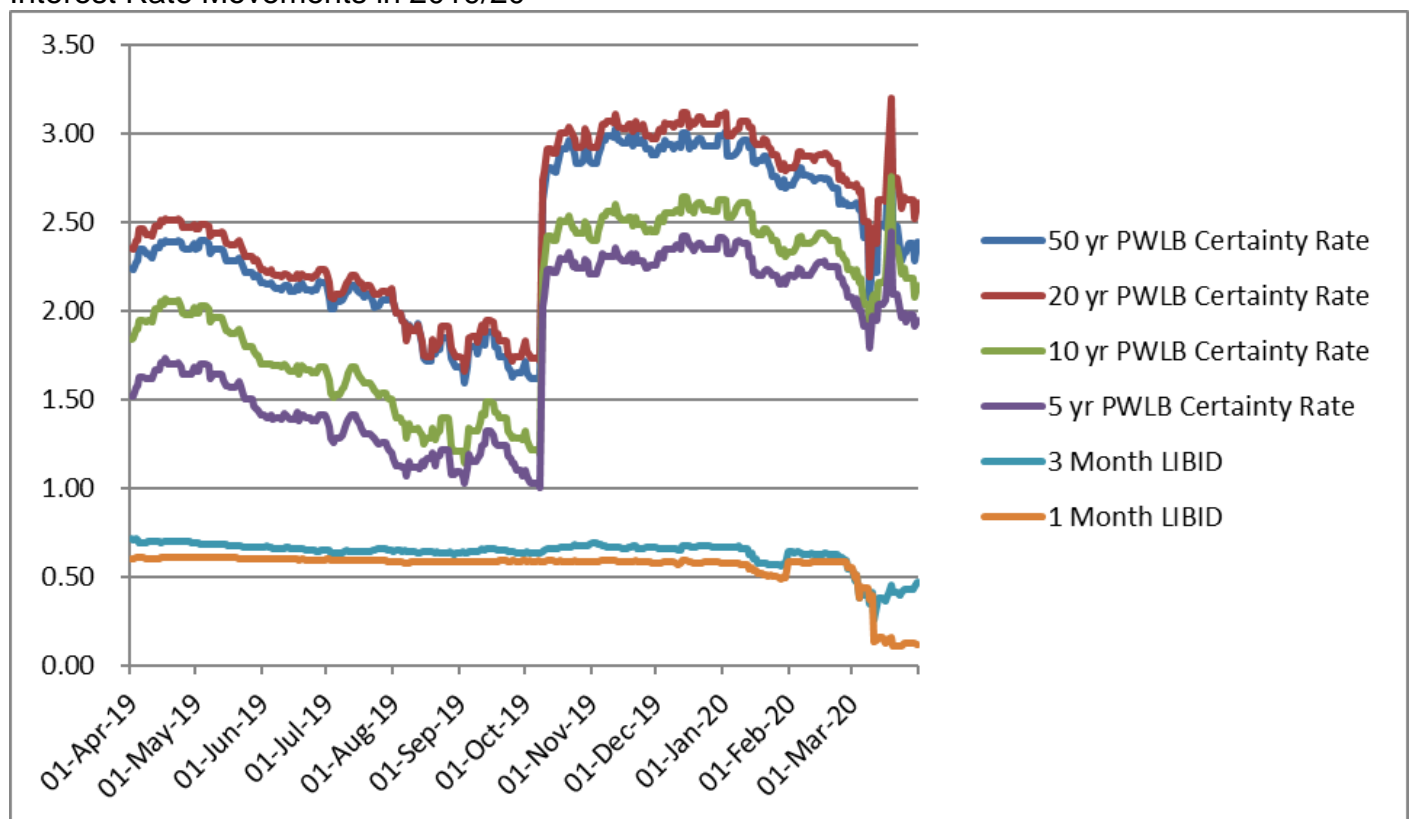
5.2.4 Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

5.2.5 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

5.2.6 The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

5.2.7 The pattern of interest rates over the year is summarised in the chart below. Local government long-term borrowing costs are set by the Public Works Loans Board (PWLB) - these directly mirror gilt yields. As reflected in the chart below, on 9 October 2019 the PWLB increased the margin it charges over gilt yields by 1%, now making it a relatively expensive borrowing option. Nominal investment rates, measured through the London Inter-Bank Bid Rate (LIBID), are also shown.

Interest Rate Movements in 2019/20 –



5.3 Treasury Management Performance 2019/20

5.3.1 By 31st March 2020, the Council had net borrowing of around £176M, arising from its revenue and capital income and expenditure, an increase of £3M from the previous year.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

| Balance Sheet Summary | 31 March 2019 £M | 2019/20 Movement £M | 31 March 2020 £M |
|--|---------------------|---------------------------|---------------------|
| General Fund CFR Less CFR re Debt - | 297.6 | 3.1 | 300.7 |

| | | | |
|--|--------------|------------|--------------|
| managed by Lancashire County Council (LCC) | -15.6 | 0.3 | -15.3 |
| re Private Finance Initiative (PFI) arrangements | -69.7 | 0.2 | -69.5 |
| Loans/Borrowing CFR | 212.3 | 3.6 | 215.9 |
| Less Usable Reserves | -40.1 | -1.5 | -41.6 |
| Less Working Capital | 0.6 | 1.4 | 2.0 |
| Net Borrowing | 172.8 | 3.5 | 176.3 |

The overall increase in **net borrowing** occurred primarily because of additional borrowings taken for the 3 year pension pre-payment made in April 2020 (which will lead to net budget savings).

5.3.2 Under the Council's Minimum Revenue Provision (MRP) Policy,

- the MRP charge to the accounts in respect of both PFI debt and debt managed by LCC has been less than the actual debt repaid, and
- the MRP charge to the accounts in respect of the Council's own capital spend financed from borrowing has increased.

The Council's CFR has increased as a result of capital spend in 2019/20 in excess of the MRP charge and capital receipts applied this year.

5.3.3 The following table summarises debt and investments at the start and end of the year:

| | 31 Mar 2019 Principal (£ M) | Rate / Return | Avg Life (Yrs) | 31 Mar 2020 Principal (£ M) | Rate / Return | Avg Life (Yrs) |
|---|--------------------------------------|------------------|-------------------|--------------------------------------|------------------|-------------------|
| Fixed rate funding: | | | | | | |
| Public Works Loans Board | 138.0 | 3.61% | 18.5 | 131.7 | 3.68% | 18.3 |
| Market Debt (Long Term) | 5.3 | 4.50% | 36.0 | 10.3 | 4.47% | 34.7 |
| Market Debt (Short Term) | 41.0 | 0.95% | | 84.0 | 0.95% | |
| | 184.3 | | | 226.0 | | |
| Variable rate funding: | | | | | | |
| Public Works Loans Board | 0.0 | | | 0.0 | | |
| Market | 13.0 | 4.48% | 27.1 | 8.0 | 4.50% | 21.0 |
| | 13.0 | | | 8.0 | | |
| Loans taken by Blackburn with Darwen Borough Council | 197.3 | | | 234.0 | | |
| Debt from PFI arrangements | 65.1 | | | 63.4 | | |
| Debt managed by LCC | 14.7 | 2.0% | | 14.1 | 2.15% | |
| Total debt | 277.1 | | | 311.5 | | |
| Total investments | 24.5 | 0.73% | | 57.5 | 0.67% | |

In summary, the key changes to the Council's overall debt position across the year were:

- An increase in the level of short term borrowing, from £41M to £84M,
- Principal repayments of £6.4M on PWLB EIP (Equal Instalment of Principal) loans

(c) Repayments of part of the outstanding PFI debt recognised on the balance sheet for Building Schools for the Future (BSF), and of debt managed by LCC.

No debt rescheduling was undertaken, because the premiums payable on early repayment of PWLB debt made it uneconomic to do so.

5.3.4 Short term loans were taken for a range of durations at various points across the year. Investments continued to be maintained to ensure sufficient resources to cover day to day cash flow needs, and would be higher when the timing of short term loans taken was not aligned to the immediate cash flow requirements of the Council.

Across the year, the Council's chief 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, with flexibility to renegotiate loans should long-term plans change.

Overall, investment balances are still much lower than they would have been if long-term borrowing had been taken to cover the Council's CFR position. The degree to which long-term debt was less than CFR increased, by £10M, to around £66M, as a result of the current years capital spend being financed by short-term borrowings.

The deliberate strategy of taking short-term loans continued to deliver large savings on borrowing costs.

5.3.5 In summary, the outturn position in respect of interest costs and income, and MRP charges, was as follows:

| Outturn 2018/19 £'000 | | Original Budget 2019/20 £'000 | Outturn 2019/20 £'000 |
|--------------------------------------|--|--|--------------------------------------|
| 5,378 | Interest paid on borrowing – long term debt | 5,869 | 5,770 |
| 539 | Interest paid on borrowing – short term debt | 540 | 378 |
| 333 | Interest paid on debt managed by LCC | 351 | 305 |
| 6,230 | PFI interest paid | 6,168 | 6,057 |
| (256) | Interest – treasury/other minor elements | (100) | (188) |
| (1,170) | Interest & dividends from BSF investments | - | (1,060) |
| 5,670 | MRP on Council borrowing | 6,226 | 6,021 |
| 153 | MRP – PFI debt | 165 | 165 |
| 340 | MRP – debt managed by LCC | 340 | 340 |

5.3.6 Interest paid on borrowing in 2019/20 was around £0.26M down on the original estimate, reflecting both lower short-term interest rates and the decision not to take on new long-term debt in year. Interest on long-term borrowing increased from around £5.378M last year to £5.770M this year, as a result of the full year impact of new long-term borrowing taken in December 2018.

5.3.7 The average investment balance over the year was down at £27M (£37M in 2018/19). In the final quarters of both 2018/19 and 2019/20 higher investment balances were held. 2018/19 this was following the PWLB loans taken in December 2018, and in 2019/20 this was as a result of additional short-term borrowing taken for the 3 years pension prepayment made in April 2020. (see Weekly Balances **Appendix 1**).

Overall, interest and dividends received fell slightly to £1.2M in 2019/20 (£1.4M in 2018/19). The most significant variation was due to lower average investment balances held over the year.

The income from interest and dividends in relation to the BSF investments were £1M higher than the original budget. **A one off windfall of around £1M** was generated for the council by the restructuring of the second of the BSF PFI debt frameworks. Last year a similar dividend was received by the council as a result of the restructuring of first of the BSF PFI debt frameworks. "Routine" PFI investment receipts fell to £0.08M (£0.15M in 2018/19) due to the dividends usually received for the 6 months October – March being surrendered as part of the agreement for the sale of the investments.

Investment interest rates increased a little but remained low across 2019/20, and fell significantly in March 2020. Funds have continued to be invested for short periods, and sometimes with the government's Debt Management Office, to manage risk – this also contributed to the relatively low returns. Interest earned on treasury cash investments decreased, from £0.24M to £0.19M, and the average rate of return rose to 0.69% (against 0.63% in 2018/19).

5.3.8 The impact of the revised MRP Policy introduced in 2016/17, can be seen in the continuing lower MRP costs in 2019/20, which, at £6.5M, were still significantly lower than they would have been under the previous policy. The final MRP costs at outturn were in line with expectations.

5.3.9 The position with regard to performance against Treasury/Prudential Indicators in 2019/20 is summarised in **Appendix 2**. There was no breach of the Authorised Borrowing Limit or the Operational Boundary (set for management purposes).

Outturn capital spend was £26M, which is below the £35M anticipated at the start of the year.

5.4 Treasury Management Consultancy

5.4.1 The Council is now contracted up to 31st March 2021 to receive treasury management support from Arlingclose Limited. This is following a one year extension of the existing contract we had with them. They provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision-making remains with the Council and its officers.

5.4.2 Over the period, in providing support to the Council, Arlingclose have reviewed the Council's Treasury management procedures and activities. They have provided member training; ongoing officer training; support for and review of treasury decisions, reports and strategies; feedback on accounting for treasury activities; benchmarking with other authorities; guidance on borrowing and investment opportunities; forecasts of interest rates; and regular updates on credit ratings and other information on credit quality. The quality of the support provided has been of a high standard.

5.5 Counterparty Update

5.5.1 In Q4 2019 credit rating agencies affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. They then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All of the banking groups passed.

- 5.5.2 After remaining flat in January and February, Credit Default Swap (CDS), an indicator of market confidence in banks, spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels.
- 5.5.3 Credit rating agencies downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks.

5.6 Risk Management

- 5.6.1 The Council's key priorities for managing its investments are the security and liquidity of its funds, before seeking the best rate of return. Most surplus cash is therefore held as short-term investments with the UK Government, highly rated banks and pooled funds.
- 5.6.2 The Council's primary objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the Public Works Loan Board at long-term fixed rates of interest.
- 5.6.3 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, it is hedged against the investment return risk by its short term debt.
- 5.6.4 The Council is holding a significant element (£84M) in short-term loans from other local authorities. If the medium to long-term cost of debt were to move upwards, it may be necessary to restructure the Council's debt quickly, and cope with an increased cost of borrowing. This issue remains under review, with regular updates from Arlingclose.

6. FINANCIAL IMPLICATIONS

The financial implications arising from the 2019/20 Treasury Outturn have been incorporated into Corporate Budget Monitoring Reports.

7. LEGAL IMPLICATIONS

- 7.1 Under the Local Government Act 2003, local authorities determine locally their levels of capital investment and associated borrowing. The Prudential Code has been developed to support local authorities in taking these decisions, and the Council is required by Regulation to have regard to the Code when carrying out its duties under Part 1 of the Local Government Act 2003.
- 7.2 The Department for Communities and Local Government issued Guidance on Local Government Investments, under the Local Government Act 2003, effective from 1st April 2010. Authorities must manage their investments within an approved strategy, setting out what categories of investment they will use and how they will assess and manage the risk of loss of investments.

8. POLICY IMPLICATIONS, RESOURCE IMPLICATIONS, CONSULTATIONS

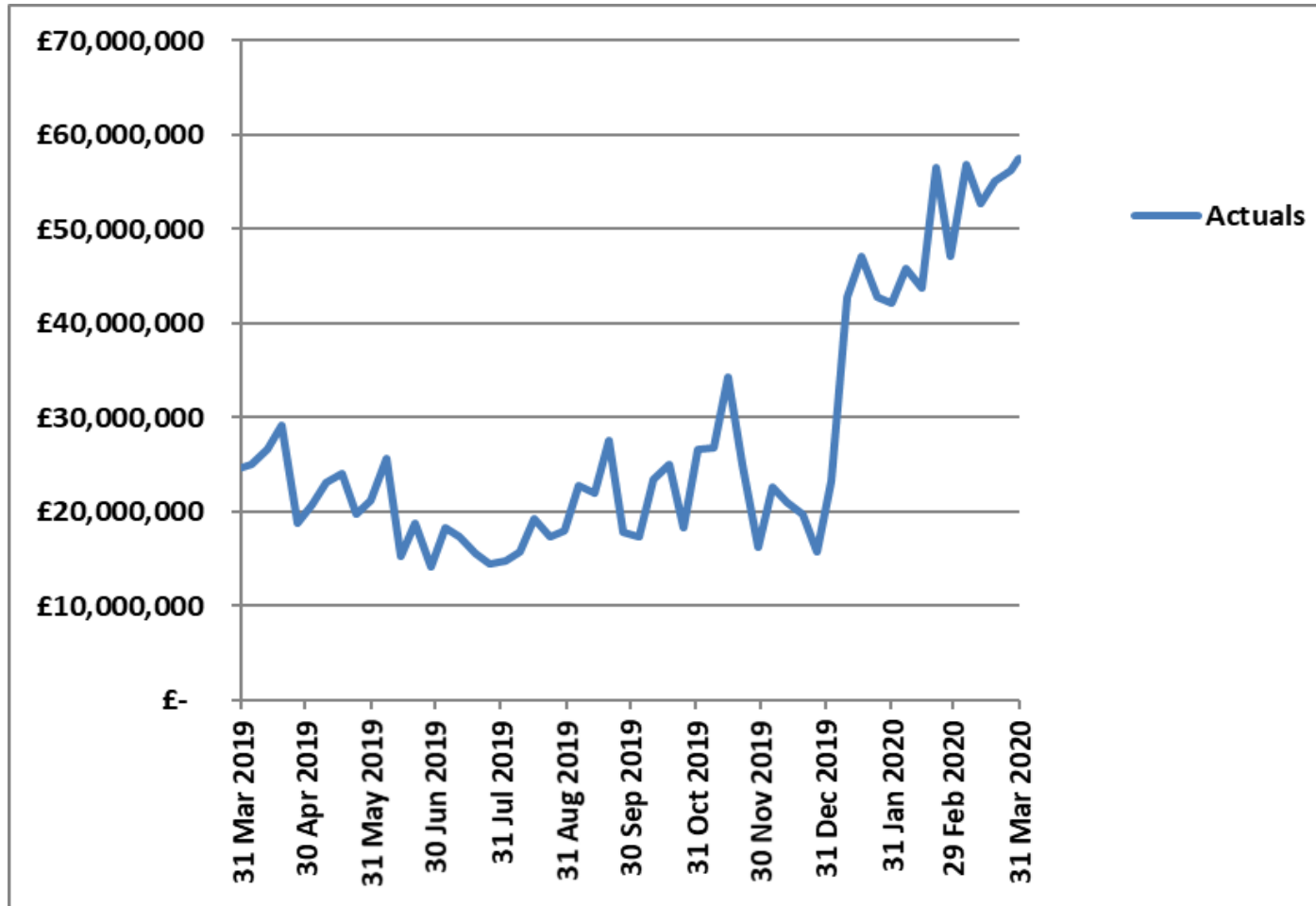
None

9. STATEMENT OF COMPLIANCE

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

VERSION: 0.01

| | |
|--------------------------|--|
| CONTACT OFFICER: | Jody Spencer-Anforth, Finance Manager extn 507748 Louise Mattinson, Director of Finance & Customer Services extn 5600 |
| DATE: | 2 nd July 2020 |
| BACKGROUND PAPER: | Treasury Management strategy for 2019/20 approved at Executive Board 14 th March 2019. |



| | Indicator 2019/20 | As approved Feb/Mar 19 | Current Monitoring | Commentary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|--------------------|---|------------------------------------|----------------|--------------------|--------|-----------------------------|---------------|-----------------------------------|---------------|---|-------------------|-----|----|----------|------|------|--------------|-----|---|-----|-----------------------------------|-------|--------------|----------------|--------------|---|----|------|-----|-----|-----|----|-----|------|----|------|------|-----|-----|------|-----|--------------|--------------|
| PRUDENTIAL INDICATORS | Estimated Capital Expenditure | £35 M | £26 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) | | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 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>Operational Boundary</td> <td>326.1M</td> </tr> <tr> <td>Authorised Borrowing Limit</td> <td>336.1M</td> </tr> </table> | LCC Debt | 15.3M | PFI elements (no lease) | 69.5M | Remaining elements | 240.8M | Operational Boundary | 326.1M | Authorised Borrowing Limit | 336.1M | <table border="1"> <tr> <th colspan="2">Borrowing to date</th> <th>£M</th> </tr> <tr> <td>LCC Debt</td> <td></td> <td>14.1</td> </tr> <tr> <td>PFI Elements</td> <td></td> <td>63.4</td> </tr> <tr> <td>BwD</td> <td></td> <td>233.9</td> </tr> <tr> <td>Total</td> <td></td> <td>311.4</td> </tr> </table> | Borrowing to date | | £M | LCC Debt | | 14.1 | PFI Elements | | 63.4 | BwD | | 233.9 | Total | | 311.4 | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operational Boundary | 326.1M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Authorised Borrowing Limit | 336.1M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Borrowing to date | | £M | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LCC Debt | | 14.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PFI Elements | | 63.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BwD | | 233.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | 311.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TREASURY | Variable Interest Rate Exposure | £102.8 M | Exposure to date | 39.5 | Limit not breached during the year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Fixed Interest Rate Exposure | £233.9 M | Exposure to date | 136.9 | 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><1</td> </tr> <tr> <td>0%</td> <td>20%</td> <td>1-2</td> </tr> <tr> <td>0%</td> <td>30%</td> <td>2-5</td> </tr> <tr> <td>0%</td> <td>30%</td> <td>5-10</td> </tr> <tr> <td>25%</td> <td>95%</td> <td>>10</td> </tr> </tbody> </table> | | Lower Limit | Upper Limit | Period (Years) | 0% | 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><1</td> <td>96.2</td> <td>41%</td> </tr> <tr> <td>1-2</td> <td>3.9</td> <td>2%</td> </tr> <tr> <td>2-5</td> <td>22.1</td> <td>9%</td> </tr> <tr> <td>5-10</td> <td>34.0</td> <td>15%</td> </tr> <tr> <td>>10</td> <td>77.7</td> <td>33%</td> </tr> <tr> <td>Total</td> <td>233.9</td> <td>100%</td> </tr> </tbody> </table> | | Actual maturity structure to date | | | Period (Years) | £M | % | <1 | 96.2 | 41% | 1-2 | 3.9 | 2% | 2-5 | 22.1 | 9% | 5-10 | 34.0 | 15% | >10 | 77.7 | 33% | Total | 233.9 |
| 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 | 96.2 | 41% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1-2 | 3.9 | 2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2-5 | 22.1 | 9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5-10 | 34.0 | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| >10 | 77.7 | 33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 233.9 | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investments for longer than 364 days | £7 Million | NO LONG TERM INVESTMENTS MADE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 30 June 2020**

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 December 2019 to 30 June 2020.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 June 2020 against the annual 2019/20 Audit & Assurance Plan, which was approved by Committee on 16 April 2019 and the draft 2020/21 Plan, included elsewhere on this agenda.

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 30 June 2020:

Corporate Governance and Risk

The table below summarises the fourteen “red” priority areas/issues across the departments, by key themes, which have been identified in the summary Director Exception/Dashboard Report and Assurance Statements for the year-end, as at 31st March 2020.

This includes ten “red” priorities that have remained as areas of concern from 30th September 2019, two areas that have been upgraded (U below) and two new areas (N below) which appear as red for the first time. There are also four areas of concern previously identified as “red” that has now been downgraded (D below) to “amber” in the period.

| No | Theme / Description | 2019/20 | 2019/20 |
|------------------------------|--|------------------------|--|
| | | 31st March Year End | 30 th September Half Year |
| Demand Management | | | |
| 1 | Crime Figures (Adults & Prevention) | Red | Red |
| 2 | Contextual Safeguarding – The development of a multi-agency response. (Children’s Services) | Red | Red |
| | Fostering and Adoption Placement Sufficiency. (Children’s Services) | Amber _(D) | Red |
| | Social Worker Workload and Capacity (Children’s Services) | Amber _(D) | Red |
| 3 | AST (Area Support Teams) (Children’s Services) | Red _(N) | n/a |
| 4 | Special Guardianship Orders (Children’s Services) | Red _(N) | n/a |
| | Compliance with GDPR (Digital & Business Change) | Amber _(D) | Red |
| Budgets & Finance | | | |
| 5 | Adult Social Care Budget Pressures. Increased demand and complexity coupled with increase in commissioning rates. (Adults & Prevention) | Red | Red |

| | | 2019/20 | 2019/20 |
|---------------------|--|------------------------|--|
| | Theme / Description | 31st March Year End | 30 th September Half Year |
| 6 | Ensure strong budget management via full open transparent processes and QA framework. (Adults & Prevention) | Red(U) | Amber |
| 7 | Potential increase in contract costs for sheltered housing and Learning Disability supported living framework (Adults and Prevention) | Red | Red |
| 8 | Budget and Demand Pressures - Social Work Demand Costs and Out of Borough Placements. (Children Services) | Red | Red |
| 9 | School Deficits - Local Authority maintained schools were showing deficit balances on their reserves. (Children Services) | Red | Red |
| 10 | Budget Pressures - Income Shortfalls. (Environment & Operations) | Red(U) | Green |
| Staffing/ HR | | | |
| 11 | Capacity and direction to provide strategic capacity/analysis to SLT and the wider department. (Adults & Prevention) | Red | Red |
| 12 | Sickness Absence (Adults & Prevention) | Red | Red |
| 13 | Sickness Absence (Corporate) | Red | Red |
| | Children's Advice & Duty Services (CADS) (Children Service) | Amber(D) | Red |
| 14 | Data Subject Access Requests (Children Services) | Red | Red |

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 exercise. The results of work undertaken show that 1,192 matches have been processed and a further 37 investigations are ongoing. A total of 617 errors have been found to date resulting in savings of £155,338 and

arrangements are in place to recover this money from the individuals concerned where appropriate. The table below illustrates main areas of activity, and where savings have been identified.

Summary of Results

| Area | No. of Errors | Value (£) |
|--|---------------|-----------------|
| Benefits (Housing/Council Tax Support) | 29 | £55,298 |
| Private Residential Care Homes | 3 | £8,094 |
| Resident Parking Permits* | 14 | - |
| Concessionary Travel Passes** | 429 | £10,296 |
| Blue Badge Parking Permits*** | 142 | £81,650 |
| TOTAL | 617 | £155,338 |

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

** Concessionary Travel Passes - these passes have all been cancelled due to information from the DWP that the permit holders are deceased and the passes 'hot listed' to prevent future misuse. The Cabinet Office attach a monetary value to these cancellations. The figure shown is an estimated savings figure provided by the Cabinet Office.

*** Blue Badge Parking Permits – these permits have been cancelled due to information from the DWP that the permit holders are deceased. The Cabinet Office attach a monetary value to these cancellations. The figure shown is as estimated savings figure provided by the Cabinet Office.

The Council received additional reports from the Cabinet Office in February and March 2019, which included 4,673 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. The matches indicate that entitlement to Single Persons 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. To date 126 of these matches have been processed and a further 71 investigations are ongoing. The table below illustrates the results to date on these matches:

| Area | No. of Errors | Value (£) |
|------------------------------------|---------------|-----------|
| Council Tax Single Person Discount | 25 | £8,308 |

The Council received a report from the Cabinet Office in March 2020 which included 1,949 Council Tax Single Person Discount data matches. These were generated after a match with the electoral register. These matches have been shared with the Revenues section.

COVID-19 Financial Support Schemes

In response to the Coronavirus, Covid-19, the Government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors, delivered through the Small Business Grant Fund and the Retail, Leisure and Hospitality Grant Fund. An additional fund aimed at small businesses who were not eligible for the Small Business Grant Fund, the Retail, Leisure and Hospitality Fund or other forms of support, called the Local Authority Discretionary Grants Fund, was launched in May 2020. The Council has been actively administering payments under these schemes. In order to ensure that grant aid requirements have been fully met and complied with Audit & Assurance is currently involved in

supporting colleagues within the Revenues and Growth Teams to develop a proportionate, risk based payment assurance plan.

This will involve a review of both pre and post payment assurance checks to ensure that payments are correct. Audit & Assurance has already undertaken some pre-assurance work using a free toolkit supplied by the Cabinet Office in respect to payments due under the Small Business Grants Fund and supported colleagues within the Growth Team to carry out pre-assurance checks on payments due to businesses under the Discretionary Grants Fund. This has involved data matching potential grant claims with the credit reference agency Experian through the NFI. This has helped to identify those legitimate businesses eligible for support and those where further investigation is required. This work is currently ongoing.

Proactive fraud work

A review of the administration of the Blue Badge scheme is currently ongoing. A draft report has been issued to management for a response to our findings and recommendations. This is part of our planned counter fraud work for 2019/20. The objective is to ensure that there are effective arrangements in place to issue a Blue Badge in line with scheme eligibility conditions and to identify, cancel and recover Blue Badge Parking Permits when a permit holder dies. The results of this exercise will be communicated in a future report to Committee.

Other investigations

Audit & Assurance is continuing to liaise with the Police regarding two separate cases of regarding monies owed to the Council. One of these cases is listed for trial at Crown Court in February 2021.

Audit & Assurance recently received information through the Whistleblowing Hotline from a source alleging misuse of a Council asset. The matter is currently under investigation and an update will be provided to Committee in due course.

Internal Audit

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

| Risk, Control & Governance Reviews | Assurance Opinion | | Recommendations Agreed |
|--|--------------------------|-------------------|-------------------------------|
| | Environment | Compliance | |
| Liquidlogic Children's Social Care System (Previously Protocol ICS System) | Adequate | Limited | 9 |
| Sundry Debtors | Adequate | Adequate | 16 |
| New Section 106 Procedures | Substantial | Substantial | 4 |
| Police & Crime Commissioner Grant | Adequate | Adequate | 4 |
| ResourceLink System Access Controls | Substantial | Substantial | 0 |
| Main Accounting | Substantial | Substantial | 2 |

| | | | |
|---|-------------|-------------|----|
| St Barnabas & St Paul's CE Primary School | Adequate | Limited | 14 |
| Avondale Primary School | Adequate | Adequate | 12 |
| St Albans RC Primary School | Limited | Limited | 26 |
| St Thomas Pupil Referral Unit | Adequate | Adequate | 15 |
| St Anthony's RC Primary School | Adequate | Adequate | 12 |
| The Redeemer CE Primary School | Limited | Limited | 19 |
| Feniscowles Primary School | Substantial | Substantial | 5 |
| Museums Income | Adequate | Adequate | 4 |
| Information Governance | Substantial | Adequate | 3 |
| Mosaic System - Access Controls | Substantial | Adequate | 3 |
| Social Determinants of Health | Adequate | Adequate | 9 |

A brief commentary on each of the audit assignments where we have provided a limited assurance opinion is set out below.

Liquidlogic Children's Social Care System: The audit objective was to review the controls in place for user account management, including any third party access, and the controls around data retention and transfer in line with General Data Protection Regulations (GDPR) compliance. Adequate assurance was provided for the control environment and limited assurance for compliance with the controls in place. Recommendations were made to strengthen controls relating to the removal of staff leavers and inactive staff, information governance training for active users and system administration profiles.

St Barnabas & St Paul's CE Primary School: Audit and Assurance placed adequate assurance on the control environment and limited assurance on compliance with controls. A number of actions were identified including recommendations to strengthen controls relating to compliance with approval thresholds, and procurement procedures as well as ensuring expenditure was reasonable and used the purposes of the school as defined in the School Standards and Framework Act 1998.

