

Public Document Pack

Audit & Governance Committee

Tuesday, 26th October, 2021

6.00 pm

Library - Rooms 1 & 2, Entrance via Northgate

AGENDA

1. Welcome and Apologies

To welcome those present to the meeting and to receive any apologies for absence.

2. Declarations of interest

A form is attached for completion by Members declaring an interest in items on the agenda.

DECLARATIONS OF INTEREST FORM

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3. Minutes of the meeting held on 29th June 2021

To approve as a correct record the minutes of the meeting held on 29th June 2021.

Minutes - 29th June 2021

5 - 9

4. Corporate Annual Report on Health & Safety 2020/21

The Strategic Head of Human Resources & Engagement will provide the Committee with the 2020/21 Annual Health and Safety Report.

Annual Management Report - Health and Safety

10 - 15

5. External Audit - Audit Plan 2020/21

The Council's External Auditors will provide the Committee with a report on their plan for the 2020/21 statutory audit.

Final Audit Plan 2020-21

16 - 38

6. External Audit Fees 2020/21

The Director of Finance will provide the Committee with a report on the External Auditors fees for 2020/21 and the

impact of the new audit requirements on the work required on the annual accounts and external audit.

Report on External Audit Fees 2020-21 **39 - 47**
Appendix A - LG audit 2020-21 - Fees, Audit Scope and Additional work

7. Response to the External Auditors Request for Information

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

Response to the External Auditor Request for Information **48 - 87**
Appendix 1 - BwD PSA Informing the audit risk assessment 2020-21

8. Arrangements for the Appointment of the External Auditor

The Director of Finance will provide the Committee with a report on an invitation received from Public Sector Audit Appointments to become an opted in authority to the national auditor appointment arrangements for the audit years 2023/24 to 2027/28 in its role as a specified appointing person.

PSAA Opt-in Invitation **88 - 90**

9. Treasury Management Report - June to August 2021

The Director of Finance will provide the Committee with a report on Treasury Management activity including a Mid-Year Strategy Review for 2021/22.

Treasury Management Report - June to August 2021 **91 - 106**
Appendix 6 - Treasury Management Mid-Year Strategy Review

10. Audit & Assurance - Progress & Outcomes to September 2021

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

Audit and Assurance - Progress and Outcomes Report	107 - 112
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11. Risk Management - 2021/22 Quarter 1 Review

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

Risk Management 2021-22 Quarter 1	113 - 116
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**PART 2 - THE PRESS AND THE PUBLIC MAY BE
EXCLUDED DURING CONSIDERATION OF THE
FOLLOWING ITEMS.**

There are no Part 2 items.

Date Published: Monday, 18 October 2021
Denise Park, Chief Executive

DECLARATIONS OF INTEREST IN ITEMS ON THIS AGENDA

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

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

MEETING: **AUDIT AND GOVERNANCE COMMITTEE**

DATE:

AGENDA ITEM NO.:

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

DISCLOSABLE PECUNIARY/OTHER (delete as appropriate)

SIGNED :

PRINT NAME:

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

AUDIT & GOVERNANCE COMMITTEE Tuesday, 29 June 2021

PRESENT – Councillors Ron Whittle (Chair), Maureen Bateson, Mahfooz Hussain and Abdul Patel

OFFICERS – Denise Park (Chief Executive), Colin Ferguson (Head of Service Audit and Assurance), David Fairclough (Director of HR, Governance & Engagement), Firoza Hafeji (Governance Officer), John Farrar (Grant Thornton) and Gareth Winstanley (Grant Thornton)

ALSO PRESENT – Councillor Vicky McGurk, Executive Member for Finance and Governance.

RESOLUTIONS

45 Welcome and Apologies

The Chair welcomed everyone to the meeting. Apologies were received from Cllr John Slater and Cllr Jon Baldwin.

46 Declarations of Interest

There were no declarations of interest received.

47 Minutes of meeting held on 30th March 2021

The Minutes of the meeting held on 30th March 2021 were moved as a correct record.

RESOLVED – That the Minutes of the meetings held on 30th March 2021 be agreed as a correct record.

48 External Audit Progress Report and Sector Update

Gareth Winstanley noted that the External Audit fee variation for 2019/20 had been agreed and reported on the progress of Grant Thornton in delivering their responsibilities as External Auditors, and summarised the emerging national issues and developments relevant to the local authority.

Initial planning for the 2020/21 audit began in April 2021. The interim audit work would be finalised prior to work being started on the draft financial statements.

The report highlighted the 2020/21 deliverables and Members were informed that a detailed audit plan would be brought to the next Audit and Governance Committee meeting on 24th August 2021.

The Government had provided a range of financial support packages throughout the Covid-19 pandemic and Grant Thornton issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21. There were no changes to the accounting

treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. The changes were identified as the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business.

RESOLVED – That the update be noted.

49 Treasury Management Report - March to May 2021

Denise Park, Chief Executive, summarised the Treasury Management Report for 2021/22 for the period of 1st March – 31st May 2021 and recommended that the position for the period be noted.

The Treasury Management Strategy for 2021/22, approved at Executive Board in March 2021, complied with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

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.