St Albans RC Primary School: In our opinion, the combined financial and non-financial systems and procedures in place for St Alban's RC Primary School at the time of the review provided a limited level of internal control for the areas reviewed. Limited assurance was provided for compliance with these controls. Key areas

where action was required included Registers of Business Interest, records relating to the maintenance of the fire alarm system and access rights for the finance system.

The Redeemer CE Primary School: Audit and Assurance placed limited assurance on both the control environment and on compliance with controls for the areas reviewed. A number of actions were identified including recommendations to strengthen controls relating to budgetary and expenditure controls, petty cash procedures and system access rights.

Current internal audit reviews

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

- Blue Badge Proactive Fraud Testing;
- Income billing & collection arrangements (Car Parking and Cemeteries);
- Building Control Performance Standards;
- Pupil Transport;
- Highways Maintenance – Procurement;
- Council Tax;
- Payroll Core System;
- Turton Tower Income;
- Young Peoples Service – Educational Visits Risk Assessments;
- Arrangements for the Use of the Contractor & Development Framework;
- Apprenticeship Levy.

Internal Audit Performance

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

| Performance Measure | Target | Q1 2020/21 | Q4 2019/20 |
|---|---------------|-------------------|-------------------|
| 1. Delivery of Priority 1 Audits (Annual) | 100% | N/A | 90% |
| 2. Planned Audits Completed Within Budget | 90% | 71% | 70% |
| 3. Final Reports Issued Within Deadline | 90% | 94% | 100% |
| 4. Follow Ups Undertaken Within Deadline | 90% | 80% | 100% |
| 5. Recommendations Implemented | 90% | 74% | 100% |
| 6. Client Satisfaction | 75% | 100% | 100% |
| 7. Compliance with PSIAS (Annual) | 95% | N/A | N/A |

We have provided a brief commentary on the measure where performance in the period has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Five of the seventeen audits, (29%), completed in the period were over budget. Additional time was required to complete the Police and Crime Commissioner Grant, Sundry Debtors and Liquidlogic Children’s Social Care System Access audits as the staff involved included new members of the team. Extra time was required

for familiarisation and training on the areas covered in these audits, and to ensure that the audit files and reports met the required standards. Two school visits required extra time to finalise due to the nature of the issues identified and additional meetings with school staff.

4. Follow Ups Undertaken Within Deadline

There was a delay in issuing a number of follow-ups at the time that they were due during the period following the handover of responsibility for this work. However, these have subsequently all been issued.

5. Recommendations Implemented

Of the follow up responses received back we were able to identify that 43 (74%) of the 58 recommendations due for implementation on or before 30 June 2020 had been fully implemented or partially implemented. There were no must recommendations that had not been implemented. Three responses to the follow-ups were outstanding, including those from two schools. Audit & Assurance will continue to seek responses to these requests and provide a verbal update at the Committee meeting if received.

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: 17 July 2020

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: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Audit & Assurance Plan 2020/21 and Internal Audit Charter

1. PURPOSE

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

2. RECOMMENDATIONS

The Committee is asked to:

- approve the 2020/21 Audit & Assurance Plan (as set out in Appendices 1 and 2);
- approve the Internal Audit Charter (as set out in Appendix 3)
- note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- note that Plan changes will be reported during the year.

3. BACKGROUND

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

The PSIAS also require an internal audit charter to be in place. The charter should set out the purpose, authority and responsibility of internal audit. They require the Head of Audit & Assurance to review the charter periodically. However the final approval resides with the Audit & Governance Committee. The charter was last approved in April 2019 and no changes have subsequently been identified as being required.

4. RATIONALE

The Plan and Charter define the scope and the rationale of the approach being followed. They allow Audit & Assurance, independently, to provide

assurance to managers, the Chief Executive, the Section 151 Officer and other stakeholders about the effectiveness of controls and the management of risk. They also enable Audit and Assurance to assist this Committee with its responsibility to oversee the effectiveness of governance arrangements in the Council and in its partnerships through the reporting arrangements in place.

5. KEY ISSUES

The Plan:

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

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

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

Consultations:

The Plan, as a whole, is also a product of consultations with Directors and their Management Teams, and the Management Board, which were undertaken in February/March. Later in 2020/21 further consultations will be held to ensure that the Plan continues to meet the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.

Ongoing consultations will take place with Directors and Heads of Service during 2020/21 to ensure that specific Terms of Reference are prepared for each planned audit to reflect the detailed key risks relevant to each area.

Resources:

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

The planned resources for the audit function for this year are 735 work-days. In addition, there are 679 work-days for Risk Management (56 days), Counter Fraud (58 days), Insurance and Financial Support/Other (440 days).

Internal Audit Charter:

The Internal Audit Charter is a requirement of the PSIAS, which became mandatory from 1 April 2013. The Charter was last re-approved at the Audit & Governance Committee meeting on 11 April 2019 following the publication of updated PSIAS in March 2016. The Charter was reviewed and up-dated to

reflect recent changes in the senior management structure and job titles at that time. No other changes are deemed necessary for 2020/21.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

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

10. EQUALITY & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Directors and Executive Team

| | |
|--------------------|--|
| Contact Officer: | Colin Ferguson, Head of Audit & Assurance - Ext: 5326 |
| Date: | 17 July 2020 |
| Background Papers: | Audit & Assurance Planning papers; Risk Registers; 2019/20 Audit & Assurance Plan, Strategic Statement and Internal Audit Charter. |

Strategic Statement Supporting 2020/21 Audit & Assurance Plan

1. **Introduction & Purpose**

1.1 Under the Accounts and Audit Regulations 2015 the Council is required to have an effective internal audit in place to evaluate the effectiveness of its risk management, control and governance processes, taking into account compliance with the Public Sector Internal Audit Standards (PSIAS).

1.2 The PSIAS define Internal Auditing as:

'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

1.3 The PSIAS require the Head of Audit & Assurance to prepare an annual risk-based internal audit plan, which takes into account the requirement to produce an annual internal audit opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion statement is one of the key contributors to the Annual Governance Statement which the Chief Executive and Leader are required to sign off each year alongside the final accounts.

1.4 The annual programme of audit work, as defined within this annual audit plan, is the basis on which the Head of Audit & Assurance forms the required annual audit opinion.

2. **Scope and Independence**

2.1 In line with the requirements of the PSIAS, the Head of Audit & Assurance is responsible for the effective review of all aspects of risk, governance and internal control throughout the full range of the Council's activities.

2.2 Audit and Assurance will remain independent of the activities that it audits to ensure internal auditors perform their duties in accordance with the statutory guidance, and relevant codes of ethics, and to ensure impartial, objective and effective professional judgements. Internal auditors have no operational responsibilities within the Council. Audit & Assurance staff have right of access to all information and records held by the Council which may be necessary in carrying out their work and may seek explanations on any matters from any officer or Member of the Council without fear or favour.

3. **Standards and Ethics**

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

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

4. Internal Audit Planning Strategy

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

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

5. Internal Audit Planning Methodology

5.1 The approach to audit planning for 2020/21 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate & Departmental Risk Registers, the Departmental Management Accountability Framework Dashboard Reports, and from a review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

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

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

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

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

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

5.3 In addition, during the planning meetings with Directors consideration was given to areas for inclusion in the plan (Priority A*) where internal audit could provide added value developing our approach from traditional 'policeman' to one of 'educated friend'. This would provide scrutiny and challenge to activities and ensure that adequate controls are in place to meet the objectives for the activity identified. This work would support senior management in ensuring effective internal controls exist whilst identifying opportunities for improving value for money using our risk-based approach.

5.4 Only the priority 1, 2, and 3 and A* reviews identified are able to be delivered in the 2020/21 Internal Audit Plan due to the limited Audit & Assurance staff resources available. It is important that there is ability to flex and adapt the annual plan during the course of the year. The plan priorities will be reviewed with Directors during the course of 2020/21 to assess the impact of any changes to risk profiles, identify new or emerging issues and agree any changes to priorities.

6. Key Challenges & Opportunities

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

misappropriation, loss and error and to ensure that key risks are identified and adequately managed or mitigated.

- 6.2 To add value, Audit & Assurance needs to take into account the key changes and issues affecting the Council. The specific challenges and opportunities facing the Council at the current time have been considered as part of the planning strategy. The following areas are considered to have a high strategic risk and have been included in the plan. Work on these areas will contribute to the Council's assurance requirements.

Welfare Reform:

- 6.3 The impact of Welfare Reform is expected to continue through 2020/21. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries, leading to increased demand for services from residents. The Audit Plan includes time for proactive and reactive counter fraud initiatives and counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy 2016/21 through the review of fraud risk registers. The Audit Plan also provides for a review of controls relating to the implementation of the Council's Homelessness Strategy.

Local Government Finance

- 6.4 Under the Localism Act 2011 proposals for local business rate retention came into effect from April 2013. Since then the Government has been reporting its intention to fundamentally change the way councils are funded. This included a 'Fair Funding' review which would review and reset the funding requirements of each council area, developing mechanisms to move to a 75% Business Rates Retention scheme by 2020, and a review of Adults Social Care funding. These areas would significantly change the way Councils are funded. Changes have been made to the arrangements for Adult Social Care funding since then, including the Improved Better Care Fund and the Social Care Support Grant.
- 6.5 However in September 2019 the Minister for Housing, Communities & Local Government announced that although the national 75% Business Rates Retention scheme would not be implemented for 2020/21 as had been intended. In the September Spending Review the Government confirmed that it would now aim to implement a 75% model in 2021/22 to provide further time to work with the sector on options for delivering the review of relative needs and resources, and in reforming and improving the business rates retention system. Previous audits of the Council's council tax and business rate systems have provided adequate assurance on these areas.

Health Reform

- 6.6 Central government is continuing to signal greater integration between health and social care in order to find ways to tackle unsustainable increases in service demand in this area. However, the publication of the Green Paper on adult social care was shelved and a White Paper was expected in the autumn. The Prime Minister has now stated that proposals would be brought forward in 'in due course'. The Care Act 2014 led to changes in the funding of social care, which impact the assessment process. Internal audit reviews of adult social care assessments, governance arrangements for the social determinants of health fund, the implementation of the Volunteering/Demand Management Strategy and health and social care integration arrangements are planned. We will also be able to provide advice and support regarding the governance

arrangements relating to the implementation of the Integrated Care Organisation.

Education Reform

- 6.7 There have been changes in national legislation over recent years, which have given schools increased freedoms, which will potentially impact on the business model for the existing educational support services offered by the Council. The Government also started the first stages for the introduction of a new national funding formula for schools, which will mean that all schools will receive a consistent and fair share of the schools budget. This was expected to be fully implemented for 2020/21. However, this has not been the case. Reviews of the Council's maintained schools will continue to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

- 6.8 The Council remains committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough's future be secured and sustained. The audit work for 2019/20 included a review of the LSP Growth Programme forecasting and governance framework. An adequate opinion was provided for both the control environment and compliance with the controls identified.

7. Categories of Internal Audit Work

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

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

systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.

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

8. Reporting Arrangements

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

8.2 Recommendations included in the report are classified as follows:

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

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

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

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

| Assurance Level | Control Environment | Compliance |
|-----------------|--|---|
| Substantial | There are minimal control weaknesses which present very low risk to the control environment. | The control environment has substantially operated as intended although some minor errors have been detected. |
| Adequate | There are some control weaknesses which present a | The control environment has mainly operated as intended although |

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

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

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

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

9. Monitoring Arrangements.

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

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

9.3 Report recommendations from individual audits are followed up to ensure they have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions confirmed, and ensures audit resources are directed towards priority areas. It is the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable agreed in the management action plan included in the audit report.

9.4 Where we issue a *limited* or *no* assurance report we will undertake “standard” follow ups after 3 months. For all other assurance reports, we will undertake a “standard” follow up after 6 months. Where we have

particular concerns about the implementation of recommendations we will undertake further “physical” follow up exercises where documentation will be reviewed and further testing undertaken.

9.5 In addition, summaries of finalised Audit & Assurance reports are presented to each Audit & Governance Committee meeting to provide an update of audit progress and coverage and to outline the key issues arising from this work. This also includes information on the implementation of agreed recommendations.

9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit & Governance Committee through the progress & outcomes report. The defined targets included within the Finance & IT Department’s Business Plan for Audit & Assurance in 2020/21 are:

Achievement:

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

Quality:

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

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

10. Audit & Assurance Resources

10.1 As at 1 April 2020 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.4 full-time equivalent (FTE) posts (previously 7.15 FTE posts in 2016/17):

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

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

| Name | Qualifications | Experience | Specialism |
|---|-----------------------|-------------------|-----------------------------------|
| Colin Ferguson Head of A & A | ACCA | 37 years | Strategic Risk & Governance Audit |
| Chris O’ Halloran Principal Internal Auditor | PIIA | 10 years | Counter Fraud Contract Audit |
| Andrew Tordoff | HND in | 20 years | IT Audit |

| | | | |
|----------------------------------|--|-----------|-------------------------|
| Principal Internal Auditor | Accounting Foundation Diploma in Business Analysis | | Risk & Governance Audit |
| Catherine Bibby Internal Auditor | Honours Degree/ AAT Part Qualified | 6 years | Risk & Governance Audit |
| Abbie Duncan | AAT Part Qualified | 11 months | Risk & Governance Audit |
| Sarah Ali Apprentice | Degree and Post Graduate Certificate | 9 months | Risk & Governance Audit |

ACCA - Association of Chartered Certified Accountants

CIPFA - Chartered Institute of Public Finance & Accountancy

PIIA - Practitioner of the Institute of Internal Auditors

IIA - Institute of Internal Auditors

AAT - Association of Accounting Technicians

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

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

10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2020/21. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan that is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & Customer Services Department's training plan is as follows:

| Name | Professional Training | 2020/21 Commitment |
|-----------------|--|--------------------|
| Catherine Bibby | IIA Internal Auditor Practitioner Apprenticeship | 20 days |
| Abbie Duncan | Final AAT levels or appropriate AAT Apprenticeship | 15 Days |
| Sarah Ali | AAT | 50 days |

10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below, with 2019/20 figures for comparison.

| Category | 2020/21 | 2019/20 |
|--|----------------|----------------|
| Total available days | 1,909 | 2,009 |
| Deduct: annual leave, sickness & bank holidays. | (302) | (331) |
| Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.) | (318) | (320) |
| Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.) | (554) | (679) |
| Days available for Audit & Assurance reviews | 735 | 679 |

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

| Audit & Assurance - Draft Audit Proposals 201 | Classification | Priority | 2020/21 Days |
|---|-----------------------|-----------------|---------------------|
| Adult & Prevention | | | |
| Health & Social Care Integration - Sustainability & Transformation Plan | Governance | 2 | 10 |
| Homelessness Prevention Strategy - Impact of Universal Credit | Risk | 2 | 10 |
| Volunteers/ Demand Management Strategy | Control | 2 | 10 |
| Personalised budgets/Direct payments | Control | 2 | 10 |
| Transitional Arrangements : Children to Adult Care | Risk | 2 | 10 |
| Corporate Appointee/Deputyship | Risk | 2 | 10 |
| Safeguarding the most vulnerable | Risk | 3 | 10 |
| Sub Total | | | 70 |
| Children's Services & Education | | | |
| Protocol ICS System | Risk | 2 | 10 |
| Adoptions - Regional contract | Control | 2 | 10 |
| Ofsted Inspection Framework Ofsted Inspections may result in an inadequate judgement | Risk | 2 | 10 |
| Education Trips and visits | Risk | 2 | 10 |
| Audits of Schools Finance systems | Control | 3 | 60 |
| Transitional Arrangements : Children to Adult Care | Risk | 3 | 5 |
| Children's Centres | Control | 3 | 20 |
| Section 17 Payments/Financial Support to Families | Risk | 3 | 15 |
| Sub Total | | | 140 |
| Public Health & Wellbeing | | | |
| Sports England Grant - Pennine Lancashire Pilot | | 1 | |
| Moved from E&L 2019/20 | Governance | | 10 |
| Leisure Income Collection & Recording | Control | 2 | 10 |
| Leisure cash - Blackburn Sports & Leisure Centre | Control | 3 | 2 |
| Darwen Leisure Centre | Control | 3 | 2 |
| Witton Park Arena | Control | 3 | 2 |
| Museums Collections Recording System | Control | 3 | 10 |
| Sub Total | | | 36 |
| Digital & Business Change | | | |
| Device Management/ Software licencing/Asset Management/PC Inventory Controls | Risk | 2 | 15 |
| Business intelligence/Customer dashboard. | Control | 2 | 10 |
| Service Desk Performance | Risk | 2 | 10 |
| Internet Controls - Filtering system and reporting notifications | Control | 2 | 10 |
| Sub Total | | | 45 |
| Growth & Development | | | |
| Local Transport Capital Funding/LTP Grant Certification Requirement | Control | 1 | 5 |
| Bus Subsidy Grant | Control | 1 | 5 |
| Commercial Property Rental Management | Control | 2 | 10 |
| Asset Management Strategy and decision making | Control/Governance | 2 | 10 |
| Health & Safety - Failure to comply with H&S legislation & Council standards/ Statutory Inspection Process | Risk | 3 | 10 |
| Planning Enforcement | Control | 3 | 10 |
| Sub Total | | | 50 |
| Environment & Operations | | | |
| Failure to adequately inspect and maintain. Highways and property retaining walls resulting in weak and or dangerous structures supporting and or adjacent to highway./ Deterioration of the highways network in particular road surfaces. HAMIS Moved from G&D 2019/20 | Departmental Risk | 2 | 15 |
| Transport Procurement/Fleet Management - implement 2018/19 fleet vehicle replacement programme. | Risk | 3 | 10 |
| Events Management, Halls (KGH)/ Reduction in KGH business performance impacting income | Control | 3 | 10 |
| Selective Licensing/ Housing Standards | Control | 3 | 10 |
| Sub Total | | | 45 |

| Audit & Assurance - Draft Audit Proposals 201 | Classification | Priority | 2020/21 Days |
|--|-----------------------|-----------------|---------------------|
| HR, Legal & Governance | | | |
| Police & Crime Commissioner Grant | Control | 1 | 5 |
| Off payroll engagement (IR35) | Control | 2 | 5 |
| Payroll - Core system/Failure of HR & payroll system incl staff & Mgr. self service. | Control | 2 | 15 |
| DOLS and COP Applications & Public Law Outline | Risk | 2 | 10 |
| RIPA processes | Control | 2 | 10 |
| Governance and decision making and reporting arrangements | Control | 2 | 10 |
| Elections | Risk | 2 | 15 |
| Legal Case Management - high numbers of cases creating risk for safe mgmt. of cases. | Risk | 3 | 10 |
| Mileage Payments/ Staff Expenses | Control | 3 | 10 |
| Sub Total | | | 90 |
| Finance & Customer Services | | | |
| Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS | Risk | 1 | 10 |
| Grant Certification re Implementation of new Blue Badge Criteria | Control | 1 | 5 |
| Creditors/E-Procurement | Control | 2 | 10 |
| Mosaic - Financial Assessment module | Control | 2 | 10 |
| Civica Asset management module | Control | 2 | 10 |
| Main Accounting System - including account reconciliation's | Control | 2 | 10 |
| Sundry Debtors | Control | 2 | 10 |
| Treasury/Cash flow management/Major loss incurred regarding investment and/or borrowing. | Control | 3 | 10 |
| Sub Total | | | 75 |
| Corporate Audits | | | |
| Equality Impact Assessments | Governance | 2 | 10 |
| Review of Financial Regulations, SFIs, etc. | Governance | 2 | 5 |
| Performance Indicators/Data Quality | Department Risks | 2 | 10 |
| Social Media | Risk | 3 | 10 |
| Sub Total | | | 35 |
| Other Audit Work | | | |
| 2019/20 Work in progress | Governance | 1 | 72 |
| Follow up work | Governance | 1 | 10 |
| Audit Committee | Governance | 1 | 15 |
| Liaison with external audit | Other | 1 | 2 |
| Audit Committee Annual Report/Evaluation | Governance | 1 | 4 |
| HolA Annual Report | Governance | 1 | 4 |
| PSIAS Peer Review | | 1 | 10 |
| A & A Client liaison/Queries | Other | 2 | 10 |
| A & A Client liaison/DMT attendance | Other | 2 | 5 |
| A & A Client liaison/Project Groups | Other | 2 | 5 |
| Contingency | Other | 2 | 12 |
| Sub Total | | | 149 |
| Other Risk & Governance Work | | | |
| Annual Gov Statement | Governance | 1 | 10 |
| MAF Process Review | | 2 | 5 |
| MAF and MAF Challenges | Governance | 1 | 10 |
| Risk Management Support | Risk | 1 | 5 |
| Road Risk Mgmt Group | Risk | 1 | 5 |
| Review/Monitor Corporate Risks | Risk | 1 | 5 |
| Review Monitor Departmental Risks | Risk | 1 | 10 |
| Business Continuity Champions Meetings | Risk | 1 | 2 |
| Risk Annual Plan/Report | Risk | 2 | 4 |
| Sub Total | | | 56 |
| Other Fraud Work | | | |
| National Fraud Initiative (NFI) | Governance | 1 | 10 |
| Review of Counter Fraud Strategy | | 1 | 5 |
| Counter Fraud Annual Plan/Report | Governance | 1 | 4 |
| Proactive Fraud Testing | Governance | 2 | 15 |
| Reactive investigations | Governance | 2 | 15 |
| Review/Monitor Fraud Risk Register | Control | 2 | 5 |
| Fraud awareness and whistle blowing initiatives | Control | 2 | 4 |
| Sub Total | | | 58 |
| Total Planned Audit Days 2020/21 | | | 849 |

Blackburn with Darwen Borough Council



Internal Audit Charter

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

Latest Approval: Audit Committee 16 April 2019

Background

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

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

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

The Internal Audit Mission

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

Definition

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

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

Core Principles for the Professional Practice of Internal Auditing

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

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

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

Standards

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

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

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

Responsibilities and Objectives of Internal Audit

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

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

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

Responsibilities of the Council

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

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

Independence and Objectivity of Internal Audit

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

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

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

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

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

Head of Audit & Assurance

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

Relationships

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

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

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

Scope of Internal Audit

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

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

Opinion Work

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

Governance

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

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

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

Risk Management

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

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

Internal Control

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

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

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

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

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

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

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

Non-Opinion Work

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

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

Fraud

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

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

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

Reporting

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

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

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

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

Internal Audit Access Rights

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

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

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

Internal Audit Resources

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

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

Review

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



TO: Audit & Governance Committee

FROM: Director of Finance & Customer Services

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF BRIEFING PAPER Risk Management Report Annual 2019/20

1. PURPOSE

To inform the members of the Audit & Governance Committee of the risk and related activity which has taken place or been delivered during 2019/20 and provide an overall conclusion of the effectiveness management arrangements which are in place within the Council.

2. RECOMMENDATIONS

The Committee is asked to:

- Consider and review the annual risk management report; and
- Agree the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2019/20.

3. BACKGROUND

The Corporate Risk Management Strategy and Framework 2015/20 requires the Audit & Governance Committee to approve an annual risk management report that includes consideration of the effectiveness of the risk management arrangements in place within the Council. The Committee's terms of reference also requires it to review progress on risk management activity at least annually.

4. KEY ISSUES

1. Summary

1.1 The Annual Risk Management Report provides the Audit & Governance Committee with a summary of the risk management activity that has taken place across the Council for the year ended 31 March 2020. The risk management framework and associated systems and procedures should ensure the Council has adequate and effective risk management and resilience arrangements in place to ensure that key business objectives are met.

1.2 The key elements of risk and resilience considered under the framework are:

- Risk Management;
- Insurance;

- Emergency Planning and Business Continuity (including health aspects);
- Information Governance; and
- Health, Safety and Wellbeing.

1.3 This report covers the activities relating to the corporate and departmental risk management arrangements, emergency and business continuity planning, event management, information governance and insurance. It outlines the risk management policies and arrangements currently in place, activities which have taken place or been delivered during the last year directed at achieving the various risk objectives, and details of key actions or developments for 2019/20.

1.4 A separate health, safety and wellbeing annual report will also be presented to the Committee.

2. Background and Overall Assessment

2.1 The Council uses the Institute of Risk Management's definition of risk management, which is as follows:

'The systematic process which aims to help organisations understand, evaluate and address risks to maximise the chances of objectives being achieved and reduce the likelihood of failure. It also exploits the opportunities uncertainty brings, allowing organisations to be aware of new possibilities.'

2.2 The Council recognises that risk management is not simply a compliance issue, but rather it is a way of viewing and managing its operations with a significant impact on long-term viability. It understands that effective risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities. It also benefits how we operate, to ensure that key risks are identified, assessed and mitigated appropriately and effectively.

2.3 The details provided in this report provide evidence that, overall, the Council has adequate risk management arrangements in place and these have operated effectively during the year ended 31 March 2020. Areas for action or development during 2020/21 have been identified in the following sections. These will strengthen the existing systems and procedures in place.

RISK MANAGEMENT

3. The Corporate Risk Management Process

3.1 The Corporate Risk Management cycle is aimed at identifying, analysing, prioritising, managing and monitoring risks that could impact on the delivery of the Council's objectives (i.e. corporate risks).

3.2 Corporate risks are those significant risks that could impact on the overall success of Council objectives and priorities, or the vitality and viability of the organisation. Should these risks materialise Members and other stakeholders/partners, including the public, will be aware of them and they may affect the reputation of the Council, amongst other significant consequences.

3.3 The Chief Executive and Management Board are responsible for leading and ensuring effective risk management operates consistently across the Council. Each Director is the risk owner of all risks within their Department. Advice and support regarding risk management issues is available from the Audit & Assurance team. Directors and senior managers also highlight relevant significant risks included on departmental risk registers for consideration to

include in the corporate risk register. These are escalated to Management Board for consideration and agreement.

4. Corporate Risk Register

- 4.1 Corporate risks are those which may impact on the overall achievement of Council objectives and priorities. Management Board reviews the corporate risk register on a six monthly basis to ensure that appropriate corporate risks are identified, assessed and aligned to the corporate priorities and objectives on an ongoing basis. A revised risk register format has been used since 2016/17, as part of the revised Corporate Risk Management Strategy and Framework 2015/20. The corporate and departmental registers identify inherent and target risk scores for each risk and the summary reports show any change in residual risk scores between period ends to enable movements in residual risk scores to be identified.
- 4.2 The risk assessment of Corporate Risk 1, failure to deliver a balanced budget, has been reviewed as a result of the impact of Covid-19 and the Council's role in responding to the virus and the related lockdown restrictions. The residual risk has been increased to high as a result of the impact on the Council's financial position due to various factors including increased costs, the loss of income and insufficient funding from central government to respond to the issues presented by the virus given the low level of reserves that are at the Council's disposal.
- 4.3 The residual risk score for corporate Risk 13, relating to a data loss or privacy incident occurring, was reduced during the year. The residual score was reduced from high to medium. After existing controls are applied (technical and organisational), the majority of data breaches are down to human error. The impact assessment as the Council can demonstrate that controls to prevent incidents are continuously monitored, applied at policy level and training is mandatory for all users.
- 4.4 In addition, the risk that the Council may have been unable to deliver its critical and core services and functions during the mitigation phase of the Covid-19 outbreak was added to the Corporate Risk register at end of February.
- 4.5 The Corporate Risk Register contained 15 open risks as at 31 March 2020. A summary of the open corporate risks is attached at Appendix 1. The Council's top corporate risks at that date were those relating to the following:
- Failure to deliver a balanced budget and Medium Term Financial Strategy which may result in a Government Commission taking control of the authority's finances;
 - A high profile serious or critical safeguarding case that was known to Council services; and
 - The impact that the outbreak of Covid-19 may have on the Council's ability to deliver its critical and core services.

The following table shows the number of risks that are aligned to each of the Council's corporate priorities:

| Corporate Priority | No of Risks |
|--|--------------------|
| Supporting young people and raising aspirations | 1 |
| Safeguarding and supporting the most vulnerable people | 3 |

| | |
|--|---|
| Reducing health inequalities and improving health outcomes | 1 |
| Connected communities | 4 |
| Safe and clean environment | 1 |
| Strong economy to enable social mobility | 2 |
| Supporting our town centres and businesses | 2 |
| Transparent and effective organisation | 5 |

5. Key events and achievements during the year

5.1 During the year corporate risk management support has been delivered by the Audit & Assurance team, under the Director of Finance & Customer Services, to support the achievement of the risk management objectives. Key activities undertaken/achievements during the period include the following:

Corporate/Departmental

- The continuation of regular 'deep dive' reviews of specific corporate risks by the Audit & Governance Committee to improve its oversight and understanding of these risks.
- On-going monitoring and reporting of risk assessments via the implementation of the updated Summary Risk Register template including the tracking of changes in residual risk scores.
- The ongoing implementation of the Counter Fraud Risk Register.
- Monitoring and review of the completion of corporate and departmental risk registers, with associated reporting to Management Board and Audit & Governance Committee.
- Continuing development of the Management Accountabilities Framework Dashboard reporting arrangements.
- On-going scrutiny and challenge of Directors Management Accountabilities Framework Dashboard reports, to ensure that risk issues identified have been included in Departmental or Corporate risk registers.
- Continuing use of the risk management support available from Zurich Municipal to carry out reviews of risk management arrangements in place in the organisation and support training and awareness raising.
- The Road Risk Management Group Review continues to meet regularly to consider fleet and driving risks. This includes monitoring of insurance claims and vehicle tracker reports relating to Council fleet vehicles and drivers by to identify any themes or training needs.
- The circulation of insurance and risk management advice and guidance to managers and staff.

5.2 During the year colleagues from Zurich Municipal completed a Highways Asset Management & Liability Grading Review, and reviews of lone working arrangements and inspection regimes. The Highways Grading 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 report concluded that, in the event of a claim framed around the new 'Code', the Council would be reasonably able to provide a sufficient claims defence.

- 5.3 The Lone Working Review was a targeted review of existing procedures, as well as the arrangements for dealing with incidents of violence and aggression. It considered existing policy, procedures and working practices to mitigate lone working risks, with a particular focus on work undertaken by the Children's Social Work Department. It also considered the potential for incidents of violence and aggression within public reception areas at the Town Hall and the use of meeting rooms at this location by third party organisations. The report findings and recommendations were discussed, and actions agreed, by the Council's Health & Safety Committee.
- 5.4 The Inspections Regime Review considered the systems in place for the inspection and maintenance of the Council's physical assets that are used or accessed by the public and other third parties. The review considered internal procedures, systems and working practices to assist in managing risks associated with these assets in order to address defects before an incident occurs and better defend liability claims.
- 5.5 The report noted that, across most of the services sampled, inspections were carried out to some extent. There is a reasonably robust central system for monitoring building maintenance and statutory compliance requirements and the system for reporting and repairing defects appeared to work effectively. Some of the expected elements of an effective inspection regime were missing in certain service areas. A lead officer was identified to co-ordinate the implementation of the actions to ensure a consistent approach to improvements, where this was appropriate. The report also recommended a risk-based approach be adopted for asset management in general. This would allow resources to be focused on the areas and assets that present the most significant relative risk to third parties.

6. Developments for next 12 months

- 6.1 The risk management activity planned for the next twelve months includes the following:
- Continuing the 'deep dive' review of corporate risks by the Audit and Governance Committee on a regular basis during the year;
 - On-going identification of areas to utilise the risk management support available from Zurich Municipal, including health and safety and asset management training for senior officers and managers.
 - Continuing review of management information relating to the use of the Council motor fleet and related insurance to identify themes, driver training needs and minimise the incidence and impact of motor vehicle claims and incidents.
 - On-going support for appropriate corporate and departmental risk initiatives via the internal risk management fund;
 - Continuing the cycle of Departmental risk register reviews and challenges as part of the risk management work carried out by Audit & Assurance staff.
 - A review of the Counter Fraud Risk Register by Audit & Assurance to provide assurance on the risks identified.

7. Review of the Effectiveness of Risk Management Arrangements

- 7.1 The arrangements, as set out in the Risk Management Strategy & Framework, have been undertaken throughout the year as illustrated by the examples noted in this report. We consider that the Council continues to maintain robust and effective risk management processes. This conclusion has been supported by the results of the benchmarking, which was carried out in 2016/17 using the CIFPA Risk Management Benchmarking tool, which was noted in the previous Annual Risk Management Report.
- 7.2 The Audit & Assurance team will continue to develop the arrangements to address the issues noted from the audit and ensure that the arrangements in place meet the changing needs, risks and pressures that the Council faces.

CIVIL CONTINGENCIES - Emergency Planning & Business Continuity

8 Emergency Planning

- 8.1 During the year to 31 March 2020, Blackburn with Darwen had several emergency events affecting the community at large. These were:
- Loss of electricity to block of flats (Darwen);
 - Death of a teacher;
 - Gas leak resultant from a road traffic collision;
 - Mains water pipe burst;
 - Loss of IT;
 - Power cut for 6 hours;
 - Operation Merlin – 30 tonnes of plastics on fire;
 - Suspect packages;
 - Moorland fire; and
 - St Johns Church Fire.
- 8.2 Duty officer statistics for 2019/20 were as follows:
- Warnings received = 391;
 - Information received total = 90;
 - Activations total = 35 (Strategic Officer notified on 6 occasion); and
 - Total activity = 481.

9 Key events and achievements during the year

Corporate Exercise

- 9.1 This year the annual corporate exercise was cancelled due to Covid19 (Coronavirus). The Corporate exercise was to be specifically focussed upon flooding impacts to the community and involve schoolteachers (School Improvement Group representatives) activating their plans in tandem with the Council activating its plans. The theme was amended to reflect the global threat of Covid19 to give assurance that Business Continuity plans were valid; however, the exercise has been cancelled until further notice.
- 9.2 Outcomes and recommendations from the previous year's exercise are still being progressed albeit most are now in place or being considered. A final report will be presented in due course.

COVID19 Response

- 9.3 From December 2019, the world started to have reports about Coronavirus in China and the UK started to make basic preparations for this pandemic.
- 9.4 The Resilience & Emergency Planning Service (R&EPS) supported the Lancashire Resilience Forum (LRF) in activating in February 2020 and activated internal Business Continuity Plans in response to this health led emergency. Specific Officers have supported and worked with partners on the LRF sub groups relating to Warning & Informing, Human Aspects, Excess Deaths, Community Hubs, Faith, Children's & Early Years, Personal Protective Equipment (PPE) and later, Test, Track & Trace. These groups are still in place as we transition from the response phases towards recovery and business as usual.

Community Emergency Response Volunteers (CERV)

- 9.5 The R&EPS has created an opportunity for Community minded volunteers to develop their own community groups and plans to help and assist them in times of emergency. This is a concept of enhancing community resilience (and therefore reducing reliance upon the local authority in times of emergency).
- 9.6 Community resilience is fundamental to empowering communities in helping prepare themselves against emergencies and disruptive events and become less reliant upon the Council for support. When the community is better prepared to respond to and recover from an emergency, they are better able to cope in the immediate aftermath, and through the recovery phase of an emergency (prolonged period following an emergency). When an emergency happens the first people to respond are those in the immediate vicinity, followed by the "blue light" services, then the Local Authority as necessary. Therefore, it makes sense for a community to be resilient and self-reliant in times of emergency.
- 9.7 There are currently four active groups in the borough (and another 6 interested) now being supported by R&EPS which can be used to share information out to and request information from in times of emergency.

Plan reviews

- 9.8 All of the Emergency Plans were reviewed with their plan owners over the last year. The plans were updated in line with the Generic Emergency Response Plan and now match the LRF box 123 model (Generic/risk/site specific) template. Where there is an LRF plan that is viable and can be used locally, we have removed the BwD plan.
- 9.9 The Community Risks (Community Risk Register) was reviewed by R&EPS at the same time. The work of the service is risk driven therefore there has to be a medium / high / very high, level risk in order for there to be a plan to mitigate or reduce the risk.
- 9.10 The Business Continuity (BC) audit process is due to start again in Aug/Sept in time for the BC plans to be reviewed again (alternating years).

European Union (EU) Exit

- 9.11 The R&EPS has been preparing for a "no deal" EU exit, working in collaboration with external partners under the LRF and with Local Government Association and regional Chief Executives reporting into the Ministry of Housing Communities & Local Government (MHCLG) and other

Government departments.

- 9.12 Following a year of Governmental changes and EU deadlines progressing throughout the year the final deadline of 31st December 2019 was met by a deal being made with EU. This moved the UK into a period of transition, which will end on 31st December 2020. Work is still going on albeit it is not the primary focus of LRF or partners at this moment in time.

Digital Pioneer

- 9.13 The R&EPS has designed and created an app for use by the community, which provides emergency information and will push notifications out to members who have signed up. Working with the Contact Centre Manager to utilise existing technologies within the Council, this app is at the point of being promoted to the community for use.

Standby arrangements review

- 9.14 The standby arrangements for the organisation were reviewed in their entirety this year. The payments, shifts system, policy/guidance, training and need for a Standby system was reviewed and taken to Management Board for discussion. It was agreed that there is a need for Standby but that specific service areas should be reviewed and core services should work together in a “hub and spoke” model. Progression of this element has been delayed due to Covid19 response.

- 9.15 Statistics are now being collated for all service areas involved to ensure consistency in approach and response where possible. These will be reviewed at 6 monthly intervals

- 9.16 A single location for all rotas, data and information relating to Standby has been created on SharePoint, which all officers have access to.

Staff Information Line

- 9.17 The R&EP has finalised its “Staff Information Line”. This is to be used in times of emergency to inform staff of welfare issues or emergencies. This would alert staff to call the Staff Information Line for fuller specific information. This would be activated with Strategic Officer permission. This was used for the first time in response to the Covid19 initial arrangements declared by Government March 2020.

10 Key Additional Developments for the next 12 months

- 10.1 Continue to promote the School’s Community Resilience Project (SCRP) nationally, as accepted “good practice” by the Civil Contingencies Secretariat at the Cabinet Office and national partners, via Resilience Direct and in co-ordinated briefings to external partners. There is also the intention to resurrect the “Question Time” feature of the project again, utilising these events to highlight to national partners as an opportunity to observe in practice.
- 10.2 The R&EPS has worked with Education Services and the Education Risk Advisor to create a streamlined “model emergency plan template” to be used by infant schools right through to colleges and children’s centres.
- 10.3 To support the plan template it is good practice to provide training and then exercising to validate plans and processes. This systematic approach has been agreed this year to be implemented from the new academic year.

- 10.4 Countywide Emergency Response Group (ERG) Volunteers are following amended guidance for responses through Covid19 to ensure social distance is kept, PPE is used where necessary. Resources (volunteers) are being shared countywide for this response, as volunteer numbers may be depleted/reduced due to shielding or self-isolation, or volunteers not wanting to respond. The whole range of R&EPSS training packages are moving online for all staff, including the Induction module/ Managers module/ all ERG training/ Elected Members training etc.
- 10.5 The R&EPS and members of the Council will participate in a LRF multi-agency live exercise in the forthcoming future months – this was postponed due to EU exit in March 2019 and then again (EU Exit) in November 2019. This has been in the planning stage since summer 2018, with multiple elements of response

EVENTS

11 Events Safety Advisory Group (ESAG)

- 11.1 This multi-agency group, chaired by the Leisure Facilities Manager, is well established and meets on a regular basis to review events planned across the borough and debrief events that have occurred. The Group is attended by representatives from many Council Departments including Public Protection, Licencing, Insurance, and Emergency Resilience, as well as the three Emergency Services. The group acts as a central point for all event notifications, ensuring organisers have a single point of reference to obtain support and advice regarding their event. The members of the Group are aware that they play an important role and challenge where necessary plans that are not thorough to ensure that all quality standards are met.
- 11.2 Registration of events is stringent with organisers required to submit Event and Traffic Management plans and insurance details, which are scrutinised by all members of the group. In addition, the organisers of large events are invited to an ESAG meeting to be interviewed by the members. Once this is all complete the Group signs the event off. This is done in order to ensure safe and well managed events are conducted and to protect the Council in terms of its reputation and any risk possibilities.
- 11.3 In the last 12 months the number and scale of the events has increased across the Borough. In order to continually improve the effectiveness of ESAG the Chair has introduced pre-day multi agency checks of event sites to ensure the events are as safe as possible and to deal with any last minute issues. This is working well.
- 11.4 During 2019/20 the Council has arranged or facilitated over 120 events, from fairgrounds in parks and the Town Centre to music festivals at Darwen Music Live, the large Restricted Forrest events at Witton and the Festival of Making in the town centre. This coming summer Victoria Warehouse are planning to bring their Wonderwood festival back to Blackburn and we also have the second Restricted Rocks tribute band festival planned, which will attract 6000 residents. These events will depend on the impact of the restrictions required due to Covid-19. It is hoped that this year will represent another large increase in events across the Borough with Shadsworth, Queen's, Corporation and Witton Parks, hosting a range of events and there are also circus and fairgrounds on Borough Road in Darwen. We expect these to deliver increased footfall and a good positive vibe around the Borough in a safe and well organised manner and in the next year we are expecting even

more events to be held to coincide with the new expanded entertainment licence at Witton Park that will enable six music events to be held as opposed to three.

- 11.5 In 2019/20 a Pennine Lancashire ESAG Chairs meeting has been set up to share best practice across neighbouring Boroughs. We are pleased to report that the Council's ESAG arrangements are seen as best practice across the area. Advice is being provided to the other authorities sharing this best practice.
- 11.6 Members and senior officers can be sure that all events that operate across the Borough are scrutinised and well managed to ensure that they are all well organised and as safe as they possibly can be.

INFORMATION GOVERNANCE (IG)

12 Introduction

12.1 The Information Governance and IT Compliance team, within the Digital and Business Change Department, has overall responsibility for the information governance framework within the Council. The team also receive and coordinate responses to Freedom of Information (FOI), Environmental Information Regulations (EIR) and Data Protection Subject Access (DP SARs) requests.

12.2 In addition, the team is responsible for monitoring information security incidents in relation to the Data Protection Act (DPA), reporting any breaches, ensuring that all incidents are thoroughly investigated and that appropriate corrective action is taken. The team are the first point of contact for complaints made, about the Council, to the Information Commissioner's Office (ICO).

13 Annual requests and clearance statistics for 2019/20 and comparison against 2018/19

| | | 2018/19 | 2019/20 |
|-------------------------|------------------|-------------|-------------|
| FOI | Number received | 1373 | 1272 |
| | Number due | 1366 | 1297 |
| | Number on time | 1335 | 1259 |
| | % on time | 97.7 | 97.1 |
| EIR | Number received | 1098 | 1210 |
| | Number due | 1127 | 1208 |
| | Number on time | 971 | 1085 |
| | % on time | 86.2 | 89.8 |
| Combined FOI/EIR | Number received | 2471 | 2482 |
| | Number due | 2493 | 2505 |
| | Number on time | 2306 | 2344 |
| | % on time | 92.5 | 93.6 |
| DPA | Number received | 250 | 251 |
| | Number due | 203 | 256 |
| | Number on time | 138 | 211 |
| | % on time | 67.9 | 82.4 |

13.1 The number of FOI/EIR requests received in 2019/20 has increased by 0.4% compared to 2018/2019. FOI compliance rates were above the mandatory

requirement rate of 90% with a rate of 97.1% responded to on time. EIR compliance rates have improved to 89.8%, which meets the mandatory requirement of 90% due to rounding.

- 13.2 The number of DP SARs received in 2019/20 has increased slightly by 0.4% compared to 2018/19. The compliance rate however has vastly improved thanks to increased resource within Children’s Services and additional support delivered by the Information Governance who continue to assist with Subject Access Request responses.

14 Information Assurance Incidents Recorded During 2019/20

- 14.1 During 2019/2020 there were 96 information assurance incidents reported to Information Governance. This is an increase of 68.4% against last year. However, this is not necessarily an indication of heightened risk. There is scope for attributing a large percentage of this increase to improved awareness of the reporting function. With increased IG presence, accessibility to departmental leadership team meetings and additional training resources, employees are aware more than ever of their responsibility to report incidents, including those that are not considered significant or reportable to the ICO.

- 14.2 A breakdown of the incidents by department is as follows:

| Department | 2018/19 | 2019/20 |
|-------------------------------|-----------|-----------|
| Adults Services | 3 | 13 |
| Children’s & Education | 24 | 42 |
| CEO | 1 | 0 |
| Digital and Business Change | 9 | 2 |
| Environment and Operations | 4 | 6 |
| Finance and Customer Services | 4 | 9 |
| Growth and Development | 2 | 2 |
| HR, Legal and Governance | 9 | 18 |
| Public Health and Wellbeing | 1 | 4 |
| Total | 57 | 96 |

- 14.3 There has been one complaint made to the ICO during 2019/20.

| Department | Self-referral or complaint | Number | Outcome |
|-------------------------------|----------------------------|----------|------------|
| Finance and Customer Services | Complaint | 1 | Not upheld |
| Total | | 1 | |

- 14.4 The complaint was reviewed by the ICO who agreed with our decision to refuse to respond to a Subject Access Request unless the requestor provided identification.

15 Key events and achievements during the year

- 15.1 Expansion of the SLA for out of borough school establishments has continued to be developed during Q3/4 2019/20. Approximately 450 schools in the neighbouring boroughs, of which 32 are High Schools, have been targeted and to date one new school has joined the service. The current low

take up is due to the time of year the initial mailshot was issued and the implications of Covid-19. Schools will be contacted again in July 2020 once staff return to schools and have time to re-assess their budget position. The intended charges for schools range from £795 to £2350 per year depending on school type. This mirrors the current charges for Blackburn schools and factors in an uplift to reflect a planned price increase for 2020/21 and additional costs in visiting clients/schools out of borough. An additional school within Blackburn has also been added to the SLA Portfolio for 2020/21.

- 15.2 A satisfaction survey was issued to all the Schools serviced by the current IG SLA:
- 92% of respondents (48 schools) felt the service offered good value for money
 - One school felt value was provided in certain areas but highlighted additional areas they would like to see provided by the service
 - Three schools offered no opinion – these were schools where the Service had little or no involvement in the 2019/2020 SLA year.
- 15.3 Overall most schools felt that the service was of benefit to them and have actively engaged when necessary.
- 15.4 The NHS Data Security and Protection Toolkit (DSPT) was submitted on 21 March 2020 and accepted as ‘standards exceeded’. The Council demonstrated compliance with all mandatory elements of the toolkit. The NHS DSPT audit team requested to audit a number of compliance module responses on 22 May 2020, this was responded to on 25 May 2020. NHS Digital have subsequently issued the Council with confirmed approved status.
- 15.5 As of 21 March 2020 compliance with the Mandatory Information Governance Training stood at 94.6%. This was enough to comply with the minimum requirement of 95% on the NHS DSPT Toolkit. A renamed version of the training will be launched in Q1 2020/21.
- 15.6 IG launched an employee survey in Q4 2019/20 to establish corporate understanding of the recent ‘DOJO’ cyber security training. Whilst this survey was predominantly instigated to demonstrate compliance with a non-mandatory element within the DSPT, it also serves to inform the SIRO of any gaps in knowledge that, at some point, may impact the security of the Council’s infrastructure. The uptake for the survey has been poor given the current circumstances. This survey will be pushed wider with communications once other emergency priorities have subsided.

Responses to date were as follows:

- 88% had completed the Cyber-Security training;
- 81% had seen or read the Email Use Policy;
- 2% admitted to re-using passwords from home at work;
- 93% said they used complex passwords;
- 100% stated they knew about email scams and also that they checked hyperlinks or attachments prior to opening them;
- 56% fully logged off a system prior to closing it down;
- 91% could identify a phishing email;
- 98% knew what to do if they suspected their computer had been hacked or infected with a virus; and,

- 84% knew how to report a cyber-security incident
- 15.7 Risks identified during 2019/20 relating to the failure to comply with the Subject Access Provisions in the GDPR2016, have been moderately reduced owing to the addition of 1FTE resource within Children’s Services along with continued support from the Information Governance team as an when their workload allows. The Council still has a number of outstanding subject access requests that carry risk of noncompliance with legislation. As at the end of Q4 2019/20, the Council has identified 38 outstanding Subject Access requests, 35 of which are overdue. The consequences of this risk include enforcement action and potential civil monetary penalties issued to the Council by the Information Commissioner. The statistics on compliance continue to be escalated to management board via the Quarterly SIRO report.
- 15.8 The IG team have generated guidance and tailored advice in relation to supporting lawful data sharing during the Covid-19 emergency. In March 2020 IG developed a Covid-19 Record of Processing Activity Register in which incorporates an Express DPIA and data flow record for all personal data shared during the Covid-19 emergency that is considered non BAU. IG have also generated a template information sharing protocol to support the flow of data to third party organisations and volunteers assisting with the Covid-19 emergency.
- 15.9 To enable the secure disclosure of information in response to FOIs and Subject Access Requests, D&BC have developed and rolled out a secure e-Disclosure tool to enable compliant data disclosures without the need to attend council offices to print and post. Policy and process documentation are currently in development.

INSURANCE

16 Insurance Policies

- 16.1 The Council continues to have its main insurance covers with Zurich Municipal under a long term agreement, which commenced on 1 April 2017. The agreement was for an initial period of three years, with an option to extend for a further two years. The Council exercised this option in September 2019, following negotiations with Zurich, which resulted in a reduction in the premium base rate for the period of the extension. Terrorism cover is provided separately by a Lloyd’s syndicate, via Aon Crisis Management, with other minor policies provided by specialist providers.
- 16.2 During the year, the Insurance Team has continued to provide advice and support to departments regarding insurance requirements and claims. The team have also liaised with Zurich and relevant solicitors to discuss the Council’s defence of claims. This input has continued to prove a valuable link between the insurer, their appointed solicitors and the Council as it has allowed us to give guidance to solicitors when settlement may be beneficial and to provide detailed technical support to defend cases successfully.

17 Claims Management

- 17.1 During the year, we have continued to provide management reports to relating to motor fleet claims and incidents to the Road Risk Management Group. Employer liability claims information is provided to health & safety colleagues and ad hoc reports are produced for managers on request.
- 17.2 During 2019/20 the Insurance Team handled 259 non injury claims and

incidents in-house. This includes 114 relating to highways claims or incidents. These include cases where claims will have been refuted or settled in-house following a review of the evidence provided by departments. This approach has benefitted the Council by reducing the claims handling costs of £140 per claim, which would otherwise have been charged by Zurich, and improved customer satisfaction and the Council's reputation by dealing with these claims promptly.

- 17.3 In addition to these savings, where possible the Team has requested invoices for repairs etc. to be sent direct to the Council in respect of those claims being settled, enabling us to recover the VAT. The team was also able to agree ex-gratia payments in a number of cases, limiting the cost to the Council.
- 17.4 Zurich Municipal engages local solicitors to assist in defending claims against the Council. The Insurance team liaises with the solicitors to discuss cases and their defence and the solicitors provide detailed information regarding caseload management. They also contest the costs of settlements including claimants' solicitors' legal fees and costs, saving the Council and our insurer's significant sums.
- 17.5 In the last year this has saved £46,092 on costs initially claimed, an average saving of 15.6% per claim. It should be noted that, since the introduction of fixed recoverable costs, most costs claimed cannot be significantly challenged and are calculated by a fixed predictable costs matrix. The solicitors have also made significant savings on final settlements compared to total initial reserves in respect of defended cases in the year amounting to £289,070, a saving on 39%. The outcomes of claims listed for trial are illustrated in the final chart at Appendix 2.

18 Insurance Claims Experience

- 18.1 The numbers of claims and incidents notified to the Insurance team in the last three years is set out in the table below. The trends in claims and incidents volumes and values notified to the Council over the last three years, grouped by the class of business, are set out in the table and charts in Appendix 2. The number of claims received by the Council during 2019/20 has remained similar to the previous year, which was down on 2017/18. This is due to a number of factors but one area where there has been a reduction are highways related claims. We are able to defend the majority of these claims.

| Class of business | No of Incidents | | | Claims | | | Total | | |
|---------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 17/18 | 18/19 | 19/20 | 17/18 | 18/19 | 19/20 | 17/18 | 18/19 | 19/20 |
| Employers Liability | 3 | 8 | 1 | 11 | 13 | 3 | 14 | 21 | 4 |
| Motor | 33 | 43 | 64 | 33 | 28 | 25 | 66 | 71 | 89 |
| Other | 0 | 0 | 0 | 2 | 1 | 1 | 2 | 1 | 0 |
| Property | 5 | 1 | 9 | 18 | 18 | 15 | 23 | 19 | 24 |
| Public Liability | 78 | 82 | 111 | 177 | 129 | 128 | 255 | 211 | 240 |
| Total | 119 | 134 | 185 | 241 | 189 | 172 | 360 | 323 | 357 |

- 18.2 It should be noted that claims may be received up to three years after the date the event occurred, or in the case of long tail claims, such as noise, hand arm vibration, asbestos and abuse, three years after the person first

became aware they have suffered the injury. For claims relating to children, these can be received up to three years after their 18th birthday.

- 18.3 In July 2019, the Government announced a change in the Discount Rate used to calculate the payments of any long term injury claims under motor, public and employers liability cover raising this from -0.75% to -0.25%. The revised rate was effective for claims settled from 5 August 2019. The change to the Rate was prompted by the Civil Liability Act 2018, which came into force in December 2018. It provided for a review of the Discount Rate with a deadline of 6th August 2019 to announce any new rate.
- 18.4 Whilst the change will lead to savings for Defendant insurers, (estimated to be between £230m and £300m), it is not quite as much as the industry had hoped for and still leaves claimants in a far better position than they had faced before March 2017. The change is reflected in the total costs of claims figures reported. Whilst it will lead to savings for Defendant insurers (estimated to be between £230m and £300m) it is not quite as much as they had hoped for and still leaves Claimants in a far better position than they had faced before March
- 18.5 We are continuing to work with departments to ensure that relevant documents are retained and investigations carried out so an adequate defence can be maintained against claims received. If there is no documentation or records available, we do not have a defence.

19 Municipal Mutual Insurance (MMI)

- 19.1 A number of years ago the Council was insured by MMI. This company got into financial difficulty and ceased trading in 1992 but maintained the claims arising whilst it was still solvent. In November 2012 the MMI Board of Directors triggered the Scheme of Arrangement, as a solvent run-off could no longer be foreseen. After completing discussions with their professional advisers, the Directors concluded that there was no other alternative to insolvent liquidation.
- 19.2 As a result, control of MMI passed to the Scheme Administrator, Gareth Hughes of Ernst & Young LLP, who, in accordance with the terms of the Scheme, undertook a financial review of the Company and, in consultation with the Scheme Creditors Committee, considered the extent to which any levy was to be imposed upon Scheme creditors.
- 19.3 Although MMI note that all claims would continue to be paid until a decision on the levy was made and communicated to the Scheme Creditors, all members who had historic periods of cover with MMI, were urged to urgently consider their financing arrangements for these periods.
- 19.4 As one of the local authorities who are members of the Scheme of Arrangement, the Council will be liable to pay any remaining outstanding claims as and when required. There are a number of these long tail claims, where the cause is pre 1993, relating to child abuse/failure to remove cases or health related issues such as asbestos related illness, noise and vibration white finger, which have been subject to numerous legal challenges.
- 19.5 Predicting ultimate claims cost for occupational diseases arising from past exposure is extremely difficult and whilst the current claw back from the Council will be 25% it is possible that there could be further claw back over the next 10 to 20 years, as incurred but not reported claims are translated into reported claims over this time.

- 19.6 The scheme of arrangement with MMI was always expected to have a clear run-off. However, the Council previously estimated the potential cost to the Council, if the scheme is invoked, could be over £2.0 million at the current calculation, along with any new claims, and this is taken into account when the minimum level of balances is reviewed during the annual budget process, and in assessing contingent liabilities when the Statement of Accounts is prepared.
- 19.7 As the scheme of arrangement has now been triggered, since 2014 the Council has paid levies totalling 25% (amounting to £493,967) on known claims at the time. A provision of approximately £320,000 has also been established against the possibility of the levy increasing to the maximum estimated amount of 28%, retaining £250,000 as an earmarked reserve towards future claims.
- 19.8 As a consequence of the levy, since 2014 the Council has been responsible for self-insuring, initially 15% and currently 25% of any future claims. The Council is now required to pay all MMI related claims and associated legal costs as and when these are settled and submit invoices to the Scheme Administrator to reimburse the 75% portion they are responsible for.
- 19.9 The Council receives an annual statement from MMI to update on its liabilities in respect of the Scheme of Arrangement and the Finance department have been kept fully aware of this liability.

5. RATIONALE

Within the Corporate Risk Management Strategy there is a requirement to report annually to the Audit and Governance Committee on the progress of risk management within the Council.

The key issues detailed above provide the members of the Committee with a summary of the elements, key issues and work undertaken by various teams relating to risk management activity across the Council during the year ended 31 March 2020.

The details reported provide assurance to the Committee on the adequacy of the Risk Management Strategy and the associated risk management control environment within the Council.

6. POLICY IMPLICATIONS

As indicated above, this report is part of the requirements of the Corporate Risk Management Strategy. These requirements are constantly being reviewed and updated to reflect the changes that have taken place in respect of the risk management arrangements within the Council.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no direct legal implications from this report.

9. RESOURCE IMPLICATIONS

There are no direct resource implications from this report.

10. EQUALITY AND HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Members of the Primary Assurance Group.

CONTACT OFFICER: Colin Ferguson, Head of Audit & Assurance

DATE: 17 July 2020.

BACKGROUND PAPERS: Corporate Risk Management Strategy and Framework
2015/20



ANNUAL RISK MANAGEMENT REPORT 2019/20

Summary Risk Register

Directorate: _____
 Department: Corporate Risk Register
 Service: _____
 Quarter and Year: Quarter 4 - 2019/20 Date of last review: 31-Dec-19
 Date: 31-Mar-20 Date of next review: 30-Jun-20

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| Risk N | Risk Description | Date Raised | Strength of Existing Controls | Inherent | | | Residual | | | Target | | | Risk Owner(s) | Key Contact(s) | Risk Status | Last Risk Review Dat | 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 | 3 | 5 | HIGH | 1 | 2 | LOW | Louise Mattinson | Simon Ross, Zoe Evans | Open | 29-Apr-20 | 2 | 3 | LOW | Up |
| 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, Dwayne Lowe | Open | 20-Apr-20 | 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 | 19-Nov-19 | 2 | 3 | LOW | - |
| 5 | There is a risk that governance and decision making arrangements fail | 25-May-11 | Good | 2 | 4 | MEDIUM | 2 | 2 | LOW | 1 | 1 | LOW | David Fairclough. | Asad Laher | Open | 28-Apr-19 | 2 | 2 | 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. Corpo 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 | 3 | 3 | MEDIUM | 2 | 2 | LOW | Paul Fleming | Sarah Critchley | Open | 06-Mar-20 | 4 | 4 | HIGH | Down |
| 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 | 24-Feb-20 | 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 | 27-Jan-20 | 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 | 15-Oct-19 | 3 | 4 | MEDIUM | - |
| 20 | The Council is unable to deliver its critical and core services and functions during the mitigation phase of a COVID-19 outbreak, due to high staff absences and a failure of effective business continuity management. | 28-Feb-20 | Fair | 5 | 5 | HIGH | 4 | 4 | HIGH | 1 | 3 | LOW | Dominic Harrison (Public Health element)/ Paul Fleming (Resilience & Emergency Planning Service) | Gifford Kerr & Rachel Hutchinson | Open | 28-Feb-20 | | | | - |

The following corporate risks are closed:

Risk 3: IT Infrastructure (Resilience) – Old Town Hall.

Risk 5: The risk that governance and decision-making arrangements fail.

Risk 8: Failure to contribute effectively to economic growth within Blackburn with Darwen.

Risk 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.

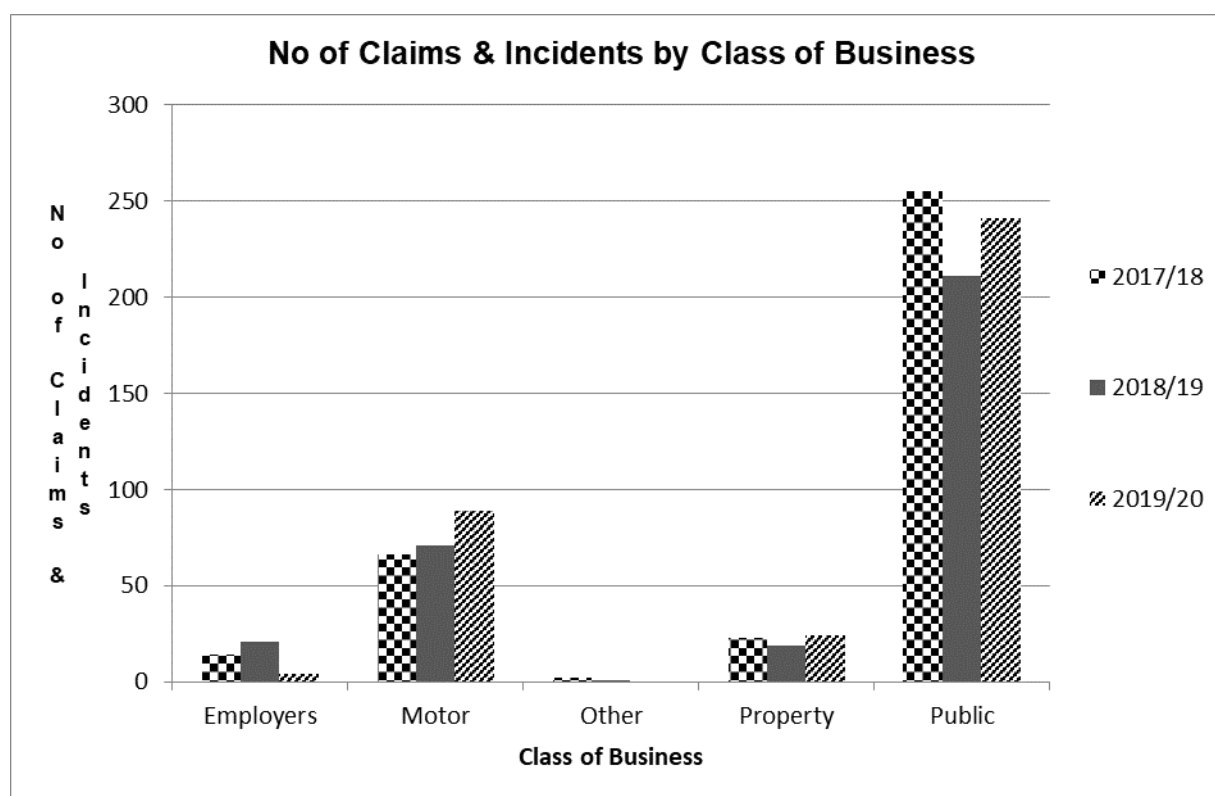
Risk 16: Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services.

Risk 19: EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements.

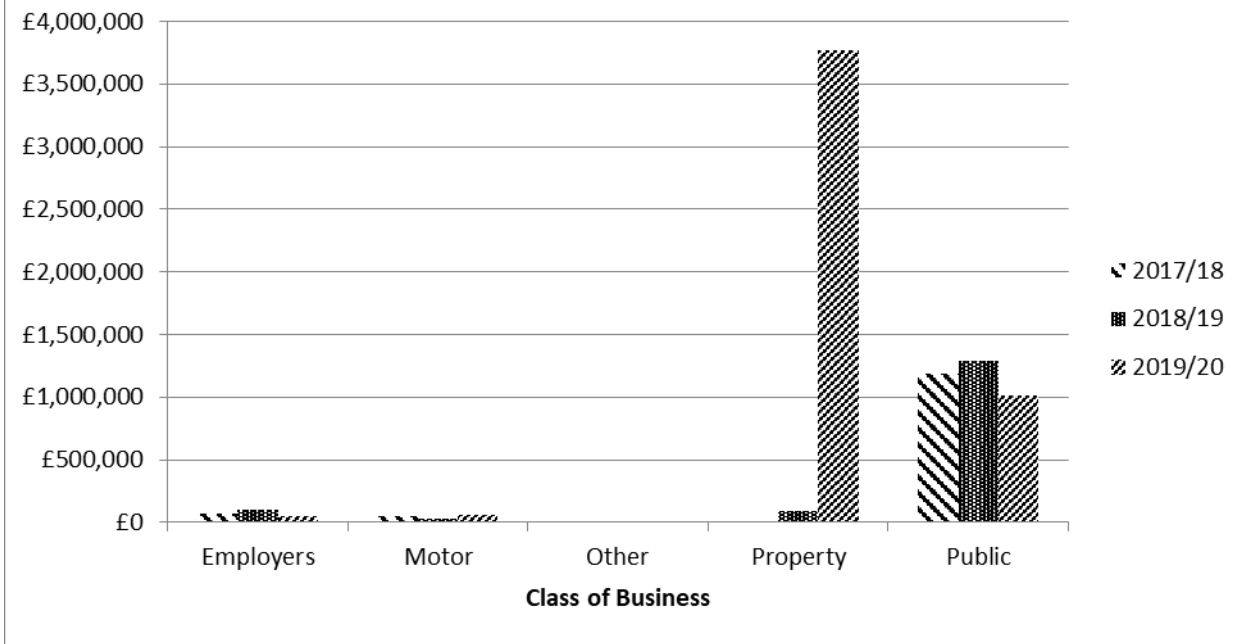
Insurance Claims Statistics and Trends

Claims and Incidents Notified by Year

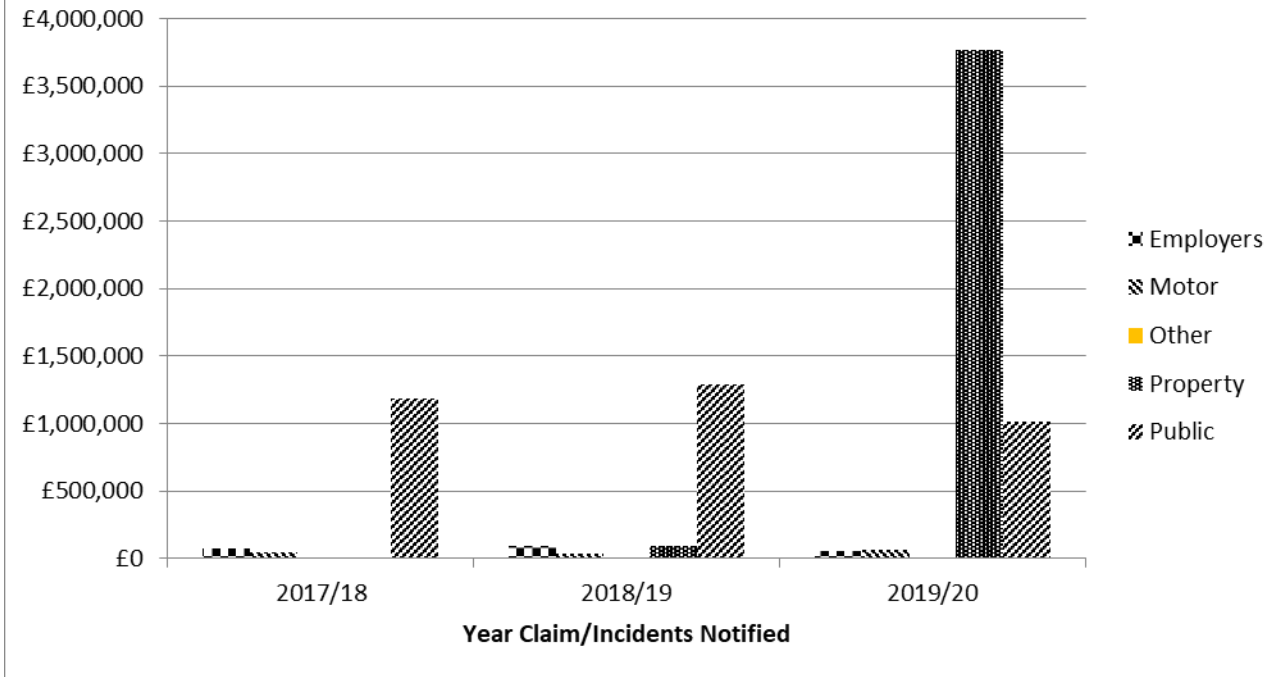
| Policy | 2017/18 | | 2018/19 | | 2019/20 | | Totals | |
|---------------|------------|-------------------|------------|-------------------|------------|-------------------|--------------|-------------------|
| | No | Value | No | Value | No | Value | No | Value |
| Employers | 14 | £71,192 | 21 | £97,985 | 4 | £54,351 | 39 | £223,528 |
| Motor | 66 | £48,851 | 71 | £34,752 | 89 | £62,928 | 226 | £146,531 |
| Other | 2 | £0 | 1 | £10,200 | 0 | £0 | 3 | £10,200 |
| Property | 23 | £2,174 | 19 | £90,217 | 24 | £3,766,924 | 66 | £3,859,315 |
| Public | 255 | £1,184,290 | 211 | £1,293,275 | 240 | £1,017,120 | 706 | £3,494,685 |
| Totals | 360 | £1,306,507 | 323 | £1,526,429 | 357 | £4,901,323 | 1,040 | £7,734,259 |



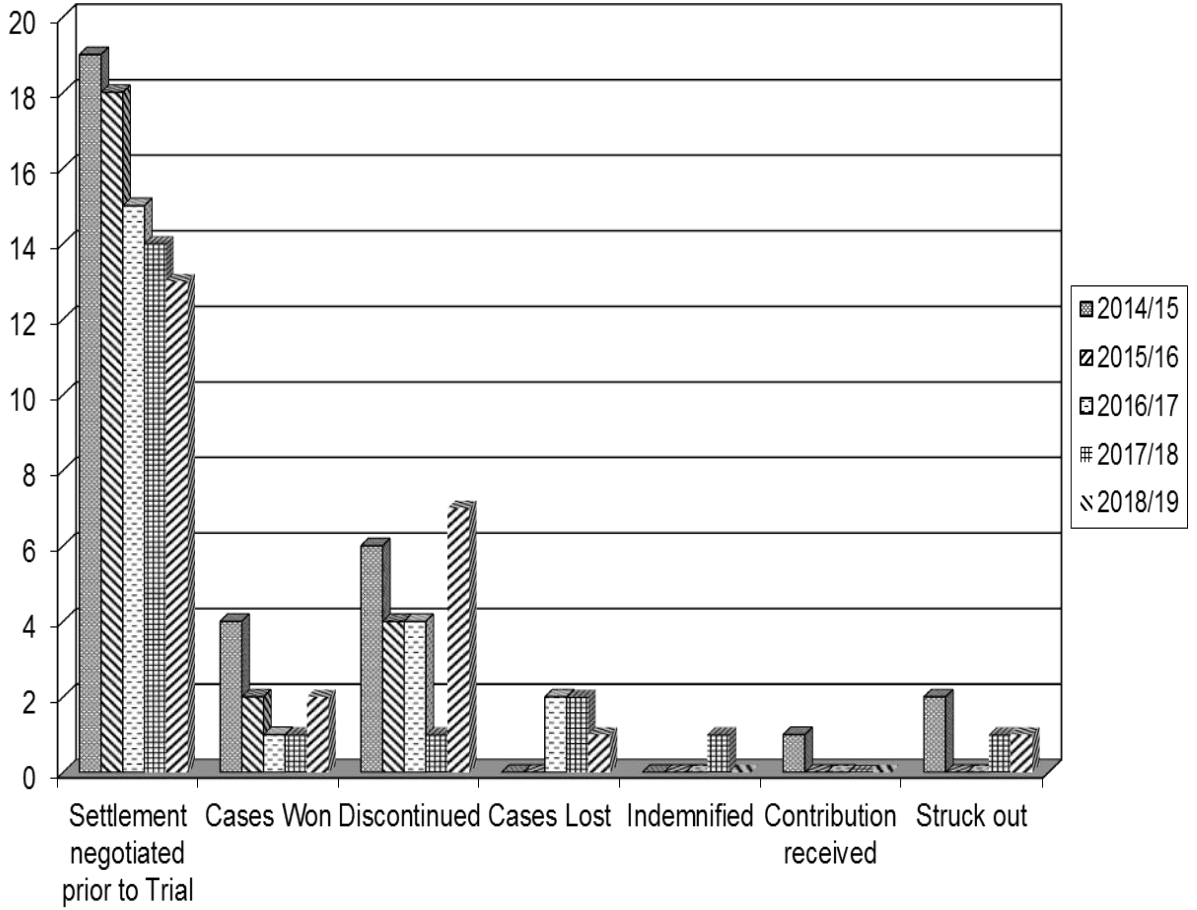
Estimated Cost of Claims & Incidents by Class of Business



Estimated Total Cost of Claims & Incidents (Payments & Reserves) Notified by Year



Outcome of Cases Listed for Trial





TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Counter Fraud Annual Report 2019/20

1. PURPOSE

- 1.1 To inform the Audit & Governance Committee of the results of the counter fraud activity that has been carried out during the year ended 31 March 2020 to minimise the risk of fraud, bribery and corruption occurring in the Council, and the outcome of investigations carried out into potential or suspected fraud or irregularities.

2. RECOMMENDATIONS

- 2.1 The Committee is asked:
- to consider the Counter Fraud Annual Report (as set out in Appendix A) as part of its monitoring role.

3. BACKGROUND

- 3.1 The Council is committed to the principles of good governance and recognises the importance of operating in an open and accountable manner, whilst demonstrating high standards of conduct. The Council expects all its stakeholders (including its councillors, employees, partners and contractors) to act honestly, with integrity and to safeguard the public purse. The Council does not accept any fraud or corruption and any identified case will be thoroughly investigated and appropriately dealt with.
- 3.2 The Audit & Governance Committee has a role in helping the Council to implement the values of good governance, including effective arrangements for countering fraud and corruption risks. To achieve this the Committee's terms of reference include responsibility to ensure that the Council maintains a robust counter fraud culture via the implementation of the Counter Fraud Strategy. The Strategy is backed up by effective controls and procedures, which define the respective roles of management and Audit & Assurance.
- 3.3 The Council's Counter Fraud Strategy was reviewed and updated in 2016 to ensure that it provided an effective structure and approach to ensure that the

counter fraud arrangements in place within the Council reflected latest guidance and best practise and are embedded into the everyday processes of financial management activity and decision making within the Council.

- 3.4 The Strategy includes a requirement that an annual fraud report is prepared that includes and evaluation of the success of the strategy in achieving its objectives.

4. RATIONALE

- 4.1 The Annual Counter Fraud Report provides the Committee with assurance on the effectiveness of the counter fraud arrangements in place within the Council in its roles of reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption and ensuring the Council maintains a robust counter fraud culture via the implementation of the Counter Fraud Strategy.

5. KEY ISSUES

- 5.1 It is one of the requirements of the Accounts and Audit (England) Regulations 2015 that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'.
- 5.2 The attached report (see Appendix A) provides a summary of the work undertaken during the year which supports the overall conclusion on the measures in place relating to this area.

6. POLICY IMPLICATIONS

- 6.1 This report is part of the requirements of the Counter Fraud Strategy. These requirements are periodically reviewed and updated to reflect the changes that have taken place in respect of the counter fraud arrangements within the Council.
- 6.2 It is also contributor to the Annual Governance Statement, which assesses the effectiveness of the Council's own management of its policy objectives.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

- 8.1 There are no direct legal implications from this report.

9. RESOURCE IMPLICATIONS

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

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

11.1 This report has been discussed with the Council's Primary Assurance Group.

Contact Officer: Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date: 17 July 2020
Background Papers: Counter Fraud Strategy 2016/20

Blackburn with Darwen Borough Council



Counter Fraud Annual Report 2019/20

**Audit & Assurance
Finance & Customer Services Department
April 2020**

1. Background

- 1.1. The Council is committed to ensuring that opportunities for fraud and corruption are reduced to the lowest possible level through a combination of the following:
- Acknowledging and understanding fraud risks, and the harm they cause to the organisation, its objectives and service users, and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response;
 - Preventing and detecting fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture; and
 - Responding by punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.
- 1.2. The purpose of this report is to present the work carried out during the past financial year to minimise the risk of fraud, bribery and corruption across the Council. This supports the requirements of the Accounts and Audit Regulations (England) 2015 which states that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'.
- 1.3. The report also sets out planned work for 2020/21 and highlights some of the current areas of fraud risk.

2. Key mechanisms – policies and procedures

- 2.1. Effective policies and procedures are essential to ensure that all officers and members are aware of their roles and responsibilities in identifying and managing the risk of fraud. All policies and associated documents are available on the Council's intranet.

Whistleblowing Policy

- 2.2. The Council has an up to date Whistleblowing Policy which is available to all staff and members via the intranet.

Counter Fraud Strategy

- 2.3. The Counter Fraud Policy Statement and Counter Fraud Strategy 2016/21 were updated and approved in 2016.

Fraud Risk Register

- 2.4. To enable managers to identify and mitigate fraud risks a fraud risk register was created in 2016/17. Work has been undertaken with service managers in to ensure that risk owners review and update the fraud risks for which they are responsible.

Reporting and awareness

- 2.5. Audit & Assurance reports to the Audit & Governance Committee on a regular basis with corporate fraud updates.
- 2.6. The Council subscribes to the National Anti-Fraud Network (NAFN), which promotes the sharing of information between Authorities and publishes regular

bulletins on fraud cases and attempted scams. These fraud alerts are then cascaded to ensure that key officers receive key messages and take appropriate action where appropriate. In addition, the Lancashire Chief Audit Group shares information and alerts regarding potential scams which are being attempted, or have been carried out in the region, as and when these are identified locally. These are also cascaded to relevant departments and highlighted on the Council's website where appropriate. Fraud cases are also discussed at the Group's meetings during the year.

- 2.7. The Principal Internal Auditor (Counter Fraud) is also a member of the North West Chief Auditors Counter Fraud sub group. This group has met on a regular basis during the year to consider the scope for joint working across the region on areas such as business rates and personal budgets, as well as to develop a common approach to key fraud risks and share best practise.
- 2.8. A fraud awareness training course is available on the Council's e-learning portal. This course has been undertaken by 587 people since its introduction (343 people during 2019/20) and Audit & Assurance continue to promote the course during its engagements with departments and schools. Members of the Audit & Governance Committee have also been provided with a copy of the CIPFA Counter Fraud Workbook for Councillors during the year. This has been produced by CIPFA and the Local Government Association. It is designed as a learning aid on this area for elected members and includes guidance, challenges cases studies and links to other information on this area.

3. Risk based planning to minimise the risk of fraud

- 3.1. The annual audit planning process includes consideration of the fraud risk. The 2019/20 Annual Audit Plan, approved by the Audit & Governance Committee in April 2019, included provision to support a programme of proactive work that minimises the risk of loss to the Council. The annual plan also includes an allocation of time for reactive investigations.

4. Work and investigations carried out in 2019/20

National Fraud Initiative (NFI)

- 4.1. The Council is required by law to provide set data to the Cabinet Office who administers this national data matching exercise. The returned data matches identify anomalies for further follow up and review by the Council to determine and actions required. Audit & Assurance co-ordinate the exercise and carry out further review of certain reports including Payroll anomalies and suspected fraudulent Council Tax Support claims.
- 4.2. A total of 4,716 data matches were initially received from the Cabinet Office in February as part of the 2018/19 exercise. The results of work undertaken show that 1,192 matches have been processed and a further 37 investigations are ongoing. A total of 617 errors have been found to date resulting in savings of £155,338 and arrangements are in place to recover this money from the individuals concerned where appropriate. The table below illustrates main areas of activity, and where savings have been identified.

Summary of Results

| Area | No. of Errors | Value (£) |
|--|---------------|-----------------|
| Benefits (Housing/Council Tax Support) | 29 | £55,298 |
| Private Residential Care Homes | 3 | £8,094 |
| Resident Parking Permits* | 14 | - |
| Concessionary Travel Passes** | 429 | £10,296 |
| Blue Badge Parking Permits*** | 142 | £81,650 |
| TOTAL | 617 | £155,338 |

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

** Concessionary Travel Passes - these passes have all been cancelled due to information from the DWP that the permit holders are deceased and the passes 'hotlisted' to prevent future misuse. The Cabinet Office attach a monetary value to these cancellations. The figure shown is an estimated savings figure provided by the Cabinet Office.

*** Blue Badge Parking Permits – these permits have been cancelled due to information from the DWP that the permit holders are deceased. The Cabinet Office attach a monetary value to these cancellations. The figure shown is as estimated savings figure provided by the Cabinet Office.

The Council received additional reports from the Cabinet Office in February and March 2019 which included 4,673 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. The matches indicate that entitlement to Single Persons 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. To date 47 of these matches have been processed and a further 28 investigations are ongoing. The table below illustrates the results to date on these matches:

| Area | No. of Errors | Value (£) |
|------------------------------------|---------------|-----------|
| Council Tax Single Person Discount | 23 | £7,065 |

Direct Payments Fraud

- 4.3. Direct Payments are made to Council service users which allow them to pay for their own assessed social care needs as an alternative to the Council directly providing or commissioning those services. Audit & Assurance has undertaken several investigations into suspected Direct Payments fraud in the past, including a case during 2019/20. The case, which is currently ongoing, involves an overpayment of £20,000. The Police are supporting the Council with this investigation.

Other investigations and counter fraud activity

- 4.4. During the year, Audit & Assurance carried out an investigation into an alleged fraud following a complaint made under the Council's Whistleblowing Policy. The complaint related to the alleged illegal sale of Council land. The review found no evidence of unlawful or illegal activity in relation to the sale of the

land and confirmed that the Council had followed an appropriate process in approving the site for disposal.

- 4.5. A separate whistleblowing allegation was made suggesting procurement irregularities. An investigation into this complaint is ongoing.
- 4.6. As part of its proactive plan of work, Audit & Assurance commenced a review of how the Blue Badge scheme is administered at the Council. The objective of this review is to ensure that there are effective arrangements in place to issue a Blue Badge in line with scheme eligibility conditions and to identify, cancel and recover Blue Badge Parking Permits when a permit holder dies. The work is currently ongoing.

5. Priorities for 2020/21

- 5.1. The 2020/21 Internal Audit Plan makes provision for the following counter fraud activity during the year:
 - National Fraud Initiative – co-ordination of the exercise and investigation into data matches;
 - A review of the Counter Fraud Strategy;
 - Reactive fraud investigations; and
 - Development of a pro-active plan of work.

6. Conclusion

- 6.1. The range of activities and incidents covered in this report highlights the extent to which fraud and error exist as risks to the achievement of the Council's objectives. Our conclusion is that the Council had effective measures to enable the prevention and detection of fraud and irregularities. Work will continue in 2020/21 to ensure that the Council has all the necessary policies and procedures in place to create and promote an environment where fraud, bribery and corruption are not tolerated.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Annual Internal Audit Opinion Report 2019/20

1. PURPOSE

To provide independent evidence to allow the Audit & Governance Committee to fulfil its role and function of providing independent assurance to the Council on the adequacy of the risk management, and internal control arrangements in place within the Council.

2. RECOMMENDATIONS

The Committee is asked:

- to note the content of the Annual Internal Audit Opinion Report for 2019/20 (as set out in Appendix A);
- to consider the overall annual opinion of the Head of Audit & Assurance, which is that **adequate assurance**, can be placed upon the Council's framework of governance, risk management and internal control; and
- to note that the internal audit work that supports this opinion has been delivered in accordance with the Public sector Internal Audit Standards (PSIAS) and that there are no significant areas of non-conformance.

3. BACKGROUND

The internal audit function is required to comply with the PSIAS.

The PSIAS require the Head of Internal Audit to present an Annual Opinion Report to the Audit & Governance Committee, which gives an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. The report should be timed to support the production of the Council's Annual Governance Statement (AGS).

4. RATIONALE

The Audit & Governance Committee, in its role of providing independent assurance to the Council on the adequacy of its risk management framework, overall governance and the associated control environment is required to consider the Annual Internal Audit Opinion Report.

5. KEY ISSUES

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

The attached report complies with the requirements of the PSIAS. It includes a summary of the work that has been carried out that supports the opinion. It sets out any qualifications to the opinion, together with reasons for those qualifications, discloses any impairments or restrictions in scope and compares actual work with the planned work approved by the Committee in April 2019. It also states whether the work has been undertaken in conformance with PSIAS, the results of any Quality Assurance Improvement Programme (QAIP), summary of actual performance against targets/measures and any issues that are considered relevant to the preparation of the AGS.

6. POLICY IMPLICATIONS

This report is a key contributor to the Annual Governance Statement, which assesses the effectiveness of the Council's own management of its policy objectives.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

This report fulfils the statutory requirements placed upon by the Council by the Accounts & Audit (England) Regulations 2015.

9. RESOURCE IMPLICATIONS

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

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

The issues raised in this report have previously been reported to Directors following the completion of audit assignments. Summaries of the issues identified have previously been reported to the Audit & Governance Committee at its meetings during 2019/20.

This report has been discussed with the Council's Primary Assurance Group.

Contact Officer: Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date: 17 July 2020
Background Papers: 2019/20 Annual Audit & Assurance Plan, Strategic Statement and Internal Audit Charter, Audit & Assurance - Progress & Outcomes Committee reports, Audit & Assurance reports and files.

Blackburn with Darwen Borough Council



Annual Internal Audit Opinion Report 2019/20

**Audit & Assurance
Finance & Customer Services Department
July 2020**

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- 1.2 Role of Internal Audit
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- 2.2 Our Opinion Work
- 2.3 Qualifications to the Opinion
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- 2.5 Impairments/Restrictions in Scope

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- A Audit & Assurance Plan & Actual 2019/20;
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Summary of Other/Unplanned Work 2019/20.
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SECTION 1 – BACKGROUND

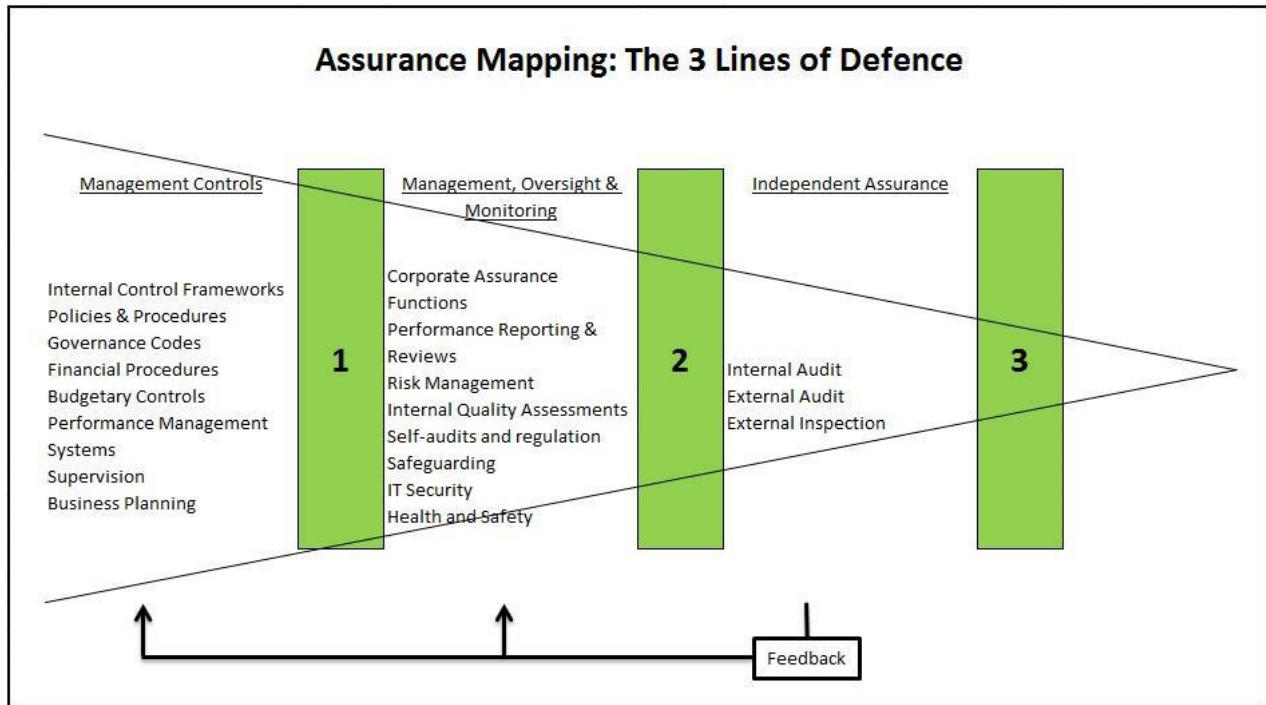
1.1 Introduction

- 1.1.1 This report details the cumulative activities undertaken by the Council's Audit & Assurance (Internal Audit) section of the Finance & Customer Services Department during the period 1 April 2019 to 31 March 2020. It highlights key issues and themes identified from the audit reviews of the Council's risk management, governance and internal control frameworks. The activities undertaken by the section are primarily directed by a risk-based audit plan, which takes into account the Council's organisational objectives and priorities.
- 1.1.2 This report is intended to provide the Audit & Governance Committee with:
- an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control;
 - a summary of the internal audit work that supports the opinion;
 - any qualifications to the opinion together with reasons for the qualifications;
 - any impairments or restrictions in scope of the work undertaken;
 - a comparison of the audit work actually undertaken with the work planned, including a summary of its performance and quality assurance;
 - a declaration that work undertaken is in conformance with the Public Sector Internal Audit Standards (PSIAS); and
 - details of any issues particularly relevant to the preparation of the Council's Annual Governance Statement (AGS).
- 1.1.3 This report meets the requirements for Internal Audit to provide an annual internal opinion on the overall adequacy of the Council's framework of governance, risk management and control, as detailed in the PSIAS and demonstrates that the Council is maintaining an adequate and effective system of internal audit as required by the Accounts and Audit (England) Regulations 2015.

1.2 Role of Internal Audit

- 1.2.1 The statutory basis for Internal Audit in local government is the Accounts and Audit (England) Regulations 2015, which state that each authority must:
- 'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.'*
- 1.2.2 Internal audit work is governed by the PSIAS. The Internal Audit Team has adopted the PSIAS definition of internal audit, which is:
- "Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."*
- 1.2.3 It should be remembered that internal audit is the Council's 'third line of defence in a model where management and management controls represent the first line, with responsibility for directly assessing, controlling and mitigating risks in accordance with the Council's control frameworks and procedures. In-service compliance functions, whose role includes confirming the operation of these

controls, represents the second line of defence. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work. This model is illustrated in the table below:



1.3 Objectives and Scope of Internal Audit

1.3.1 The objectives and scope of Internal Audit are set out in the Internal Audit Charter. The Charter is reviewed biennially by the Audit & Governance Committee and was last approved on 16 April 2019. The Charter complies with the requirements of the PSIAS. The emphasis placed on Internal Audit's role in reviewing areas both financial and non-financial represents the profession's best practice and enables Internal Audit to give an opinion on the adequacy of all of the Council's systems of risk management, control, and governance.

SECTION 2 – INTERNAL AUDIT OPINION

2.1 Arriving at the Opinion

2.1.1 The overall opinion on the Council's systems of risk management, control and governance is based on Internal Audit's assessment of the Council's key management arrangements. This is the framework required to provide management with confidence that the main processes to achieve these business objectives are:

- Adequate and effective for their purpose; and
- Free from material financial and non-financial business risk.

2.1.2 In providing our opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses within these systems.

2.1.3 Our opinion on the systems of risk management, control and governance within the Council has been formulated by giving careful consideration to following:

- Planned work undertaken during 2019/20;
- Unplanned work undertaken during 2019/20;
- Follow ups of audit work undertaken during 2018/19 and 2019/20; and
- Other sources of assurance relevant during 2019/20.

2.2 Our Opinion

Based on the evidence reviewed, explanations received and the processes reported upon during 2019/20, together with the other sources of assurance available to Internal Audit, it is considered that, overall, the Council has **adequate** systems of risk management, control and governance, which are being applied to an **adequate** standard.

2.3 Qualifications to the Opinion

2.3.1 In providing the overall opinion consideration is given to the assurance opinions provided during 2019/20 in respect of audits identified in the approved plan as priority 1 risk areas or on functions which have been identified as corporate risks. There were no areas in either of these categories where the opinions provided were less than adequate.

2.3.2 The assurance opinions provided in the finalised the audit reports issued and reported to the Audit & Governance Committee during 2019/20 across the categories of risk management, internal control and governance are detailed in Appendix A attached.

2.4 Work Supporting the Opinion

Planned Work:

2.4.1 The Audit & Governance Committee approved the Audit & Assurance Plan for the year to 31 March 2020 at its meeting on 16 April 2019.

2.4.2 Each internal audit report provides two areas of assurance: (i) an opinion on the control environment based on the internal controls identified in place; and (ii) an opinion on compliance regarding the application of those controls. The level of

assurance given is derived from the findings and based on the following definitions:

| Control Environment Assurance | | |
|--------------------------------------|-----------------------|--|
| | Level | Definition |
| 1 | SUBSTANTIAL ASSURANCE | There are minimal control weaknesses which present very low risk to the control environment. |
| 2 | ADEQUATE ASSURANCE | There are some control weaknesses which present a medium risk to the control environment. |
| 3 | LIMITED ASSURANCE | There are significant control weaknesses which present a high risk to the control environment |
| 4 | NO ASSURANCE | There are fundamental control weaknesses which present an unacceptable level of risk to the control environment. |
| Compliance Assurance | | |
| | Level | Definition |
| 1 | SUBSTANTIAL ASSURANCE | The control environment has substantially operated as intended although some minor errors have been detected. |
| 2 | ADEQUATE ASSURANCE | The control environment has mainly operated as intended although errors have been detected. |
| 3 | LIMITED ASSURANCE | The control environment has not operated as intended. Significant errors have been detected. |
| 4 | NO ASSURANCE | The control environment has fundamentally broken down and is open to significant error or abuse. |

2.4.3 Internal Audit has completed and formally reported upon 32 assignments including 24 internal control assignments, 6 risk related assignments and 2 governance assignments which support our overall opinion on the Council's systems of risk management, governance and internal control. In addition to these there were 18 reviews in progress at the year end. A summary of the assurance levels that support our opinion is also provided in Appendix A.

Other/Unplanned Work:

2.4.4 During the year we have carried out a number of other activities/unplanned audit work and provided advice and assistance to managers, departments and schools on a number of areas. A total of 49.5 audit days has been spent on these areas. A summary of the days on each area is set out in the second graph included at Appendix A.

2.4.5 Our other/unplanned work can be categorised as follows:

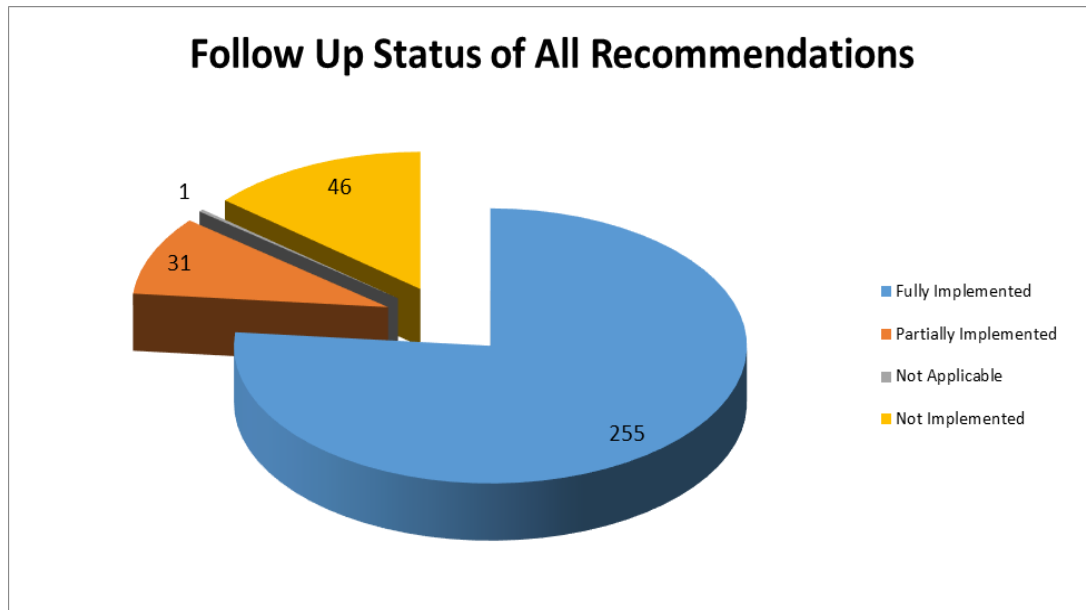
- Supporting the Audit & Governance Committee (18 days);
- Liaison with departments/DMTs, external audit and responding to general requests from managers for advice/guidance (15.5 days);
- Specific activity on new systems and programmes or other cross cutting working groups and boards (8.5 days); and
- Monitoring the implementation of reported recommendations (7.5 days).

Follow Ups:

2.4.6 Where we issue a *limited* or *no* assurance report we undertake "standard" follow-ups after 3 months. For all other assurance reports we undertake a "standard" follow up after 6 months. In 2019/20 we followed up a total of 333 recommendations. These comprised of 86 "Must", 227 "Should" and 20

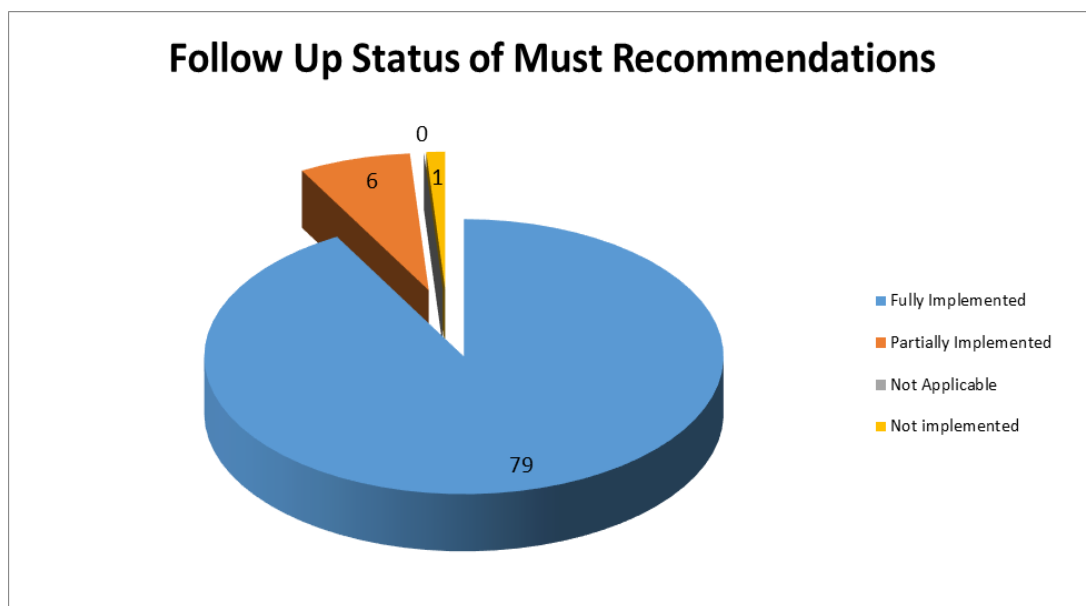
“Consider” recommendations. The responses to the follow up reports are summarised in the chart below.

Follow Up Status of All Recommendations 2019/20



2.4.7 Further analysis of the highest priority, “must” recommendations, identified that one recommendation (1% of this category) was not implemented in accordance with the agreed timescales. The results from the follow up of agreed recommendations are included in the regular Audit & Assurance Progress Reports presented to each Audit & Governance Committee meeting during the year for consideration. This includes explanations where of any responses to follow ups undertaken have not received at the time of the report and any recommendations which have not been implemented. We received appropriate explanations from management for those recommendations not being implemented within agreed timescales.

Follow Up Status of Must Recommendations 2019/20



2.4.8 Where we have particular concerns about the implementation of recommendations we undertake further “physical” follow up exercises where documentation will be reviewed and further testing undertaken to confirm actions taken are adequate.

Other Sources of Assurance:

2.4.9 In addition to the internal audit work carried during the year, we have gained assurance on a number of the Council’s processes from other internal and external sources. The sources of assurance include:

- The Council’s Management Accountabilities Framework (MAF) reporting arrangements and challenge process;
- The annual Directors’ assurance certificates;
- The external auditor’s annual audit letter and certification report;
- The results from an External IT Health Check Review, carried out in May 2019. This included penetration testing. The report concluded that the overall security posture of the Council’s perimeter IT network was strong;
- The results from an Internal IT Health Check Review, carried out in July 2019. The primary purpose was to check security misconfiguration and other weaknesses that could lead to system compromise and access to sensitive or valuable information.
- The result of the Council’s submission for the NHS Data Security & Protection Toolkit (DSPT). This was assessed as ‘standards exceeded’ to enable the Council to continue to exchange data with the NHS;
- The assessment of the IT infrastructure against the requirements of the Cyber Essential Scheme Test Specification; and
- The reports from the inspections of the Council’s services by Ofsted and the Care Quality Commission. We also consider relevant school Ofsted inspection reports when carrying out our school visits.

2.4.10 The “red” priority thematic areas of concern from the MAF are reported to the Audit & Governance Committee on a six monthly basis. The reporting of the half year “red” areas did not identify any further challenges from the Audit & Governance Committee. The results of the year-end exercise are reported to the July Committee meeting. An initial review of the Directors Dashboard reports did not identify any significant issues that would require consideration as part of the annual audit opinion.

2.4.11 All Directors and the Chief Executive are required to complete a statement of assurance each year regarding the governance arrangements, including risk management and internal control arrangements for their areas of responsibility as part of the process to produce the Council’s Annual Governance Statement. Completed statements of assurance were received from all these officers. All directors confirmed that they were satisfied that “a sound system of governance was in place throughout the year ended 31 March 2020 and is ongoing”.

2.4.12 The audit approach used by the Council’s external auditors includes an evaluation of the Council’s internal control environment. The auditors gave an unqualified opinion on the Council’s financial statements for the year ended 31 March 2019 on 30 September 2019. They also concluded that the information published with the financial statements was consistent with their knowledge of the Council and with the audited statements. They were satisfied that proper arrangements were in place, in all significant respects, to secure economy,

efficiency and effectiveness in the Council's use of resources for the year ended 31 March 2019.

- 2.4.13 An external IT Health check of the Council's ICT perimeter network was carried out in May 2019, including an external network penetration test. The primary purpose was to check for security misconfiguration and other weaknesses that could lead to system compromise and access to sensitive or valuable information. The conclusion from the review was that the overall security posture of the perimeter network was strong.
- 2.4.14 The organisation carrying out the Internal IT Health Check in July 2019 confirmed that it was not able to compromise the corporate Active Directory domain during the time allocated for testing. This was primarily due to good practices being observed thought out. The review also found that the wireless configuration employed accepted best practices. The report included a summary of the key findings and recommendations for remediation with reference to the results of the assessment.
- 2.4.15 The Public Services Network (PSN) compliance of Council's ICT network was reviewed during 2019/20. The Council's evidence submission for the 2019/20 NHS DSPT was approved by the Council Senior Information Risk Officer. The relevant evidence required to achieve compliance has been independently reviewed and demonstrated that the IT infrastructure is sufficiently secure to connect to the PSN during the 12 months period to 4 November 2020. As such, it does not present an unacceptable risk to the security of the network. This provides assurance on the arrangements in place for the management and security of data and will enable the Council to continue to exchange data with NHS bodies.
- 2.4.16 The Council's IT infrastructure was assessed against the Cyber Essentials Scheme test specification in July 2019. The scope included servers, workstations, firewall hardware, anti-virus and software applications. The Council was assessed as achieving Cyber Essentials Plus certification.
- 2.4.17 Ofsted carried out a focussed visit of Children's Services in February 2020. The inspectors looked at the arrangements for decision-making for children who come into care and the quality of early care planning and placements. The report noted that senior leaders understand the strengths and areas for development within the service. While there have been improvements in some areas of service, progress remains slow in key areas of weakness that were identified at previous in sections.
- 2.4.18 The report concluded that leaders have recognised that, despite the local authority being judged to be good overall at the last inspection, there is significant work to do to ensure that this is sustained. It recognised that a new quality assurance framework has been introduced as part of the plan for practice improvement. This has led to an increase in the range of audit activity to support a greater understanding of practice.
- 2.4.19 Ofsted carried out inspections at six local authority settings during the year. These were judged as either good or outstanding. The settings either maintained or improved from their previous overall effectiveness assessments.
- 2.4.20 With regards to the Local Authority maintained schools, the number of schools that are providing a good or better education as deemed by Ofsted has risen again from 81% to 85%. This is broadly in line with National and regional averages. This progress is something that the School Improvement Board and Local Authority want to sustain. The rise is because of some schools moving from requiring improvement (RI) to good, some remaining consistently good and some on their way to outstanding through

good leadership. It is also due to the targeted support by the School Improvement Board along with the local authority for schools who were in an Ofsted window or who were vulnerable through data. Of the nine schools (14 in 2018/19) who are RI or lower three are academies or free schools, which in turn lowers the percentage overall for the borough.

- 2.4.21 With the introduction of the new Schools Inspection Framework in 2019/20, with the enhanced focus on the curriculum, the Council radically revised its school intervention strategy and devised a new Strategy for “Schools which require additional support”. This is an identified area that the School Improvement Board will be monitoring, along with the new separate judgements for personal development and behaviour and attitudes to ensure a multi-agency approach. The School Improvement Strategy Group (SISG) oversees this new approach.
- 2.4.22 Our planned work, other/unplanned work, follow ups and other sources of assurance has not identified any serious concerns in relation to the Council’s systems of risk management, control and governance.

2.5 Impairments/Restrictions in Scope

- 2.5.1 No limitations have been placed on the scope of work carried out by Internal Audit during 2019/20. Audit recommendations have been made based on the findings from each review. These have been discussed and agreed with the managers responsible for each area reviewed. Action plans have been agreed for each audit report issued. Implementation of the recommendations, as per the agreed action plans, is followed up to confirm that the agreed recommendations have been implemented.
- 2.5.2 The Head of Audit & Assurance has line management responsibility for the Council Insurance team in addition to Internal Audit. However, internal audit staff had no direct operational responsibility or authority over any of the activities audited in 2019/20. We can therefore confirm the organisational independence of the Internal Audit activity.

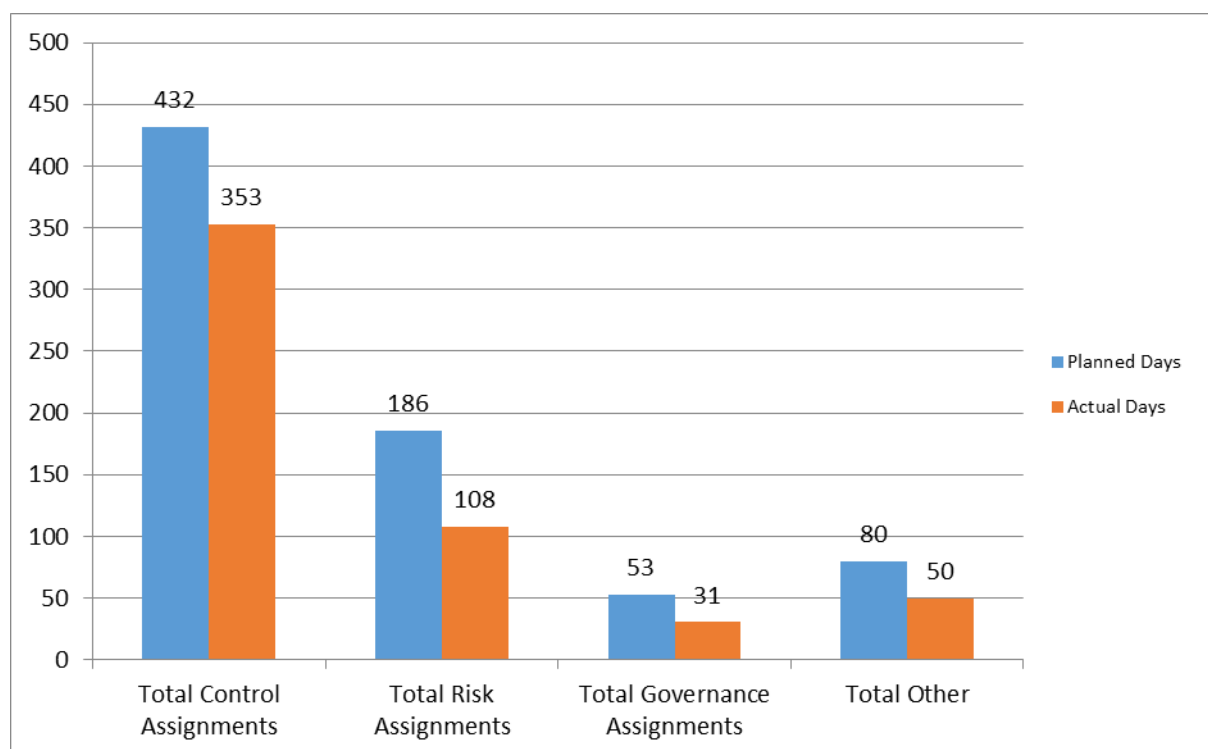
SECTION 3 – INTERNAL AUDIT PERFORMANCE/QUALITY ASSURANCE

3.1 Comparison of Actual and Planned Work

3.1.1 The Audit & Assurance Plan was approved by the Audit Committee on 16 April 2019 and it was then anticipated that Audit & Assurance would have staff resources amounting to 799 days for internal audit assignments and counter fraud work.

3.1.2 Internal Audit was able to deliver a total of 545 days (73.5%) against the approved Audit & Assurance Plan of 741 days, which can be summarised as follows:

Audit & Assurance Plan Against Actual 2019/20 (Days Achieved)



3.1.3 A revised Audit & Assurance Plan (reduced to an estimated 684 days for internal audit and counter fraud activity) was approved by the Audit & Governance Committee on 14 January 2020. The short fall in days arose due to delays experienced in recruiting to one of the Internal Auditor posts and the associated recruitment activity required to fill this post. This became vacant on 19 August 2018. There has also been additional management supervision time required for on the job training of the new staff, to ensure that their work meets that required standards. Additional support has also been provided to the Insurance team relating to the upgrade of the claims management software.

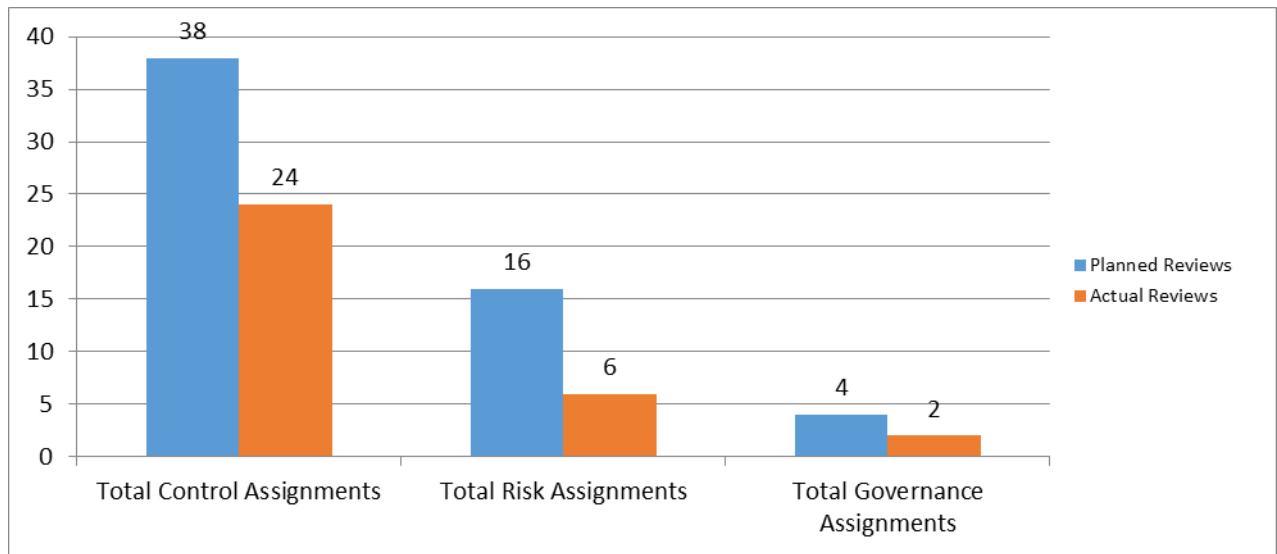
3.1.4 However, despite this the days achieved against the original and revised Audit & Assurance Plan are considered sufficient to provide an opinion on the effectiveness of risk management, control, and governance processes within the constraints that are being placed upon the Council and Audit & Assurance.

3.2 Key Achievements 2019/20

3.2.1 Despite the reduction days available Internal Audit was able to deliver sufficient audit assignments to provide an overall opinion on the risk, control and governance environment in place within the Council. The following exhibit shows Internal Audit was able to deliver 32 assignments, 45% less than those originally

planned (58). It should also be noted that 16 planned reviews were in progress at 31 March 2020.

Internal Audit Plan Against Actual 2019/20 (Assignments Delivered)



3.2.2 We consider that the volume of audit assignments completed in relation to risk management, control and governance, along with the other work carried out on these areas by Audit & Assurance staff is sufficient to allow us to provide an overall opinion on each of those Council processes.

3.2.3 The Audit & Assurance Plan is prioritised according to the level of risk associated with each audit assignment. A Priority 1 (highest level) assignment is “a strategic risk or fundamental review required to provide a statutory opinion for the Annual Governance Statement”. The 2019/20 Audit & Assurance Plan included ten Priority 1 audit assignments. All of these have been delivered in 2019/20, with the exception of the planned review of the budget setting and control arrangements. The previous review of this area, completed in November 2018, provided substantial opinions in respect of the control environment and compliance with the controls. The findings of these reviews did not identify any significant areas of concern which would affect the annual overall opinion provided.

3.3 Key Performance Information

3.3.1 The Finance & IT Department’s Business Plan and Audit & Assurance Plan included a number of measures to assess the performance of Internal Audit in terms of its achievement and quality. The actual performance against these targets for 2019/20 (together with the 2018/19 performance) is shown in the following table.

Internal Audit Performance 2019/20

| Performance Measure | Target | Actual 2019/20 | Actual 2018/19 |
|---|--------|----------------|----------------|
| Delivery of Priority 1 Audits | 100% | 90% | 100% |
| Planned Audits Completed Within Budget. | 90% | 70% | 70% |
| Final Reports Issued Within Deadline | 90% | 93% | 100% |
| Follow Ups Undertaken Within Deadline | 90% | 83% | 61% |

| Performance Measure | Target | Actual 2019/20 | Actual 2018/19 |
|-----------------------------|---------------|-----------------------|-----------------------|
| Recommendations Implemented | 90% | 91% | 90% |
| Client Satisfaction | 75% | 100% | 100% |
| Compliance with PSIAS | 95% | 99% | 99% |

3.3.2 The actual performance against these targets was reported to each Audit Committee meeting during 2019/20. Explanations were also provided where our performance did not meet the expected target.

3.4 Benchmarking

3.4.1 The Internal Audit team participated in the 2019/20 Lancashire benchmarking exercise. The results showed that the team's staff costs per full-time equivalent were comparable with similar authorities and the cost of audit per capita was below the unitary average for 2018/19 and 2019/20. The team had lower audit days per £million of turnover compared to similar authorities for the two years. This is a reflection of the lower staffing levels in the internal audit team compared to similar sized authorities.

3.5 Quality Assurance

3.5.1 The Quality Assurance & Improvement Programme (QAIP) was presented to the September 2016 Committee meeting. The QAIP covers all aspects of internal audit activity and enables conformance with the PSIAS to be evaluated. A key objective of the QAIP is to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. This is achieved through both internal and external assessments. A summary of the QAIP is attached at Appendix B.

3.5.2 During 2019/20 the Head of Audit & Assurance has had operational involvement in the ongoing quality monitoring process as a result of the staffing restructure. This has involved reviewing the work of the Principal Audit & Assurance Officers and quality assuring the final reports of all staff. This allows the Head of Audit & Assurance to ensure consistent application of the quality standards and to review the process to identify opportunities for improvement.

3.6 Statement of Conformance with the Public Sector Internal Audit Standards (PSIAS)

3.6.1 From 1 April 2013 Audit & Assurance has been required to comply with the requirements of the PSIAS. Our assessment is that we comply fully or partially with 330 of the 334 elements (99%) of the Standards. The areas of non-conformance shown in the table on the following page.

Exhibit 10: PSIAS Non-Conformance 2015/16

| Conformance with the Standard | No |
|--|-----------|
| 1300 Quality Assurance and Improvement Programme | |
| If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in (accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)? | 1# |
| 2450 Overall Opinion | |
| Does the annual report incorporate the following: | |
| h) The results of the QAIP? | 1* |
| i) Progress against any improvement plans resulting from the QAIP? | 1* |

- # The Accounts & Audit Regulations 2015 states that organisations are no longer required to undertake an annual review of effectiveness of internal audit as there is an overriding requirement to undertake an external assessment.
- * Section 3.5 and Appendix B of this report demonstrates the implementation of these actions.

3.6.2 This analysis shows that the Council’s Internal Audit function is generally in conformance with the PSIAS. Furthermore, the results of the PSIAS Peer Review assessment, carried out by independent Head of Audit colleagues from the North West Chief Auditors Group (NWAG), (reported to the April 2016 Committee meeting) confirmed that the Council’s internal audit team conforms to the PSIAS across all areas of focus:

Exhibit 11: PSIAS Summary Peer Review Assessment 2015/16

| Area of Focus | Judgement |
|--------------------------|------------------|
| Purpose & Positioning | Conforms |
| Structure & Resources | Conforms |
| Audit Execution | Conforms |
| Overall Judgement | Conforms |

3.7 Improvement Plans for 2019/20

3.7.1 No significant areas for improvement have been identified for 2019/20 from the results of the quality assurance process in place within Audit & Assurance. Following completion of the Audit & Assurance service review and the implementation of the revised structure the team has focussed on ensuring that it continues to deliver an effective and improving service. Audit management will continue to work with senior management to ensure that systems in operation to promote effective control, risk management and governance are adequate in the current evolving transformational climate. The team will also continue to maintain and improve its corporate visibility to take every opportunity to market itself to the organisation, particularly at lower levels of management and operational areas of management, emphasising the added value that it offers.

SECTION 4 – ANNUAL GOVERNANCE STATEMENT

4.1 Criteria for Identifying Issues Relevant to the Annual Governance Statement

4.1.1 The CIPFA (Chartered Institute of Public Finance & Accountancy) and APB (Auditing Practices Board) guidance suggests the following criteria should be applied when judging what may constitute a significant control issue for the purposes of disclosure in the Annual Governance Statement:

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant a diversion of resources from another aspect of the business;
- the matter has led to a material impact on the accounts;
- the issue or its impact has attracted significant public interest or has seriously damaged the reputation of the organisation; or,
- the issue has resulted in formal action being taken by the Chief Financial Officer or Monitoring Officer.

4.2 Issues Relevant to the Preparation of the Council's Annual Governance Statement

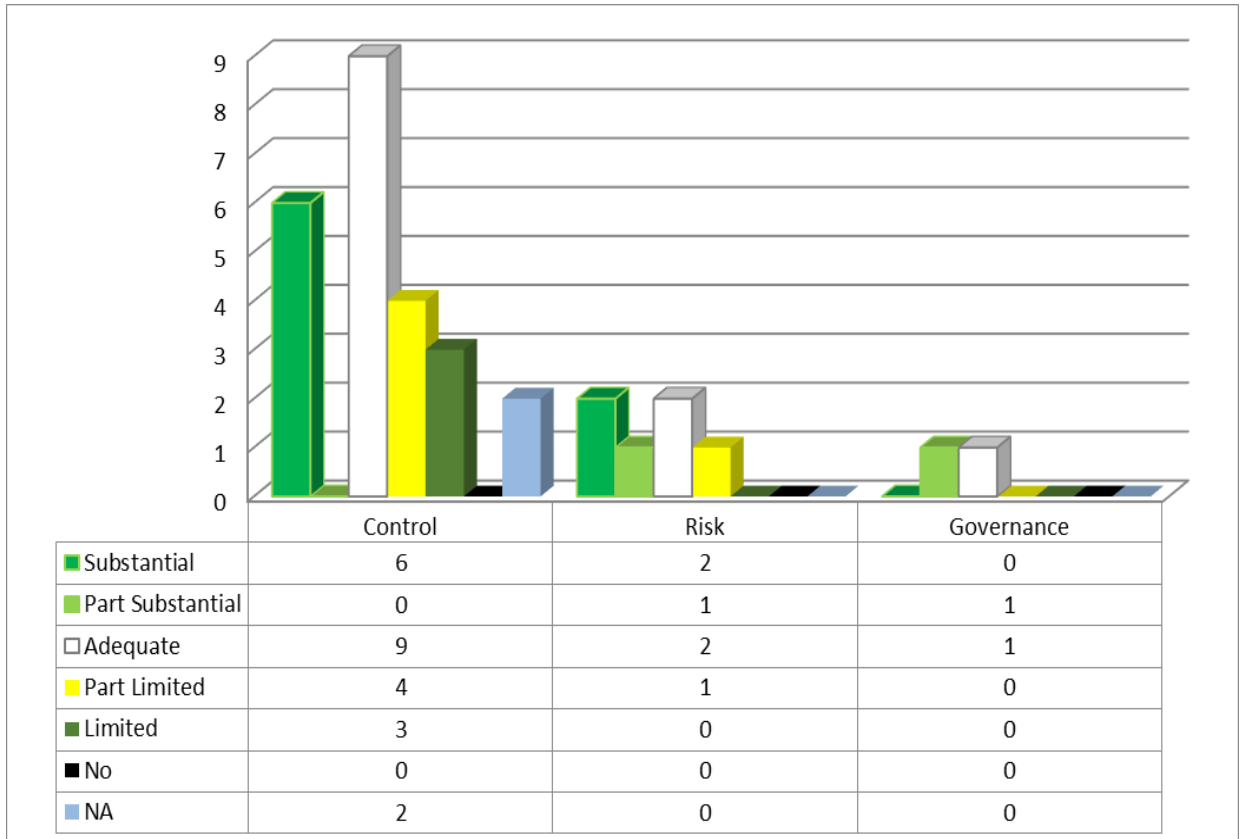
In my opinion none of the qualifications that inform the annual internal audit opinion constitute a material weakness in the Council's overall governance framework that requires disclosure in the Annual Governance Statement.

Audit & Assurance Plan & Actual 2019/20

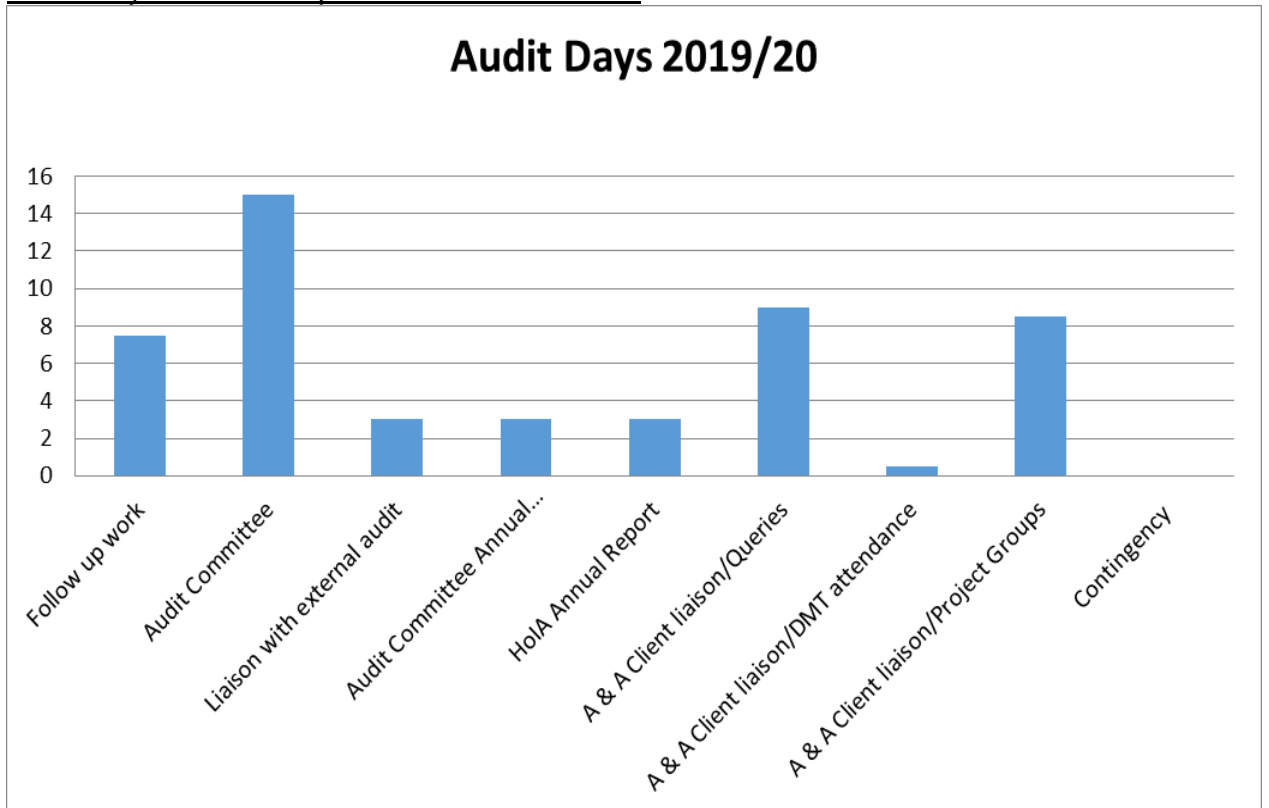
| Audit Assignment | CLASSIFICATION | Priority | 19/20 Day | Actual Day | Assurance Opinion | |
|---|----------------|----------|------------|--------------|-------------------|-------------|
| | | | | | Control | Compliance |
| Commissioning/Contract Management and Social Care Commissioning budget (WIP 2019/20) | Control | 2 | 10 | 8 | | |
| Volunteers/ Demand Management Strategy | Control | 2 | 10 | 0.5 | | |
| Commissioning/Contract Management | Control | 2 | 10 | 0 | | |
| Finance Transactional Team | Control | 3 | 10 | 0 | | |
| Petty Cash | Control | 3 | 10 | 8.5 | Adequate | Adequate |
| Audits of Schools Finance systems | Control | 3 | 60 | 16.5 | | |
| St Barnabas and St Paul's | Control | 3 | 5 | 9 | Adequate | Limited |
| Feniscowles Primary | Control | 3 | 5 | 8 | Substantial | Substantial |
| Roe Lee Primary | Control | 3 | 5 | 8.5 | Substantial | Substantial |
| Avondale Primary | Control | 3 | 5 | 10 | Adequate | Adequate |
| St Alban's Primary | Control | 3 | 5 | 10 | Limited | Limited |
| St Anthony's RC Primary | Control | 3 | 5 | 9 | Adequate | Adequate |
| St Thomas PRU | Control | 3 | 5 | 11.5 | Adequate | Adequate |
| The Redeemer | Control | 3 | 5 | 11 | Limited | Limited |
| Longshaw Nursery (WIP 18/19) | Control | 3 | 2 | 2.5 | Limited | Limited |
| Adoptions - Regional contract (WIP 2019/20) | Control | 3 | 10 | 1 | | |
| Football Foundation Investment - Witton park | Control | 1 | 10 | 10 | Substantial | Substantial |
| Museums (WIP 2019/20) | Control | 3 | 10 | 13 | | |
| Turton Tower (WIP 2019/20) | Control | 3 | 10 | 14 | | |
| Change control (WIP 2019/20) | Control | 2 | 10 | 2.5 | | |
| Local Transport Capital Funding/LTP Grant Certification Requirement | Control | 1 | 5 | 5.5 | N/A | N/A |
| Bus Subsidy Grant | Control | 1 | 5 | 4.5 | N/A | N/A |
| Building Control. Compliance with Building Control Performance Standards (WIP 2019/20) | Control | 2 | 10 | 6.5 | | |
| Arrangements re use of Contractor and Development Framework (WIP 2019/20) | Control | 2 | 10 | 3 | | |
| Reel Cinema - Capital Project. Project delays and budget over-runs for the Blackburn Cinema, Undercroft Carpark and Public Realm Scheme (WIP 2019/20) | Control | 2 | 10 | 4 | | |
| Commercial Property Rental Management | Control | 2 | 10 | 0.5 | | |
| New Section 106 Procedures | Control | 2 | 10 | 11.5 | Substantial | Substantial |
| Highways maintenance - procurement and contracting arrangements re highways external spend (WIP 2019/20) | Control | 2 | 10 | 11 | | |
| Income billing and collection - parking/bus lane enforcement and bereavement services (WIP 2019/20) | Control | 3 | 10 | 6.5 | | |
| Police & Crime Commissioner Grant | Control | 1 | 5 | 17 | Adequate | Adequate |
| Ownership disputes relating to sale of land and buildings | Control | 2 | 10 | 0 | | |
| RIPA processes - deferred to 2020/21 | Control | 2 | 10 | 1 | | |
| Governance and decision making and reporting arrangements | Control | 2 | 10 | 1.5 | | |
| Payroll - Core system/Failure of HR & payroll system incl staff & Mgr. self service (WIP 2019/20) | Control | 2 | 15 | 2 | | |
| Apprenticeship levy (WIP 2019/20) | Control | 2 | 10 | 12 | | |
| ResourceLink System | Control | 2 | 10 | 14.5 | Substantial | Substantial |
| Off payroll engagement (IR35) | Control | 3 | 5 | 0 | | |
| Main Accounting System - including account reconciliation's (WIP 2018/19) | Control | 2 | 10 | 18 | Substantial | Substantial |
| Creditors/E-Procurement (WIP 2019/20) | Control | 2 | 10 | 2 | | |
| Mosaic - Financial Assessment module | Control | 2 | 10 | 0 | | |
| Sundry Debtors | Control | 2 | 10 | 23.5 | Adequate | Adequate |
| Council Tax - (WIP 2019/20) | Control | 3 | 10 | 10 | | |
| Personalised budgets/Direct payments (WIP 2018/19) | Control | 2 | 3 | 5.5 | Adequate | Limited |
| Fostering recruitment, retention and payments (WIP 2018/19) | Control | 3 | 2 | 11 | Adequate | Adequate |
| Highways Asset Valuation/Data Management Strategy (WIP 2018/19) | Control | 2 | 7 | 9 | Adequate | Adequate |
| Payroll - Core System (WIP 2018/19) | Control | 2 | 2 | 8.5 | Adequate | Adequate |
| Mileage payments (WIP 2018/19) | Control | 3 | 0.5 | 10.5 | Adequate | Limited |
| VAT Mis management (WIP 2018/19) | Control | 2 | 0.5 | 0 | Adequate | Limited |
| Treasury/Cash flow Management | Control | 3 | 10 | 0 | | |
| Total 2019/20 Control Assignments (38) | | | 432 | 352.5 | 24 | 38 |

| Audit Assignment | CLASSIFICATION | Priority | 19/20 Days | Actual Days | Assurance Opinion | |
|---|----------------|----------|---------------|---------------|-------------------|-------------|
| | | | | | Control | Compliance |
| Client case management systems - Mosaic Access Controls | Risk | 1 | 10 | 28 | Substantial | Adequate |
| Homelessness Prevention Strategy - Impact of Universal Credit | Risk | 2 | 10 | 0 | | |
| Care Act 2014 - Mental Health Trust Arrangements - Deferred to 2020/21 | Risk | 2 | 10 | 1.5 | | |
| Protocol ICS System | Risk | 1 | 10 | 15 | Adequate | Limited |
| Ofsted Inspection Framework - Deferred to 2020/21 | Risk | 2 | 10 | 5 | | |
| Device Management/ Software licencing/Asset Management/PC Inventory Controls | Risk | 3 | 15 | 0 | | |
| Business Continuity/Disaster Recovery - WIP 2020/21 | Risk | 2 | 10 | 2.5 | | |
| Planning Performance Improvement Plan / New Planning system/Under performance on planning. | Risk | 3 | 10 | 0 | | |
| Health & Safety - Failure to comply with H&S legislation & Council standards | Risk | 3 | 10 | 0 | | |
| Deterioration of the highways network in particular road surfaces. HAMIS | Risk | 2 | 10 | 0 | | |
| Transport Procurement/Fleet Management - implement 2018/19 fleet vehicle replacement programme. | Risk | 3 | 10 | 0 | | |
| Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS | Risk | 1 | 10 | 1 | | |
| Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS (WIP 18/19) | Risk | 1 | 5 | 13 | Substantial | Substantial |
| Corporate Appointee/Guardianship | Risk | 3 | 10 | 0.5 | | |
| Partnership Scrutiny/Accountability | Risk | 3 | 10 | 0 | | |
| Social Media | Risk | 3 | 10 | 0 | | |
| Pupil Transport (WIP 2019/20) | Risk | 3 | 7 | 10.5 | | |
| YPS educational trips and visits risk assessment and approval system and process (WIP 2019/20) | Risk | 2 | 4 | 3.5 | | |
| Performance Indicators (WIP 18/19) | Risk | 3 | 6 | 7.5 | Adequate | Adequate |
| Growth Strategy (WIP 18/19) | Risk | 2 | 7 | 9.5 | Substantial | Substantial |
| Adults Care Assessment/Case management System (WIP 18/19) | Risk | 1 | 2 | 10.5 | Adequate | Adequate |
| Total 2019/20 Risk Assignments (17) | | | 186 | 108 | 6 | 17 |
| | | | | | | |
| Audit Assignment | CLASSIFICATION | Priority | 19/20 Days | Actual Days | Assurance Opinion | |
| | | | | | Control | Compliance |
| Health & Social Care Integration - Sustainability & Transformation Plan | Governance | 3 | 10 | 0 | | |
| Sports England Grant - Pennine Lancashire Pilot | Governance | 2 | 10 | 0.5 | | |
| Social Determinants of Health Fund - Governance | Governance | 2 | 10 | 0 | | |
| Social Determinants of Health Fund (WIP 18/19) | Governance | 2 | 2 | 14.5 | Adequate | Adequate |
| Equality Impact Assessments | Governance | 2 | 10 | 0.5 | | |
| Information Governance (WIP 18/19) | Governance | 1 | 6 | 14 | Substantial | Adequate |
| Review of Financial Regulations, SFIs, etc | Governance | 2 | 5 | 1 | | |
| Total 2019/20 Governance Assignments (4) | | | 53 | 30.5 | 2 | 4 |
| | | | | | | |
| Audit Assignment | CLASSIFICATION | Priority | 19/20 Days | Actual Days | Assurance Opinion | |
| | | | | | Control | Compliance |
| Other Audit Work | | | | | | |
| Follow up work | Governance | 1 | 10 | 7.5 | | |
| Audit Committee | Governance | 1 | 15 | 15 | | |
| Liaison with external audit | Other | 1 | 2 | 3 | | |
| Audit Committee Annual Report/Evaluation | Governance | 1 | 4 | 3 | | |
| HolA Annual Report | Governance | 1 | 4 | 3 | | |
| A & A Client liaison/Queries | Other | 2 | 10 | 9 | | |
| A & A Client liaison/DMT attendance | Other | 2 | 10 | 0.5 | | |
| A & A Client liaison/Project Groups | Other | 2 | 5 | 8.5 | | |
| Contingency | Other | 2 | 10 | 0 | | |
| Total Other | | | 70 | 49.50 | | |
| | | | | | | |
| Other Fraud Work | | | | | | |
| National Fraud Initiative (NFI) | Governance | 1 | 20 | 23.5 | | |
| Counter Fraud Annual Plan/Report | Governance | 1 | 4 | 1 | | |
| Proactive Fraud Testing | Governance | 2 | 10 | 4.5 | | |
| Reactive investigations | Governance | 2 | 15 | 24.5 | | |
| Review/Monitor Fraud Risk Register | Control | 2 | 5 | 0 | | |
| Fraud awareness and whistle blowing initiatives | Control | 2 | 4 | 0.5 | | |
| Counter Fraud Activities | | | 58 | 54 | | |
| | | | | | | |
| Total Internal Audit & Counter Fraud | | | 799.00 | 594.50 | | |
| | | | | | | |
| Other Risk and Governance Work | | | | | | |
| Annual Gov Statement | Governance | 1 | 10 | 11.5 | | |
| MAF and MAF Challenges | Governance | 1 | 10 | 16 | | |
| Risk Management Support | Risk | 1 | 5 | 7 | | |
| Road Risk Mgmt Group | Risk | 1 | 5 | 6 | | |
| Review/Monitor Corporate Risks | Risk | 1 | 5 | 0.5 | | |
| Review Monitor Departmental Risks | Risk | 1 | 10 | 0 | | |
| Business Continuity Champions Meetings | Risk | 1 | 2 | 1.5 | | |
| Risk Annual Plan/Report | Risk | 2 | 4 | 4.5 | | |
| Risk Management Activities | | | 51 | 47 | | |
| | | | | | | |
| Grand Total | | | 850.00 | 641.5 | | |

Summary of Internal Audit Opinions 2019/20



Summary of Other/Unplanned Work 2019/20



Appendix B

Summary Quality Assurance & Improvement Programme Activities

| Activity | Frequency | Responsibility | Reporting |
|--|-----------------|--|---|
| Internal Assessments – Ongoing Monitoring | | | |
| Review of internal audit charter, audit policies and procedures | Annual | Head of Audit & Assurance | Annual Plan to Audit & Governance Committee |
| Agree performance metrics for internal audit | Annual | Head of Audit & Assurance/Director of Finance & IT | Annual Plan to Audit & Governance Committee |
| Allocation of audit assignments to appropriate internal auditors | Each Assignment | Head of Audit & Assurance/Principal Audit & Assurance Officers | Annual Report to Audit & Governance Committee |
| Review of audit assignments | Each Assignment | Head of Audit & Assurance /Principal Audit & Assurance Officers | Annual Report to Audit & Governance Committee |
| Moderation and approval of internal audit reports | Each assignment | Head of Audit & Assurance/ Principal Audit & Assurance Officers | Annual Report to Audit & Governance Committee |
| Customer survey/questionnaire | Each Assignment | Head of Audit & Assurance/Principal Audit & Assurance Officers | Quarterly Progress Report to Audit & Governance Committee |
| Analyse performance metrics of internal audit activity | Quarterly | Head of Audit & Assurance | Quarterly Progress Report to Audit & Governance Committee |
| Discuss performance of internal audit activity | Monthly | Head of Audit & Assurance | Team Meeting Minutes |
| Discuss performance with individual internal auditors | Monthly | Head of Audit & Assurance/Principal Audit & Assurance Officers | HolA 121s and Finance & CS DMT |
| Internal Assessments – Periodic Self-Assessments | | | |
| Self-Assessment against PSIAS | Annual | Head of Audit & Assurance | Annual Report to Audit & Governance Committee |
| Review of QAIP | Annual | Head of Audit & Assurance | Annual Report to Audit & Governance Committee |
| Progress against the audit & assurance plan/completion of priority 1 audits | Annual | Head of Audit & Assurance | Review of Audit Plan to Audit & Governance Committee |
| Appraisal of Head of Audit & Assurance | Annual | Director of Finance & CS/Chief Executive/Chair of Audit & Governance Committee | Finance & CS DMT |
| Appraisal of auditors including objective/target setting against agreed skills & competencies. | Annual | Head of Audit & Assurance/Principal Audit & Assurance Officers | Finance & CS DMT |
| Client Satisfaction Survey | Annual | Head of Audit & Assurance | Annual Report to Audit & Governance Committee |
| Benchmarking review of internal audit services | Every 3 Years | Head of Audit & Assurance | Annual Report to Audit & Governance Committee |
| External Assessments | | | |
| Assessment against PSIASs | Every 5 Years | Head of Audit & Assurance | PSIA Report to Audit & Governance Committee |



Blackburn with Darwen Borough Council

**Annual Governance Statement
For the year ended 31 March 2020 and up to the
date of the July 2020 Audit & Governance
Committee**

ANNUAL GOVERNANCE STATEMENT

Foreword by the Chief Executive – Chair of the Primary Assurance Group

Blackburn with Darwen Borough Council recognises that there always will be risks that it must manage effectively. Whilst it recognises that due diligence will not always ensure that it gets things right first time, it continues to put in place assurance frameworks and enhance existing arrangements that are intended to ensure that its system of governance is fit for purpose and has flexibility to meet the challenges that the change agenda brings.

The Resources Directorate has continued to promote the Council's strategic approach to governance and assurance. The key developments and on-going arrangements in governance 2019/20 included the following:

- Continuing review and refresh of the Council's Constitution.
- Implementation of a revised format for Management Board meetings to increase the focus in the right areas.
- Completion and review of director assurance statements, which closely reflect the seven principles of good governance in support of the Annual Governance Statement.
- The May 2019 External IT Health Check Review, which included penetration testing, found that the overall security posture of the Council's perimeter IT network was strong.
- An Internal IT Health Check to check for IT security misconfiguration and other weaknesses, which could lead to system compromise and access to sensitive or valuable information.
- The Council's evidence submitted for the 2020/21 NHS Data Security and Protection Toolkit DSPT exceeded the standards required to achieve compliance and has enabled the Council to continue to exchange data with the NHS.
- Assessed as achieving Cyber Essentials Plus certification requirements.
- The IT infrastructure was assessed as sufficiently secure to connect to the Public Services Network.
- Continuing embedding of information security awareness through the refresh of the e-learning toolkit, and monitoring staff completion of training.
- On-going participation in the National Fraud Initiative.
- Ongoing use and review of the risk register template to improve the monitoring arrangements.
- Revision of the Medium Term Financial Strategy and Capital Programme.
- Annual Audit & Governance Committee self-assessment arrangements to evaluate its effectiveness.
- Work was carried out to assess the risks associated with, and prepare for a 'no deal' EU exit in collaboration with external partners under the Lancashire Resilience Forum, the Local Government Association and regional Chief Executives reporting into the Ministry of Housing Communities & Local Government and other Government departments.
- The effective management of the European and UK election arrangements with the Borough.
- The on-going formalised, structured member training and development programme including mandatory and optional courses.
- The Audit & Governance Committee routinely inviting senior officers to attend meetings and holding them to account for actions to address any significant issues identified by Audit & Assurance as part of the annual Internal Audit programme.
- The review of significant partnerships and external bodies that the Council is represented on, to confirm the Council representation is appropriate and the governance arrangements in place are adequate.
- Detailed review and challenge of corporate risks by the Audit & Governance Committee.
- The 2018 Local Government Association (LGA) Corporate Peer Challenge concluded that the Council demonstrates a deep understanding of its local place and the challenges and opportunities these present for communities across Blackburn with Darwen.

SCOPE OF RESPONSIBILITY

Blackburn with Darwen Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Audit & Governance Committee fulfils the core functions of an audit committee, as identified in CIPFA's *Audit Committees - Practical Guidance for Local Authorities and Police (2013 Edition)*. It monitors and responds to the work of internal and external audit and has overall responsibility for reviewing the framework of corporate governance.

The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government 2016". A copy of the Code is on our website at www.blackburn.gov.uk; it is contained within the Constitution. This statement explains how Blackburn with Darwen Borough Council has complied with the code and it meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and it can therefore only provide reasonable, and not absolute, assurance of effectiveness. It is based on a continuous process that is designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of both those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Blackburn with Darwen Borough Council for the year ended 31 March 2020 and up to the date of approval of the annual statement of accounts.

THE GOVERNANCE FRAMEWORK

The Council has had robust corporate governance and management arrangements in place for many years which have led to good financial management, the delivery of efficiencies and planned investment in priorities. The Council is already implementing improvements to these business systems and processes.

Some of the key features of the governance framework are set out in the following paragraphs.

1. Identify and communicate the vision and intended outcomes for citizens and service users.

A key part of the corporate culture at Blackburn with Darwen Borough Council (BwDBC) is for residents, elected members and staff to have a clear overview of the Council's priorities for service delivery. This is communicated in the form of a published Corporate Plan.

In March 2019, Council Forum agreed the refresh of a new corporate plan for 2019-2023. Following extensive consultation with residents, staff and members the plan was developed to acknowledge the continuing reductions in funding the Council has experienced since 2010. The new plan allows the Council to outline how it will meet these challenges whilst continuing to provide services to a standard that residents are accustomed to. The new corporate plan was launched after Annual Council in May 2019 and is published on the Council website.

Corporate Plan targets are monitored at departmental management team meetings prior to being taken to six monthly challenge meetings, at quarter 2 (half-year reporting) and quarter 4 (year-end reporting) with directors from Resources, People and Place, the Chief Executive, a policy, research and partnerships officer and officers from audit and assurance.

The challenge meetings provide a robust integrated performance challenge framework that focuses on identifying key issues and cross-cutting problems from the Corporate Plan performance metrics, Management Accountabilities Framework (MAF) dashboard reports and HR issues, such as sickness and Health & Safety, are also challenged for all portfolios. Highlighted issues are discussed fully and remedial actions agreed.

Priority issues are highlighted for progression to Management Board prior to being included in the Executive Board or Policy Council performance reports which are challenged at Policy Development Sessions (PDS) by the leader and executive members prior to final overall performance reporting and challenge at Executive Board or at Policy Council.

The LGA Corporate Peer Challenge in December 2018 noted that the Council benefits from widely respected political and managerial leadership. The confidence that partners have in the Council is in part inspired by its track record in stepping up to its responsibilities in partnerships across Lancashire and by its ability to deliver. Political and managerial leaders are experienced and, along with wider membership of the Council and staff, are passionate and committed to the area. This gives the Council a clear understanding of the place and its communities.

The Medium Term Financial Strategy (MTFS) is reviewed at Finance Council, and builds upon the priorities agreed at Policy Council and identified within the Corporate Plan.

2. Review the Corporate Plan and Vision and translate into objectives for the authority and its partnerships.

The Council's corporate plan 2019-2023, has been developed for everyone - councillors, staff, partners, residents, businesses – who can all support the Council and the Borough in being the best it can possibly be. We cannot do this on our own. We need our public and private sector partners to work with us to create jobs; build and improve homes; increase skills and qualifications; support communities; improve health and wellbeing etc.

The Council continues to work in partnership with other organisations in many different partnerships, with other councils, businesses, public sector bodies as well as the voluntary, faith and community sector.

It values these Partnerships, and these are evident in established mature partnership structures, e.g. Health and Well-being Board, The Hive business network and more recent over the last 18 months the development of the Our Communities, Our Future Board.

In working with MHCLG the four priorities in Blackburn with Darwen's Our Community, Our Future strategy are:

1. To increase economic prosperity for all the borough's communities as an essential prerequisite for social integration
2. To strengthen relationships between the borough's diverse communities (focussed predominantly on adults)
3. To build connections and strengthen relationships between young people who live in the borough's diverse communities
4. To connect the borough's disadvantaged communities to shared spaces – linking people and neighbourhoods to zones of employment, physical assets, community shared spaces and social action.

We are also working with Sport England, leading on Pennine Lancashire's 'Together an Active Future' partnership, which is moving forward into the £3m Pathfinder phase. This exciting 'test and learn' period will enable the six Local Authority areas to work together with people and partners to create ideas and test different solutions that can be used to understand why not enough people access the wide range of activities, that are already available in Blackburn with Darwen, and to change ways of working to better support people who are inactive and affected by poor mental wellbeing. However, the Pilot will, through whole system change, look to have a direct impact on the whole population, the majority of whom experience below average health and wellbeing and could benefit from increased levels of physical activity.

The LGA Corporate Peer Challenge team found that partners have confidence in the Council, both locally and across the region. The Council is seen as an effective partner across the region, able to step up when partners have had to address other issues.

At the same time as developing the Corporate Plan and ambition, the Council's policy, research and partnerships team worked with officers to identify what will be done to

deliver the ambition and how progress against this delivery will be measured. The success of the Corporate Plan will be measured through a new performance management framework with Key Performance Indicators (KPIs) which are measurable and meaningful.

The policy, research and partnerships team also work with service departments to ensure that appropriate responsibilities for delivery are built into departmental business plans.

3. Measure the quality of services for users.

In autumn 2018, the Council undertook a resident survey to gain a better understanding of the opinions and views of residents and their priorities. Survey methodology was via a random sample postal survey and an online survey published on the Council website.

Respondents reported the highest level of satisfaction with refuse collection and doorstep recycling (68%) and sport and leisure facilities (66%) out of the services listed. Almost three quarters (73%) thought that the Council promotes a good image of the Borough 'a great deal' or 'to some extent'. A large proportion also felt that the Council treats all types of people fairly 'a great deal' or 'to some extent' (67%) and uses new technology to deliver services well (63%).

Customer / resident satisfaction with the services they receive, for the council tax that they pay, has always been a key priority for the Council, and as such a key measure (95.5% collection of Council Tax) is included in the current Corporate Plan. Customer service is an embedded principal in all council work and specific arrangements exist within statutory services around adults and children social care.

4. Define and document the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.

The Council is legally and constitutionally obliged to maintain and keep up to date its constitution. The Council Constitution is reviewed and updated annually. This includes changes in organisational structure previously noted and agreed, statutory changes and changes to the delegations.

The annual update also reviewed Executive Member portfolio responsibilities and the Council's strategic objectives. Amendments are made as necessary during the course of the year to reflect changes in the law and others changes which would require full Council approval.

The Council has adopted the Executive and Leader model. The Council's Constitution sets out the relative roles and responsibilities of Executive and, Officers and Committees of the Council. It defines, through the procedure rules, how day-to-day activities must be undertaken and it allocates statutory responsibilities to named individuals. The decision-making processes are also defined by the Constitution and Executive Member decisions and "key decisions" may only be taken after both the Finance and Legal departments have been consulted.

The respective roles of the Section 151 Officer, Monitoring Officer and Senior Information Risk Officer (SIRO) ensure legality, financial prudence and transparency in transactions in accordance with legislative requirements.

A more efficient internal management structure was implemented during the year through the reduction of the executive level posts from two to one. This took effect from 1 May 2019. The retirement of the previous Chief Executive enabled the Council to benefit from the opportunity this presented through the appointment of the previous Deputy Chief Executive to the Chief Executive post. This enabled the Council to retain the experience, knowledge, skills and abilities within the Council, enabling a smooth transition to take place.

A revised format has been implemented for Management Board meetings. This has increased the Board's focus in the right areas and improved its effectiveness as a senior team. Themed meetings take place each week over a four-week cycle and cover Strategy, Improvement, Effectiveness and Extended Leadership. This has provided flexibility to discuss items such as borough events, elections, Brexit, constitutional matters, urgent operational issues and planning for member meetings. Team activities have also been undertaken to develop Management Board working together effectively as a group.

The Council is proactive in supporting the development of partnership bodies both with other public sector agencies, like health and the police, and with representation from the business and community sectors. The policy, research and partnerships team produce an Annual Significant Partnerships Governance checklist which is reviewed and audited by internal audit prior to the final report being taken to Audit & Governance Committee. Governance arrangements are also set out in the Constitution.

The Council has introduced a procedure for recording and publishing decisions made by officers, in line with the Government's transparency agenda and the Access to Information Procedure Rules in the Constitution. Such decisions are subject to the scrutiny arrangements outlined in the Constitution.

The LGA Peer Challenge team reported that members from all parties feel able to challenge the executive through scrutiny, without a detrimental impact on relationships and that the use of scrutiny appears appropriate.

5. Develop, communicate and embed the codes of conduct and define the standards of behaviour for members and staff.

The Council Constitution contains codes of conduct for Members and staff. New Members accept their code of conduct as part of their Acceptance of Office declaration. They are also provided training on the Code of Conduct as part of their induction. All Members need to complete and submit a 'General Notice of Registrable Interests' form, which includes information relating to gifts, hospitality and pecuniary interests. These are published on the Council website. New staff appointees sign the staff Code of Conduct as part of their induction. In addition, each Department maintains a register of gifts and hospitality and of personal interests, in accordance with the Standing Financial Instruction 12 – Register of Personal Interests. The Employee Code of Conduct is reflected in the Constitution.

6. Review the effectiveness of the decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.

The Constitution provides the framework for decisions making. It includes delegations to various committees, Executive Members and officers, and also scrutiny arrangements for holding decision makers to be held to account. The decision making process is set out in Article 13 of the Constitution and responsibilities are identified in Part 3. These are reviewed and updated where necessary, to reflect any changes required, and approved at Annual Council each year as part of the review of the Constitution. The Monitoring Officer also holds and maintains a record of sub-delegations by each Chief Officer, and is also responsible for ensuring lawfulness and fairness of decision making.

External formal monitoring of the Council's data quality arrangements are no longer required by external audit. However, the Council's previous monitoring arrangements have continued to be operated. Council processes have been reassessed in light of the requirements of the Single Data List published by the Department for Communities and Local Government. Training and awareness raising sessions continue to be delivered as and when required, alongside formal checks on performance indicator files and monitoring / recording processes. The Data Quality Policy (Performance Data) was revised in April 2019 to reflect the changes in reporting arrangements and staff within the Council. The policy will be refreshed again in 2020/21.

Work is continually underway to assess the Council's compliance with the Government's Code of Practice on Transparency, and any areas recommended for improvement will be addressed and monitored through existing data quality arrangements.

Over the course of the year the Council has continued to carry out and record equality analysis and impact assessments as a key stage in the decision making process.

The Council revised its Equality Impact Assessment (EIA) Toolkit and reviewed its decision-making processes in 2016/2017 to embed a robust and mandatory process which helps demonstrate due regard of the impact of service reviews on protected groups, staff and local residents, whilst ensuring a level of bureaucratic balance with the introduction of a new 'screening' element to the EIA process and in line with legislative requirements.

Senior Management Teams (SMT's) and Elected Members within their respective service areas are engaged in understanding the outcomes of consultations and the impacts of decisions as part of the organisational transformation and downsizing.

The annual Audit and Assurance Plan and supporting Strategic Statement set out the internal audit resources and skills required to deliver an effective internal audit service for the Council. The staff resources are considered adequate for the Council's current needs to ensure that it meets the requirements of the Accounts and Audit Regulations. The resources are prioritised to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes for the higher priority areas identified in the annual Audit and Assurance Plan, which is approved by the Audit & Governance Committee at its meeting in April each year. Reviews of these areas are required to inform the annual internal audit opinion which contributes to the Annual Governance Statement.

7. Review the effectiveness of the framework for identifying and managing risks and demonstrate clear accountability.

Overarching responsibility for risk management lies with the Management Board. Members of the Management Board are identified as owners of the risks identified in the Corporate Risk Register. The corporate risk register is considered by Management Board on a six monthly basis. Risk management reports, including a summary of the corporate risk register, are also presented at each Audit & Governance Committee meeting. The Committee also carries out a detailed review and challenge of a selection of corporate risks on a regular basis during the year.

The Corporate Risk Management Strategy and Framework 2015/20 sets out the structure of the risk management groups and risk management roles and responsibilities. It also includes the terms of reference for the groups responsible for monitoring risk management arrangements and activity, and includes risk management guidance for decision makers and self-challenge questions for report writers. The Risk Management Toolkit and risk register provide a consistent approach to risk management across the Council. Each department has its own risk register and is required to consider risk at each departmental management meeting.

The Executive Member and Executive Board Decision templates include a section to record and consider key risks as part of the decision making process. The Management Accountability Framework (MAF) Director's Exception/Dashboard Report also contains links to the departmental and corporate risk registers, which Directors are required to review. The Directors MAF Assurance Statement declaration includes an acknowledgement of Directors' responsibility to maintain and operate sound corporate governance, control and risk management arrangements within their Departments.

Directors are required to confirm that there are sound corporate governance, control and risk management arrangements operating within their Departments, in accordance with the Council's procedures and practices that uphold the Code of Corporate Governance, on a six monthly basis, to identify any areas of concern and action that they are taking to address these, via their MAF Dashboard Report. This is report reviewed along with progress against the Corporate Plan priorities, as part of the Programme Area Meetings and reported to the Chief Executive and the Audit & Governance Committee through the MAF thematic summary.

The six monthly assurance statement covers the effectiveness of the internal controls risk management and governance arrangements within Departments and relevant corporate risks. This includes safeguarding assets, monitoring compliance with Council policies and objectives, budget management, risk management, and health and safety. MAF is an evolving process and refinements and extensions to its coverage will continue.

The Primary Assurance Group (PAG) draws together the sources of assurance, including those provided through MAF, and, having challenged them, produces the Annual Governance Statement for consideration by the Audit & Governance Committee and the Chief Executive. The PAG is chaired by the Chief Executive and has the Monitoring Officer, Senior Information Risk Owner and Section 151 Officer as members. The Chair of the Audit & Governance Committee also attends the meeting to oversee the annual governance process.

The Council produces integrated financial monitoring reports covering revenue and capital expenditure. The Council introduced a new Financial Management System from 1st April 2017, this produced immediate working efficiencies, cost savings and facilitated the production of more timely and detailed information to Members and Officers at all levels. The system has continued to be developed during 2018-19 and 2019-20 and continues to produce cost and working efficiencies both within the Finance Department and the Council as a whole.

The Departmental Business Continuity Plans and the Functional Emergency Plans are constantly being reviewed and streamlined. Over the last two years, all of the departmental business continuity plans have been reviewed and updated through a Quality Assurance audit process. This process challenges each service area in departments requiring evidence or actions in response to questions asked, then providing a score as a result of the information input. The Emergency Plans now have Standard Operating Procedures (SOPs), essentially a “plan on a page” to assist Strategic Officers quickly assessing information when/if they have to attend the Strategic Co-ordinating Centre at Police Headquarters. This will be replicated for the Departmental Business Continuity Plans. The Corporate Business Continuity plan is being refreshed in order to reduce the cross referencing between it and departmental plans with the aim of a single plan with departmental annexes. The Corporate BC Plan will contain all Critical Functions, priority tiers of staff, essential fuel users and essential prioritised services at the White Dove Centre in times of IT outage etc.

The corporate Emergency and Business Continuity plans are tested annually in alternate years. The corporate exercise for 2019/20 was Emergency Planning with a view to testing the Multi-agency Flood plan with partners; however, this was changed to test the Corporate BC plan with the LRF Pandemic Influenza Plan as Covid-19 has just been declared a national and global emergency. This was then subsequently cancelled due to the wholesale response to the emergency. The Corporate BC plan was activated which in turn activates all departmental plans. We are still in the response phase of this global emergency and all departmental plans are flexing to meet the needs of each department. A group conversation has confirmed this with revisions to plans underway.

The Resilience & Emergency Planning Service delivers an annual corporate training programme to staff and volunteers to ensure that they are all trained in their roles they are either expected to perform or volunteer to perform for the Council. The Resilience & Emergency Planning Service is currently working through a resilience promotion to schools in the borough and particularly Year 5 pupils who are being encouraged to promote community resilience. This was launched nationally in Autumn 2018 and revised and sent out to local schools again in 2019; we are also working with schools on their resilience in their emergency preparedness and response to an emergency or disruption. This is now a mandatory service provision to all Community Schools in the borough. The Resilience & Emergency Planning Service has also worked on the Council’s preparedness for the potential implications of a “no deal” EU Exit with partners.

The Corporate Health and Safety policy clearly states that health and safety is the responsibility of **all** employees and managers within the Council, with clear leadership from Chief Officers. The Chief Executive retains overall responsibility for the management of health and safety in the Council. The Policy, which was updated and

reissued in May 2019, along with the system of safety procedural and guidance documents, outline the arrangements in place to meet the Council's statutory duties.

The Health and Safety Committee meet quarterly for senior managers to discuss key issues and actions taken to address these. Accident, incident and near miss statistics and trends are reported at this forum and improvements to health and safety are discussed and agreed. Incident data is also provided to Chief Officers on a monthly basis. Health and Safety Task Groups and Task and Finish Groups are also commissioned from time to time as appropriate.

Employees receive health and safety training upon induction and in line with role requirements thereafter. A range of classroom courses and e-learning training is available to all members of staff. Further to re-issuing the Health and Safety Policy in 2019, the Chief Officers agreed to some mandatory health and safety e-learning for all employees, to be refreshed on a 3 yearly basis. Currently these are Health and Safety in the Workplace, Manual Handling and Fire Safety Awareness.

A rolling health and safety audit programme is in place for the Council, with higher risk departments and services prioritised. Service Level Agreements are offered to schools across the Borough for a health and safety service, with over 40 schools purchasing this service from the team. During recent months in lockdown due to COVID-19, we have continued to work closely with both schools and council teams, reviewing risks and supporting their plans for a safe return to the workplace. Our service provision will continue and we will look for new and innovative ways to deliver this.

8. Ensure effective counter-fraud and anti-corruption arrangements are developed and maintained.

The Audit & Assurance Team takes part in the National Fraud Initiative on behalf of the Council and monitors the completion of the fraud awareness e-learning package by staff. It also monitors whistle-blowing calls and emails received by the Council and carries out investigations into reports of potential or suspected fraud and non-compliance with financial policies and procedures or financial irregularities.

The Council's Counter Fraud Policy Statement and Strategy 2016/2021 was approved in March 2016. The Statement and Strategy have been prepared in accordance with the CIPFA Code of Practice on managing the risk of fraud and corruption for public service organisations (2014). The document sets out the Council's approach to the management of fraud risks and defines responsibilities for action.

Having considered all the principles, the organisation has adopted a satisfactory response that is appropriate for the fraud and corruption risks identified and commits to maintain its vigilance to tackle fraud.

9. Ensure effective management of change and transformation.

The Council is continuing the implementation of its digital vision for the Borough. The work on this area is monitored by the Modern Working Design Authority. The Modern Working Plan supports the Council's vision of leading a skilled and modern workforce with a positive workplace culture equipped with the right technology and new ways of working to deliver better service.

The Modern Working Design Authority now monitors the Council transformation agenda. This provides a single view of the work being done on this agenda across the Council, and for the benefit of its residents, and is in accordance with the recommendation of the LGA Peer Review regarding this process. The Design Authority maintains a consistent, coherent and complete perspective of the Modern Working programme design. The aim is that business operations can be changed and benefits secured in a coordinated manner across the organisation to remove barriers, maximise the use of new technology and explore new ways of working to enable us to work smarter, more efficiently and achieve better outcomes.

10. Ensure the financial management arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016)*.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

11. Ensure the assurance arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2010)*.

The Council's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

The Statement identifies that the Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- i. championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- ii. giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit:

- iii. must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit & Governance Committee;
- iv. must lead and direct an internal audit service that is resourced to be fit for purpose; and
- v. must be professionally qualified and suitably experienced.

12. Ensure effective arrangements are in place for the discharge of the monitoring officer function.

The functions of the Monitoring Officer are set out in the Council's Constitution. The role of Monitoring Officer forms part of the specific responsibilities of the Director of HR, Legal and Governance.

13. Ensure effective arrangements are in place for the discharge of the head of paid service function.

As Head of the Paid Service, the Chief Executive is responsible for ensuring that Directors and Members both understand the need for sound internal controls and governance arrangements and to apply these in practice.

14. Undertake the core functions of an audit committee.

The Audit & Governance Committee provides independent assurance and high level focus on the audit, assurance and reporting arrangements, which underpin good

governance and compliance with financial standards. It provides independent assurance on the adequacy of the risk management framework, and internal control environment and to the extent that these meet the objectives of the Local Code of Corporate Governance. It oversees the internal and external audit arrangements, helping to ensure efficient and effective assurance arrangements are in place. This includes the integrity of financial reporting and annual governance processes. It also provides independent scrutiny of the Council's financial and non-financial performance to the extent that it affects its exposure to risk and weakens the control environment.

The Audit & Governance Committee is responsible overall for monitoring compliance with policies and procedures and for setting defined standards, where need be; this includes responding to reports from the Council's external auditor.

The Audit & Governance Committee has continued to monitor its own effectiveness against the criteria outlined in the CIPFA Audit Committees Practical Guidance for Local Authorities and Police (2018 Edition). The overall results reported to the Committee in January 2020 showed that there is a strong belief by its members that the Committee is operating effectively.

15. Ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

Directors are responsible for ensuring that, within their areas of responsibility, they establish and maintain effective systems of risk management, governance and internal control, complying with legislation, grant rules, the Council's own rules, etc. This includes both responding to recommendations by internal and external inspection processes and working with partner organisations.

A key element of assurance available to the Council and the Audit & Governance Committee are the assurance statements made by each of the directors that support the Annual Governance Statement. These require each director to take personal responsibility for the operation of adequate and effective governance and internal control systems within their departments, which include compliance with applicable laws and regulations. The directors' assurance statements closely reflect the seven CIPFA/SOLACE principles of good governance and the Council's Local Code of Corporate Governance.

The Council's evidence submission for the 2020/21 NHS Information Governance Toolkit (now known as DSPT) was submitted and uploaded by the Council's Data Protection Officer on 20th March 2020. This has been accepted by NHS assessors and published on the DSPT website. The Council can confirm that it has uploaded the relevant evidence against the 56 modules required to achieve compliance. This will enable the Council to continue to exchange data with NHS bodies.

Risks identified during 2019/20 relating to the failure to comply with the Subject Access Provisions in the GDPR2016, have been slightly reduced owing to an additional 1FTE resource provision within Children's Services. The Council still has a number of outstanding subject access requests that carry risk of noncompliance with legislation as they are significantly overdue. The consequences of this risk include enforcement action and potential civil monetary penalties issued to the Council by the Information Commissioner. The statistics on compliance will continue to be escalated to management board via the Quarterly SIRO report.

The IG team continue to provide advice, guidance and assistance in the relevant areas of legislation and have appropriate Information Security Examinations Board qualifications in Data Protection and Freedom of Information. The IG Manager has successfully completed the General Data Protection Regulation Practitioner Certificate and has formally absorbed the Data Protection Officer (DPO) role on behalf of the Council into her Job Description. The DPO is a mandatory appointment under the GDPR2016.

Audit & Assurance produces an internal audit charter and annual plan which are approved by the Audit & Governance Committee. The annual plan examines the Council's systems of risk management, control, and governance. It reports to individual managers on the outcomes of its audit reviews, agreeing management actions with them. It also regularly reports to the Audit & Governance Committee on the progress and outcomes of its planned work. At the year end, it produces a mandatory Head of Internal Audit opinion report, which is part of the Annual Governance Statement process. Routinely during the year Audit and Assurance reports to the Chief Executive and Audit & Governance Committee on governance matters of particular importance through its independent reviews of MAF Exception reports.

16. Whistleblowing and for receiving and investigating complaints from the public.

The Council's Whistle-blowing and Corporate Complaints Policies are available on the Internet. Both define what steps will be taken in investigating complaints or allegations of potential or suspected fraud or irregularity from staff or members of the public.

17. Identify the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

The Council remains committed to elected member training and development, and continues to assess the development needs of all Elected Members. A training needs assessment is carried out following Council elections. There is a robust induction programme for newly elected members to the Council and portfolio areas. The Council also maximises the development opportunities offered by North West Employers Organisation. The Council has also developed more on-line training so that this is available in a more flexible way.

The Council needs to consider the development needs and resilience of senior officers and ensure that these officers have the required knowledge, skills and experience to deal with the public sector reform agendas. The Council has invested in a Senior Leadership programme for Management Board and will be further investing in the development of Heads of Service.

18. Establish clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

As well as a constantly updated online version of The Shuttle a hard copy magazine called the Shuttle Extra is now published annually and delivered to homes throughout the borough. Both the hard copy and online versions contain latest news, decisions and service updates and information about the Council budget and Council Tax. Automatic updates whenever a new article is published on the Councils website are also available via social media channels. Media enquiries are dealt with promptly following agreed protocols. Commercial services across the council also operate their own marketing.

Stakeholder communication is part of normal service delivery both at a corporate level and within services and projects.

The Council is committed to working together with residents; businesses and partners, to develop a local solution to local problems. By making volunteering easier and working with these groups, the Council is supporting and helping to implement their ideas to improve their streets, neighbourhoods and towns.

A redesigned Council website has been implemented to improve accessibility and functionality for users. The website provides access to Council papers, including Committee agendas, minutes, relevant reports and decisions.

The Council takes the views of all the groups into account when preparing its budgets. In advance of final decisions on the budgets the potential impact on individuals, services and the voluntary and community sector is considered. As each service is reviewed and final recommendations are made Equality Impact Assessments are undertaken.

19. Enhance the accountability for service delivery and effectiveness of other public service providers.

The Council is proactive in supporting the development of partnership bodies both with other public sector agencies, like health and the police, and with representation from the business and community sectors.

Blackburn with Darwen was one of the first areas in the country to set up a new Health and Wellbeing Board as part of government changes to the NHS. The board, run by Blackburn with Darwen Council, leads on improving the strategic co-ordination of planning and buying local health services, social care for both children and adults and public health services to promote more local control over those services. All organisations working in those areas will, through the board, develop a shared understanding of local need and agree the best strategy to meet that with the funding and resources available.

The Blackburn with Darwen Community Safety Partnership (CSP) has merged with the CSP's of Burnley and Rossendale following agreement by members and the Police and Crime Commissioner of Lancashire. Blackburn with Darwen administers the new Pennine Lancashire Community Safety Board and retains its duty as a Local Authority alongside the Police, Fire Service, Clinical Commissioning Groups, National Probation Service and Community Rehabilitation Company to work together to reduce crime and anti-social behaviour.

The Partnership has grown in size and strength and now includes a wide range of partners from both the statutory and voluntary sector from across the Sub Region. Collectively it is achieving positive outcomes for vulnerable individuals, families and communities.

Beyond the borough the Council continues to work with Councils and partners across Lancashire on a range of work programmes including economic development, housing, skills, environment and health and wellbeing. As part of this work programme the Council is the accountable body for the Lancashire One Public Estate Programme.

Work is also ongoing with colleagues from the NHS, other local authorities, the community and voluntary service and other partners to transform the health and social care system across Pennine Lancashire local delivery partnership under the Together A Healthier Future programme. The programme is part of the Healthier Lancashire and South Cumbria Integrated Care System which is delivering the area's Sustainability and Transformation Plan (STP).

20. Incorporate good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.

The Council continues to undertake sound governance arrangements with its partners.

Significant partnerships have continued to be identified and assessed since 2012 via the refreshed toolkit which was updated in 2016/2017 following an audit review. The Significant Partnerships Register was taken to Audit & Governance Committee in January 2020.

The Council is also the host authority for the Lancashire Police and Crime Panel. The Council provides legal and secretarial advice and support to enable the Panel to carry out the functions and responsibilities set out in the Police Reform and Social Responsibility Act 2011 and the Regulations made under it.

Progress during 2019/20 on significant governance issues identified in the 2018/19 Annual Governance Statement

| Title | CIPFA Criteria | 2018/19 Issue | 2019/20 Action taken |
|---|----------------|---|--|
| <p>1. Children's Services Financial Position</p> | <p>1,2,3</p> | <p>Whilst the financial pressures are on-going actions were put in place in 2018/19 to mitigate these. The Children's Services budget position continues to face demand pressures in 2019/20 due to an increase in the volume of work being referred to the Social Work Service and sustained pressure on the out of borough budget due to the number of placements and complexity of needs. The number of social workers with higher than the recommended caseload is also a concern. These issues have led to a need for an increase in social workers to manage demand.</p> <p>The new Director of Children's Services is reviewing caseloads and demand management strategies and an action plan has been developed and reviews of services provided are ongoing to mitigate against demand and financial cost pressures, as far as possible.</p> | <p>In the 2019/2020 financial year Children's Services implemented an approach to ensure that children receive the right help at the right time. We have managed to reduce the volume of work in the service alongside the implementation of our Children's Advice and Duty Service by 27%.</p> <p>During 2019/2020 financial pressures have continued and the current projected position has increased from the 2018/19 outturn, with budget pressures noted in all internal fostering and commissioned placements budgets, and in costs associated with formerly looked after children. A stronger grip on care planning has led to fewer children being placed in an emergency in external placements. However this is a dynamic situation that needs to be kept under constant review.</p> <p>Work is continuing for those cared for children who have complex needs in order that the Clinical Commissioning Group contributes to costs associated with their health.</p> <p>Early indications are encouraging and show that the steps taken to date are having a positive effect. However, they will take time to impact on the whole of the service in order to affect real change.</p> |

| | | | |
|--------------------------------|-------|---|--|
| | | | The Portfolio continues to mitigate demand pressures as far as possible and is utilising underspends on other areas of activity to offset placement pressures where possible. These areas of underspend are included in the forecasts detailed above. The review of the budget and more accurate forecasting will be a priority for the portfolio and Council in the 1st quarter of 2020/21. |
| 2. Compliance with GDPR | 1,4,5 | <p>The Council has not achieved compliance with the minimum requirements of the General Data Protection Regulations 2016 for subject access requests due to the nature of the requests and limited resources available for this area. This has led to a significant backlog of requests. The number of complaints received by the Council relating to this area has increased and cases have been referred to the Information Commissioner's Office.</p> <p>The risks of further referrals may cause the ICO to undertake a mandatory inspection of our processes which in turn could lead to enforcement action.</p> <p>There are plans in place to ensure the necessary resource is provided to deal with the backlog and the demand moving forward. These plans include a request for additional resource.</p> | <p>Risks identified during 2019/20 relating to the failure to comply with the Subject Access Provisions in the GDPR 2016, have started to be reduced owing to the addition of 1 FTE resource within Children's Services along with continued support from the Information Governance team (workload allowing).</p> <p>The Council still has a number of outstanding subject access requests that carry risk of noncompliance with legislation. The consequences of this risk include enforcement action and potential civil monetary penalties issued to the Council by the Information Commissioner. The statistics on compliance continue to be escalated to Management Board via the Quarterly SIRO report.</p> |

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review of effectiveness is informed by the work of the members of the Council's Management Board who each sign an annual assurance certificate regarding the effectiveness of the governance arrangements in place, the Head of Audit & Assurance's annual opinion report, and also by comments made by the external auditors and other inspection agencies.

The Council regularly reviews its Constitution and has delegated to the Audit & Governance Committee responsibility for reviewing the effectiveness of the governance framework and for reporting to the Executive Board where it thinks that there are issues that must be considered by the Executive.

The Scrutiny Committees set their own annual work plans and report to the Council both quarterly and annually. These Committees continue to monitor the performance and delivery of the Executive, engaging and challenging through a variety of scrutiny review methodologies, traditional reviews, appreciative and collaborative inquiries. Where appropriate, Members will utilise Task and Finish Groups outside of Committee to scrutinise and work with Officers on a wide range of issues. Overview and Scrutiny arrangements have been reviewed and revised and their effectiveness will be monitored.

The Audit & Governance Committee, in addition to having responsibility for reviewing the Corporate Governance Framework, also has responsibility for reviewing the effectiveness of risk management arrangements. The Committee receives an annual risk management report. The 2019/20 report concluded that "the Council continues to maintain robust and effective risk management processes".

The Standards Committee promotes and maintains high standards of Member conduct and monitors the operation of the Code of Conduct. The Council has adopted a Code of Conduct for Members in accordance its obligations under the Localism Act 2011. This included arrangements for dealing with member complaints. The Committee also examines the training needs of Members relating to the Code of Conduct and if necessary make appropriate recommendations.

The Standards Committee reviews the Member Code of Conduct and Complaints procedures on an annual basis and the latest versions are included as part of the Constitutional updates to Council.

Any matters following investigation, which require a hearing for determination of a potential breach of the code of conduct would be considered by the Hearings Panel (Sub Committee of the Standards Committee) who would make appropriate recommendations.

External inspection and assurance by External Audit during the year:

The 2018/19 Annual Audit Letter issued by the Council's external auditor noted that:

- They issued an unqualified opinion on the Council's 2018/19 financial statements on 30 September 2019 and did not identify any key audit matters relating to irregularities, including fraud.
- Their opinion noted that they had reported the key audit issues to the Audit & Governance Committee, as those charged with governance, on 6 August and in an addendum on 11 September. .
- They made a small number of recommendations to support the Council in strengthening its internal controls. These were agreed with management and will be followed up during the 2019/20 external audit.
- The Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and supporting guidance. They noted that both documents were consistent with the financial statements prepared by the Council and with their knowledge of the Council.
- They made one recommendation relating to the value for money conclusion in respect of financial sustainability, which was for the Council to focus on efficiencies and transformation to achieve significant savings.
- They were satisfied that in all significant aspects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
- They issued their assurance statement to confirm the Council's income, expenditure and balances did not exceed the National Audit Office's threshold and no detailed work was required.

The external auditors also noted the additional powers and duties available under the Local Audit and Accountability Act (2014). Under the Code of Audit Practice they are required to report relevant matters under this Act. They noted that they did not need to exercise any of their additional statutory powers or duties in the course of their audit.

We have been advised of the result of the review of the effectiveness of the governance framework by the Audit & Governance Committee / PAG and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

A key element of the annual governance review process is also to identify any significant internal control issues. The Council has adopted the approach recommended by CIPFA which has identified what may be considered generally as a significant issue. These criteria are:

1. The issue has/may seriously prejudice or prevent achievement of a principal objective;
2. The issue has/may result in a need to seek additional funding to allow it to be resolved;
3. The issue has/may result in significant diversion of resources from another aspect of the business;
4. The issue has/may lead to a material impact on the accounts;
5. The issue, or its impact, has/may attract significant interest or seriously damaged the reputation of the Council;
6. The issue has/may result in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
7. The audit committee, or equivalent, has advised that it should be considered significant for this purpose, or
8. The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.

Significant governance issues identified during 2019/20 are outlined in the following table:

| Title | CIPFA Criteria | Issue / Actions being taken | Responsible officer(s) |
|---|----------------|--|---|
| <p>Children's Services Financial Position (brought forward from 2017/18)</p> | <p>1,2,3,4</p> | <p>The Children's Services budget position continues to face demand pressures in 2019/20 in line with those experienced in 2018/19, due to an increase in the volume of work being referred to the Social Work Service and sustained pressure on the out of borough budget due to the number of placements and complexity of needs. The number of social workers with higher than the recommended caseload is also a concern. These issues have led to a need for an increase in social workers to manage demand.</p> <p>The Portfolio continues to mitigate demand pressures as far as possible and is utilising underspends on other areas of activity to offset placement pressures to reduce the portfolio's forecast overspend.</p> <p>Measures have been implemented to manage the "front door" and assessment activity more effectively, and the Department continues to explore options to re-focus, and build capacity, in more cost-effective 'in-house' services. However, these strategies will take at least twelve months to impact on the whole of the service in order to affect real change and before there are fewer numbers of 'looked</p> | <p>Director of Children's Services.</p> |



TO: Audit & Governance Committee

FROM: Director HR, Legal & Governance
Director of Finance & Customer Services

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF BRIEFING PAPER Audit & Governance Committee Annual Report

1. PURPOSE

The draft Audit & Governance Committee Annual Report 2019/20 is attached for consideration and approval (see Appendix A). This summarises the work undertaken by the Committee has during the year to demonstrate that it has fulfilled its agreed terms of reference.

2. RECOMMENDATIONS

The Committee is asked to:

- Consider and approve the Committee’s Annual Report, including the statement on its effectiveness during 2019/20 and the draft effectiveness self-assessment evaluation; and
- Refer the report to Full Council for endorsement.

3. BACKGROUND

The CIPFA ‘Audit Committees: Practical Guidance for Local Authorities and Police’ 2013 edition incorporates CIPFA’s Position Statement on the role and function of view of an audit committee in local authorities. This notes that although no single model of committee is prescribed, all should report regularly on their work and at least annually report an assessment of their performance.

4. RATIONALE

The Audit & Governance Committee is a key component of the maintenance of an adequate and effective governance framework. Through its annual report the Committee can demonstrate its effectiveness in fulfilling its role to provide independent assurance regarding the adequacy of risk management, the overall governance and associated control environment, and also scrutiny of the Council’s financial and non financial performance to the extent that it affects its exposure to risk and weakens the control environment.

5. KEY ISSUES

Having an effective Committee brings many benefits to the Council, such as:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance through a process of independent and objective scrutiny;
- raising awareness of the need for internal control and the implementation of audit recommendations; and,
- reinforcing the importance and independence of internal audit.

The Committee's activities during 2019/20 were designed to make a positive contribution to the continual improvement of control and governance arrangements across the Council, as well as performing the roles set out for the Committee in the Council's Constitution.

The Committee has had the opportunity to examine and challenge the arrangements for effective governance. The Annual Report indicates the breadth of the Committee's work in ensuring that every aspect of the Council's work should be compliant with standards and transparent to its stakeholders. The reports received by the Committee during 2019/20 indicate that there has been thorough coverage of the Committee's Terms of Reference. In this way, the Annual Report demonstrates the value of the Committee to the Council and public, ensuring that governance is on a sound footing.

Good practice guidance exists for the effective operation of audit committees across the public sector, including the most recent publication by CIPFA noted above. That guidance includes a Good Practice Self-Assessment which was considered by the Committee at its meeting on 14 January 2020. Appendix 2 of the attached report sets out the results of the self-assessment. The guidance also included a self-assessment tool for audit committees to use to evaluate their effectiveness. The results of this assessment are set out in Appendix 3 to the attached report for consideration.

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no direct legal implications from this report.

9. RESOURCE IMPLICATIONS

The resource implications are within the report.

10. EQUALITY AND HEALTH IMPLICATIONS

The decisions to be taken do not change policy and do not require any further

consideration in respect of equality or health issues.

11. CONSULTATIONS

Chair of the Audit & Governance Committee, Director of HR, Legal & Governance, Director of Finance & Customer Services, Governance & Democratic Services Manager.

Contact Officer: Colin Ferguson, Head of Audit & Assurance - Ext 5326
Date: 17 July 2020
Background Papers: CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition).
Audit Committee – Making it Most Effective (CIPFA Practical Guidance on Audit Committees – Action Plan), approved by Committee on 13 January 2015 and reviewed 14 January 2020.

Blackburn with Darwen Borough Council



**Draft
Audit & Governance
Committee
Annual Report
2019/20**

1. Background to the Governance Framework

1.1. What drives governance policy?

- 1.1.1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is also responsible for ensuring that there are sound systems of control and governance which facilitate the effective exercise of the Council's functions and which include adequate arrangements for the management of risk.
- 1.1.2. Effective corporate governance is a fundamental feature of any successful public sector organisation. Corporate governance initially became a major issue after several high profile failures in the private sector. As a result there were several reviews directed at improving governance in that sector.
- 1.1.3. The trend for strengthening governance arrangements spread to the public sector and resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) document Delivering Good Governance in Local Government – a Framework, in 2007. The Framework, published in 2007, was intended to be used as best practice for developing and maintaining a locally adopted code of governance. It was intended to assist authorities in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.
- 1.1.4. In 2016 CIPFA/SOLACE published a revised Framework to ensure that local government continues to develop and shape its own approach to governance, taking account of the environment in which it now operates. The new Framework applied to annual governance statements prepared for the financial year 2016/17 onwards. It is based on the International Framework: Good Governance in the Public Sector published by CIFA and the International Federation of Accountants in 2014 and contains seven key principles.
- 1.1.5. The International framework defines governance as follows:
“Governance comprises the arrangements put in place to ensure the intended outcomes for stakeholders are defined and achieved.”
- 1.1.6. It also states that:
“To deliver good governance in the public sector both governing bodies and individuals working for public sector entities must try to achieve their entities objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and stakeholders.”
- 1.1.7. Blackburn with Darwen Borough Council operates through a governance framework that brings together an underlying set of legislative requirements, governance principles and corporate policies and management processes.
- 1.1.8. The Council recognises the seven core principles of good governance to ensure that the intended outcomes for stakeholders are defined and achieved, while acting in the public interest at all times, as:
 - A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

- B. Ensuring openness and comprehensive stakeholder engagement;
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
 - F. Managing risks and performance through robust internal control and strong public financial management; and
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 1.1.9. The Council's local Code of Corporate Governance was revised during 2016 to ensure that it complied with the latest requirements. It was updated again during 2018/19 as part of the annual review of the Constitution, to provide improved clarity and explanation and was approved by full Council in May 2018.

2. Blackburn with Darwen Borough Council Audit & Governance Committee

2.1. Why do we need an Audit Committee?

- 2.1.1. Whilst there is no statutory requirement to have an Audit Committee they are widely recognised as a core component of an effective governance framework and therefore reflect good practise. Regardless of a specific legislative or regulatory framework, Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those affairs. To be truly effective, the Chief Financial Officer requires an effective Audit Committee to provide support and challenge, as well as an adequate and effective Internal Audit. Both these elements are now enshrined in the 'Public Sector Internal Audit Standards' and the supporting 'Local Government Application Note' published by CIPFA. The Council's Audit & Governance Committee has a key role in overseeing and assessing the internal control, risk management and corporate governance arrangements in place and advising on the adequacy and effectiveness of these arrangements. This role is formalised in the Committee's terms of reference.
- 2.1.2. The Council's Audit & Governance Committee is properly constituted and is given sufficient authority and resources by the Council. The Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice from both the public and private sectors, the Audit & Governance Committee can report its observations and concerns directly to the Executive Board.
- 2.1.3. Good corporate governance requires independent and effective assurance about the adequacy of financial management and of management arrangements for achieving the organisation's objectives. These responsibilities require an independent and challenging approach. Through these mechanisms Committee Members are able to use their skills and experiences to influence the Council's governance, internal control processes and risk management arrangements.

- 2.1.4. An effective Committee can bring many benefits to the Council including:
- increasing public confidence in the objectivity and fairness of financial and other reporting;
 - providing additional assurance through a process of independent and objective scrutiny;
 - raising awareness of the need for internal control and the implementation of audit recommendations; and,
 - reinforcing the importance and independence of internal audit.

2.2. What does it do?

- 2.2.1. Audit Committees are a key component of corporate governance. They increase public confidence in the objectivity and fairness of financial and other reporting. They also provide a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment.
- 2.2.2. Good practice is contained within CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities and the Police' (2018 Edition). The latest edition of the document updates the core functions of an Audit Committee in relation to governance, risk management, internal control and audit. The introduction of the Public Sector Internal Audit Standards, along with annual governance statements and associated guidance has also been considered in relation to their impact on an Audit Committee.
- 2.2.3. During 2019/20 the Audit & Governance Committee consisted of six cross party elected Members. The Committee's purpose, as proscribed in its terms of reference, are to:
- provide independent assurance of the adequacy of the risk management framework, overall governance and the associated control environment and the extent to which these meet the objectives of the Local Code of Corporate Governance;
 - provide independent review of the Council's governance, risk management and control frameworks;
 - oversee the financial reporting and annual governance processes; and
 - oversee internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- 2.2.4. The Audit & Governance Committee provides assurance, on behalf of the Council, about the extent to which the objectives of the Local Code of Corporate Governance, as set out in its Constitution, are being met. This purpose is reflected in the Committee's Terms of Reference which are included at Appendix 1 of this report.
- 2.2.5. The CIPFA guidance includes a greater focus on the factors which support improvement. These include the knowledge and skills that Audit Committee members require and a focus on where the Audit Committee adds value. The publication provides practical support to the Committee in evaluating the existing Committee arrangements and any planned improvements.
- 2.2.6. The guidance includes a self-assessment checklist of good practice to assist both Members and Officers who are involved in the operation of the Committee. This has been reviewed and updated by Audit & Assurance on behalf of the Committee during 2019/20. It was presented for consideration at the Committee's meeting on 14 January 2020, along with an evaluation of the effectiveness of the Committee completed by Audit &

Assurance on behalf of the Committee, in consultation with the Chair of the Committee, and included a summary of the results of individual members own self-assessments of the Committee's effectiveness. The results of the assessments against the CIPFA best practise and evaluation of effectiveness are included at Appendix 2 and 3 of this report for consideration. The results from the individual members own self assessments showed that there was a belief that the Committee was generally operating effectively, with average scores of satisfactory/partly agree or better for most questions.

- 2.2.7. The Audit & Governance Committee met five times during the 2019/20 financial year. Timings of the meetings throughout the year are designed to coincide with the governance timetable. The June meeting received the annual opinion and assurance reports, Health, Safety & Wellbeing and Treasury Management Annual Reports, and approved the Council's Annual Governance Statement. The August meeting approved the 2018/19 Statement of Accounts, and received the External Auditor's Findings Report for 2018/19. The January 2020 meeting received the External Auditor's Annual Audit Letter for the year ended 31 March 2019.
- 2.2.8. The Committee's terms of reference and outline work programme (see Appendices 1 and 4), and associated reports it receives, are designed to enable its Members to make a positive contribution to the continual improvement of control and governance processes and arrangements across the Council, as well as performing the roles as identified by the Constitution. Member attendance details are set out in Appendix 4
- 2.2.9. As well as the assurance provided to the Committee from the key reports received from the Council's External Auditor, the Committee also places reliance on the work carried out by Audit & Assurance in delivering the annual internal audit plan. Assurance is gained throughout the year from considering the quarterly progress reports received. These provide the Committee with an overview of the activity carried out by internal audit during the period, including counter fraud activity, and an overview of all audit reports finalised. Emphasis has been on limited or no assurance reports. Where these opinions are in respect of key or fundamental systems senior officers have been invited to update the members on progress of implementing recommendations from these reports to provide further assurance to the Committee regarding the implementation of agreed actions.
- 2.2.10. The Committee also receives a full year overview of internal audit work when the Internal Audit Annual Opinion Report is presented, alongside the Annual Counter Fraud Report. The former report provides the Head of Audit opinion on the Council's overall position in relation to the adequacy and effectiveness of risk, governance and internal control systems, based on the work completed by the internal audit team, as required by the Public Sector Internal Audit Standards.
- 2.2.11. The details of the Committee's work programme for 2019/20 and associated reports received, (see Appendix 4), demonstrate how the Committee has fulfilled its terms of reference during the year and its commitment to monitoring and helping improve the Council's risk, control and governance environments' in the year ahead.
- 2.2.12. In addition to these meetings an induction session was held for the Committee members prior to their first meeting of the year to explain the purpose of the Committee and their role and responsibilities. There has also

been mandatory finance training for all members to provide them with an overview of the Local Authority financing regime prior to the Finance Council meeting in February 2019 where the 2019/20 budget was presented for approval

2.3. How do officers support the Committee?

2.3.1. The Audit & Governance Committee is supported by:

- The Chief Executive, as Head of the Paid Service, with overall responsibility for the Council's management and executive arrangements;
- The Director of HR, Legal & Governance, as the Monitoring Officer, who is required by law to ensure that the Council acts within its legal powers at all times; and,
- The Director of Finance and Customer Services, as Section 151 Officer, who is responsible under the law for ensuring the proper administration of the Council's financial affairs.

2.3.2. The Director of HR, Legal & Governance leads on constitutional, legal, and human resource issues. The Director of Finance and Customer Services takes the lead on financial, audit, risk management and internal control matters. The Head of Audit & Assurance also has a key role to play in supporting the Committee because of the importance of the Internal Audit Service to governance. These Officers are responsible for making the Committee aware of any relevant changes in regulations, guidance, and codes of practice.

2.3.3. The Committee is also supported by External Audit colleagues, who attend each meeting to update members on the progress and results of their work, as well as providing regular sector updates for consideration. These highlight key messages from national reports and studies and include questions for consideration by the Committee.

2.3.4. During the year the Committee continued its cycle of corporate risk reviews. Corporate risk owners and/or key contacts for the risk areas have provided briefings to the Committee on a selection of risk register entries. This has included details regarding the background to the risk identified, the risk assessment process and control arrangements in place to manage or mitigate the relevant risk should it occur. This review and challenge process has improved the Committee's oversight and understanding of the likelihood and potential impact of the corporate risks identified by the Council and on the achievement of related corporate priorities.

2.4. Effectiveness of the Audit & Governance Committee

2.4.1. The Committee considers that it has been effective in fulfilling its terms of reference during 2019/20. The details provided in this report and the reports presented and considered by its members during 2019/20 demonstrate that adequate consideration has been given to all the core areas identified to enable the Committee to fulfil its role and responsibilities.

2.4.2. The Committee's terms of reference set out a range of activities that provide appropriate assurance to the Council in terms of how it manages risk, and ensures adequate and effective control and governance arrangements exist

and operate effectively to secure the efficiency and effective use of its resources. Training opportunities have been made available to members during the year to update their skills and knowledge to ensure that they are able to fulfil their role as members of the Committee.

- 2.4.3. The Committee has been active during the year in carrying out its duties in monitoring internal and external reports to ensure that it is satisfied with the effectiveness of controls and the governance and risk management arrangements in place, in accordance with its role and functions set out in its terms of reference in Appendix 1.
- 2.4.4. Based on the reports and information presented to the Audit & Governance Committee for consideration during the 2019/20 it is the members' view that the Council has, sound financial controls, risk management and governance arrangements in place.
- 2.4.5. The Committee has had the opportunity to invite those senior officers and managers to account for services or functions where they have considered there to have been significant financial, internal control or governance weaknesses identified. No significant areas of concern were identified where this was required during 2019/20. The members continue to challenge any impairment in stewardship and control of public funds and assets, seeking assurance that prompt and proportionate management actions have been taken. This provides the Council with assurance that effective internal control arrangements were in place during the year and that appropriate action has been taken to address any concerns raised as a result of any of the inspection and assurance processes in place. This is evidenced by the details provided in Appendix 4 regarding the various reports received and considered by the Committee at its meetings during the year to support its work programme and how each of these enable the Committee to fulfil its terms of reference.
- 2.4.6. The External Auditor's 2019 Audit Findings Report for Blackburn with Darwen Borough Council included an opinion on value for money. The External Auditor was required to carry out sufficient work to be satisfied on whether the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ended March 2019 and to provide a conclusion on this. In doing this work the main considerations the Auditor focussed on were:
- Delivery of the revenue budget during 2018-19;
 - How the capital programme was being progressed during the year; and
 - The assumptions that support the medium term financial strategy.
- 2.4.7. Based on the work they performed to address the significant risks, External Audit were satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

AUDIT & GOVERNANCE COMMITTEE TERMS OF REFERENCE**Statement of Purpose:**

Our Audit and Governance Committee is a key component of Blackburn with Darwen Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Audit and Governance Committee is to:

- provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment and the extent to which these meet the objectives of the Local Code of Corporate Governance;
- provide independent review of the Council's governance, risk management and control frameworks;
- oversee the financial reporting and annual governance processes; and
- oversee internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, Risk and Control:

The Audit and Governance Committee will:

1. Review the Council's corporate governance arrangements against the good governance framework including the ethical framework and consider the local code of governance.
2. Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and controls.
3. Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements;
4. Consider the framework of assurance (including the Management Accountabilities Framework) and ensure that it adequately addresses the risks and priorities of the Council;
5. Monitor the effective development and operation of risk management in the Council;
6. Monitor progress in addressing risk-related issues reported to the Committee;
7. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
8. Review the assessment of fraud risks and potential harm to the Council from fraud and corruption;
9. Monitor the Counter Fraud strategy, actions and resources; and
10. To review the Governance and Assurance arrangements for significant partnership or collaborations.

Internal Audit

The Audit and Governance Committee will:

1. Approve the internal audit charter.
2. Approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
3. Approve significant interim changes to the risk-based internal audit plan and resource requirements.
4. Make appropriate enquiries of both management and the Head of Audit & Assurance to determine if there are any inappropriate scope or resource limitations.

5. Consider reports from the Head of Audit & Assurance on internal audit's performance during the year. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
6. Consider the Head of Audit & Assurance's annual report, including:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion and the implications of any significant matters identified – these will assist the Committee in reviewing the Annual Governance Statement.
 - c) An annual risk management report.
7. Consider summaries of specific internal audit reports as requested.
8. Receive reports outlining the action taken where the Head of Audit & Assurance has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
9. Contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
10. Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
11. To provide free and unfettered access to the Chair of the Audit and Governance Committee Chair for the Head of Audit and Assurance, including the opportunity for a private meeting with the Committee.

External Audit

The Audit and Governance Committee will:

1. Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments;
2. Consider the external auditor's annual letter, relevant reports, and the report to those charged with governance prior to publication of the annual accounts;
3. Consider specific reports as agreed with the external auditor;
4. Comment on the scope and depth of external audit work and to ensure it is effective and gives value for money;
5. Commission work from internal and external audit; and
6. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

The Audit and Governance Committee will:

1. Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are

- concerns arising from the financial statements or from the audit that need to be brought to the attention of the council; and
2. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury Management

The Audit and Governance Committee will:

1. Monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice;
2. Ensure effective scrutiny of the treasury management strategy and policies;
3. Review the treasury management risk profile and adequacy of risk management processes; and
4. Consider reports on treasury management activity during the year.

Accountability Arrangements

The Audit and Governance Committee will:

1. Report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
2. Report to full council on an annual basis outlining the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.
3. Publish an annual report on the work of the Committee.

Authority

The Committee is authorised by the Council to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, including those of partner organisations, and all employees are directed to co-operate with any request made by the Committee.

Frequency of Meetings

The Committee will normally meet five times each year to fulfil its requirements.

Outline Programme

In order to meet its principal responsibilities during the year the Committee will consider the following reports/activities:

| PROGRAMME ACTIVITY: | TERMS OF REFERENCE NUMBER |
|---|----------------------------------|
| Governance, Risk and Control | |
| Annual Statement (AGS) | 1,2,3,4 |
| AGS Progress Report | 1,2 |
| Risk Management Annual Report | 4,5,6 |
| Internal Audit Opinion Report | 2,5,7 |
| External Audit VFM Report | 3 |
| MAF Update | 4 |
| Risk Management Update | 5,6 |
| Corporate Health, Safety & Wellbeing Annual | 4,5,6 |

| | |
|---|--------------|
| Report | |
| IA Progress & Outcomes Report | 7,8,9 |
| Reports from Other Committees or agencies | 3,4,5,6,7 |
| Significant Partnerships Report | 10 |
| Internal Audit | |
| Annual Plan | 1,2,4 |
| IA Progress & Outcomes Report | 3,4,5,7,8 |
| Risk Management Annual Report | 8 |
| Annual Opinion Report | 6,9,10,11,12 |
| External Audit | |
| Annual Audit Letter | 1,4,5 |
| Annual Plan | 2,5 |
| Progress Report | 2,3 |
| Findings Report | 2,5 |
| Grant Certification Report | 2 |
| Value For Money Conclusion | 3,5 |
| Fees Letter | 4,5 |
| Financial Reporting | |
| Statement of Accounts | 1 |
| External Audit Findings Report | 2 |
| Treasury Management | |
| Strategy Report | 1,2 |
| Progress Report | 1,3,4 |
| Annual Outturn Report | 1,3,4 |
| Accountability Arrangements | |
| Committee Annual Report | 1,2,3 |
| Committee Self-assessment | 2,3 |

The programme itself will develop over time as new statutory responsibilities are introduced and the timetable may vary, for example, as the Council is required to close its accounts earlier each year.

Membership

The Committee will consist of six members appointed by Full Council. In addition, the Executive Member for Resources will also attend each Committee meeting.

The Leader of the Council and all Executive Members are precluded from being voting members of the Committee.

A quorum shall be three Members.

New Committee members will be required to undertake appropriate induction training to enable them to adequately perform their duties as and when necessary.

Attendance

Committee members are expected to make every effort to attend all meetings, where this is not possible a substitute should be nominated.

To achieve these objectives the Committee will depend principally on the attendance of the Chief Executive, Director of Finance and Customer Services, the Director of HR, Legal & Corporate Services and the Head of Audit & Assurance or their nominated representatives. The Council's external auditors, external advisors and Directors may be requested to attend as and when appropriate.

Reporting

The Annual Audit and Governance Committee Report will be formally reported to Full Council.

Further reports will be made in those cases where the Committee considers matters must be formally brought to the attention of Full Council.

CIPFA PRACTICAL GUIDANCE ON AUDIT COMMITTEES – GOOD PRACTICE SELF-ASSESSMENT

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

| REF | GOOD PRACTICE QUESTIONS | YES | PARTIAL | NO | ACTION REQUIRED |
|-------------------------------|---|-----|---------|----|--|
| 9 | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | √ | | | |
| 10 | Where coverage of core areas has been found to be limited, are plans in place to address this? | √ | | | |
| 11 | Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose? | √ | | | |
| Membership and support | | | | | |
| 12 | Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> ▪ separation from the executive. ▪ an appropriate mix of knowledge and skills among the membership. ▪ a size of committee that is not unwieldy. ▪ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement). | √ | | | |
| 13 | Have independent members appointed to the committee been recruited in an open and transparent way and approved by the Full council or as appropriate for the organisation? | | | | Not applicable. |
| 14 | Does the chair of the committee have appropriate knowledge and skills? | √ | | | |
| 15 | Are arrangements in place to support the committee with briefings and training? | √ | | | Consider shorter more focussed meetings and prior up front information. |
| 16 | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory? | √ | | | |

| REF | GOOD PRACTICE QUESTIONS | YES | PARTIAL | NO | ACTION REQUIRED |
|---------------------------------------|--|-----|---------|----|--|
| 17 | Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer? | √ | | | |
| 18 | Is adequate secretariat and administrative support to the committee provided? | √ | | | |
| Effectiveness of the committee | | | | | |
| 19 | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | | | √ | No formal feedback but Committee members may receive feedback from member colleagues at Group meetings or on other occasions. The Committee's Annual Report is presented to Full Council. Consider including meeting minutes for the relevant year as well. |
| 20 | Are meetings effective with a good level of discussion and engagement from all the members? | √ | | | |
| 21 | Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers? | √ | | | |
| 22 | Does the committee make recommendations for the improvement of governance, risk and control and are these acted on? | √ | | | |
| 23 | Has the committee evaluated whether and how it is adding value to the organisation? | √ | | | |
| 24 | Does the committee have an action plan to improve any areas of weakness? | √ | | | |
| 25 | Does the committee publish an annual report to account for its performance and explain its work? | √ | | | |

CIPFA'S AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES (2018 EDITION)**Evaluating the Effectiveness of the Audit Committee****Assessment key**

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

Blackburn with Darwen Borough Council Audit Committee Effectiveness Assessment 2019/20

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

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

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

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|---|---|--|--|
| | | Standards and received the overall opinion and a summary of the findings and themes from the Peer review action plan at its April meeting 2016. | |
| <p>Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.</p> <p style="text-align: center;">Page 219</p> | <p>Reviewing how the governance arrangements support the achievement of sustainable outcomes</p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p> | <p>Work on this area is included in Internal and External Audit plans on a risk assessment basis. IA reviews are classified under one of the three headings in the plan and the annual report. Plans include reviews of key capital and revenue projects. Additional ad hoc work is carried out during the year on request from Directors.</p> <p>Internal audit progress reports include a summary of MAF red priority areas of concern.</p> <p>Performance management is not specifically identified in the Committee Terms of Reference. There are other processes in place within the Council's governance structure, which provide scrutiny and challenge for this area, as part of the Corporate Plan Scorecard monitoring arrangements, to hold Chief Officers and managers to account on a regular basis, such as Management Board and the PAM reporting process as well as Members through PDS, SPT and Executive Board reporting.</p> <p>Internal audit consider performance arrangements as part of any relevant audit and would report on them as part of our progress reporting arrangements.</p> <p>The IA plan also includes specific Key Performance Indicator audits.</p> | 4 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|--|---|---|--|
| Supporting the development of robust arrangements for ensuring value for money. | <p>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</p> <p>Considering how performance in value for money is evaluated as part of the AGS.</p> | <p>Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract & Procurement Procedure Rules are in place as part of the control framework to ensure that value for money is considered in procurement activity. Regular Creditors audits consider on compliance with these requirements. The Committee receives the External Auditors Combined Audit Findings and Value for Money Report.</p> | 4 |
| <p>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</p> | <p>Reviewing arrangements against the standards set out in Code of Practice on managing the Risk of Fraud (CIPFA 2014).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and members.</p> | <p>A Counter Fraud Policy and Strategy is in place (which was reviewed and updated in 2015/16 in accordance with latest CIPFA guidance) supported by the Counter Fraud Policy Framework which includes a Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees' Codes of Conduct.</p> <p>The Internal Audit progress reports include oversight of counter fraud activity and results.</p> <p>The Committee consider and approve the annual fraud risk assessment as part of the External Auditor's enquiries of those charged with governance and have approved the Counter Fraud Plan as part of Internal Audit annual plan 2016/17.</p> <p>The Committee receives the Counter Annual Report as part of the suite of annual reports which is considered prior to approval of the Annual Governance Statement:</p> | 5 |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|--|---|--|--|
| <p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.</p> <p style="text-align: center;">Page 221</p> | <p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p> <p>Publishing and annual report from the committee.</p> | <p>Audit & Governance Committee meetings are held in public with minimal Part 2 items. Agendas and reports are published on Council internet website.</p> <p>An Annual Audit Committee report is prepared and considered by full Council.</p> <p>Council Committee agendas, reports and minutes are also available on the internet via the Council website along with Executive Members' and Officer decisions. Consideration of Partnership arrangements is not currently included in the Committee's terms of reference. However, a corporate Partnership Governance Framework is in place, which includes a Governance Checklist and the Committee receives a report on the Council's Significant Partnerships Register annually.</p> | <p style="text-align: center;">4</p> |

2019/20 Member Attendance and Committee Work Programme

Five meetings were held during the year. The following Member attendance was recorded:

| Councillor/Date | 16 April 2019 | 25 June 2019 | 16 August 2019 | 15 October 2019 | 14 January 2020 |
|-----------------------------------|---------------|--------------|----------------|-----------------|-----------------|
| Vicky McGurk (Chair from June) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Roy Davies | N/A | ✓ | A | ✓ | ✓ |
| Tasleem Fazal | N/A | ✓ | A | ✓ | ✓ |
| Zainab Rawat | N/A | ✓ | ✓ | A | ✓ |
| Neil Slater | N/A | ✓ | ✓ | ✓ | ✓ |
| Ron Whittle | ✓ | ✓ | ✓ | ✓ | ✓ |
| Salim Sidat (Chair for April) | ✓ | N/A | N/A | N/A | N/A |
| Colin Rigby | ✓ | N/A | N/A | N/A | N/A |
| Kevin Connor | ✓ | N/A | N/A | N/A | N/A |
| Jim Casey | A | N/A | N/A | N/A | N/A |

✓ = attended meeting A = sent apologies

N/A = Not a Committee Member at the time of the meeting.

A meeting scheduled for 31 March 2020 was cancelled due to Covid-19

| Audit & Governance Committee Work Programme 2019/20 | | | | | | |
|--|-----------------------------|--------------|-------------|---------------|----------------|----------------|
| PROGRAMME ACTIVITY: | TERMS OF REF. NUMBER | APRIL | JUNE | AUGUST | OCTOBER | JANUARY |
| Governance, Risk and Control | | | | | | |
| Annual Statement (AGS) | 1,2,4 | | ✓ | | | |
| AGS Progress Report | 1,2 | | | | | ✓ |
| Risk Management Annual Report | 4,5,6,7 | | ✓ | | | |
| Annual Counter Fraud Report | 7,8,9 | | ✓ | | | |

| PROGRAMME ACTIVITY: | TERMS OF REF. NUMBER | APRIL | JUNE | AUGUST | OCTOBER | JANUARY |
|---|-----------------------------|--------------|-------------|---------------|----------------|----------------|
| Annual Internal Audit Opinion Report | 1,2,7 | | √ | | | |
| External Audit Findings and VFM Report | 3 | | | √ | | |
| External Audit Annual Audit Letter | 4,5,7 | | | √ | | |
| MAF Update | 4,5,6 | | √ | | √ | √ |
| Risk Management Update | 4,5,6 | √ | | | √ | √ |
| Corporate Annual Report on Health, Safety & Wellbeing | 4,5,6 | | √ | | | |
| IA Progress & Outcomes Report | 4,5,6,7,8 | √ | √ | | √ | √ |
| Significant Partnerships Register | 10 | | | | | √ |
| Internal Audit | | | | | | |
| Annual Plan & Internal Audit Charter | 1,2,3,4 | √ | | | | |
| IA Progress & Outcomes Report | 3,4,5,7,8,11 | √ | √ | | √ | √ |
| Annual Internal Audit Opinion Report | 4,6,9,10,11 | | √ | | | |
| External Audit | | | | | | |
| Annual Audit Letter | 1,5,6 | | | | | √ |
| Audit Fee Letter | 1,3,4,5 | | | √ | | |
| Annual Plan | 2,3,4 | √ | | | | |
| Progress Report | 2,3,5 | √ | √ | | √ | √ |
| External Audit Findings Report | 2,5 | | | √ | √ | |
| Value For Money Conclusion | 2,3,4,5 | | | √ | √ | |
| Financial Reporting | | | | | | |
| Statement of Accounts | 1 | | | √ | | |
| External Audit Findings Report | 1,2 | | | √ | √ | |
| External Audit Annual Audit Letter | 1,2 | | | | | √ |
| Treasury Management | | | | | | |
| Strategy Report | 1,2 | | | | √ | |
| Progress Report | 1,2,3,4 | √ | √ | | √ | √ |
| Annual Outturn Report | 1,2,3 | | √ | | | |
| Accountability Arrangements | | | | | | |
| Committee Annual Report | 1,2,3 | | √ | | | |
| Committee Self-Assessment | 2,3 | | | | | √ |