Members noted the weekly movement in the totals available for investment, both actually to date and projections for the rest of the year. These balances had fluctuated significantly across the period, ranging between £55M and £85M. Investment balances continued to be unusually high during this period, 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 businesses, in relation to the response to the Covid-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

At 31st May, the Council had approximately £72.7M invested, compared to £55.4M at the start of the period. The breakdown of the closing investment balance was shared with the Committee.

RESOLVED – That the Committee noted the Treasury Management position for the period.

50 Treasury Management Annual Report 2020/21

The Committee received a report on the Treasury outturn for 2020/21, as also reflected in the 2020/21 Outturn Corporate Monitoring Report.

RESOLVED – That the Committee noted the Outturn position for 2020/21.

51 Audit & Assurance - Progress & Outcomes to May 2021

The Head of Audit & Assurance reported on the achievements and progress made by Audit & Assurance in the period from 1st March 2021 to 31st May 2021.

The Committee were asked to discuss, review and challenge the outcomes achieved to 31st May 2021 against the annual Audit & Assurance Plan 2021/22, as approved by the Committee on 30th March 2021.

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS). The PSIAS requires the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit & Governance Committee during the year.

Members were informed that the work completed to date had not identified any significant governance, risk management or control issues to bring to the Committee's attention at this time.

The report also highlighted the Corporate Governance and Risk, Counter Fraud Activity and Internal Audits recently undertaken.

Members noted that five internal audits were completed and finalised since the last report to the Committee.

Colin highlighted that the Departmental Business Plan included seven targets to achieve the Audit & Assurance strategic aims. The defined targets and actual performance for the latest period and the previous period were noted by Members. A brief commentary on the measure where performance in the period had fallen below the agreed targets was shared with the Committee.

RESOLVED – That the Committee discussed, reviewed and challenged the outcomes achieved to 31st May 2021 against the annual Audit & Assurance Plan 2021/22, as approved by the Committee on 30th March 2021.

52 Annual Risk Management Report 2020/21

Members were provided with the Annual Risk Management report for 2020/21 which included an overall conclusion of the effectiveness of the risk management arrangements which were in place within the Council. The Committee were asked to note that the report reflected the risk position as at the year-end. These arrangements were continually under review as new and emerging risks were identified and assessed for their impact on the Council and its corporate priorities.

The Committee were 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 2020/21.

The key elements of risk and resilience considered under the framework were shared as:

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

RESOLVED - That the annual risk management report be noted and agreed with the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2020/21

53 Annual Counter Fraud Report 2020/21

The Head of Audit & Assurance provided the Committee with the Annual Counter Fraud report for 2020/21.

The report highlighted the results of the counter fraud activity that had been carried out during the year ended 31st March 2021 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.

Members noted that the report provided the Committee with assurance on the effectiveness of the counter fraud arrangements in place within the Council and it supported the Committee's roles of reviewing the assessment of fraud risks and potential harm to the Council from fraud or corruption, and ensuring the Council maintains a robust counter fraud culture via the implementation of the Counter Fraud Strategy.

RESOLVED – That the Committee considered and noted the Counter Fraud Annual Report as part of their monitoring role.

54 Annual Internal Audit Opinion Report 2020/21

The Head of Audit & Assurance provided the Committee with the Annual Internal Audit Opinion Report for 2020/21.

The purpose of the report was 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.

RESOLVED – That the Committee noted:

- The content of the Annual Internal Audit Opinion Report for 2020/21 (as set out in Appendix A)
- The overall annual opinion of the Head of Audit & Assurance, which was that adequate assurance can be placed upon the Council's framework of governance, risk management and internal control; and
- That the internal audit work that supported this opinion had been delivered in accordance with the Public sector Internal Audit Standards (PSIAS) and that there were no significant areas of non-conformance.

55 Annual Governance Statement for 2020/21

The Chief Executive presented the draft Annual Governance Statement for the year ended 31st March 2021 and up to the date of the June 2021 Audit and Governance Committee.

The report outlined key developments and on-going arrangements in governance in 2020/21.

RESOLVED – That the Committee approved the Annual Governance Statement.

56 Audit & Governance Committee Annual Report 2020/21

The Head of Audit & Assurance presented the draft Audit & Governance Committee Annual Report for 2020/21 for consideration and approval by the Committee.

The report summarised the work undertaken and reports considered by the Committee during the year to demonstrate that it had fulfilled its agreed terms of reference.

The report highlighted that 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 Annual Report indicated 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.

RESOLVED –

- That the Committee considered and approved the Committee's Annual Report; and
- That the report be referred to the Full Council for endorsement.

Signed:

Date:

Chair of the meeting
at which the minutes were confirmed



Blackburn with Darwen Council Annual Health, Safety Report – 2020/21

This report focuses on:

Health & Safety:

- 2020-21 accidents, incidents & near miss statistics
- RIDDOR reports
- Health & safety performance highlights and challenges
- Proposed activity for 2021-22

Agenda Item 4

Our Vision:

“Providing a healthy workplace for all, where all our employees can flourish and are able to make healthier lifestyle choices.”

Health and Safety Team

Blackburn with Darwen

Borough Council

October 2021

This report has been presented to the Audit & Governance Committee for its meeting on the 26th October 2021.

- 2020/21 proved to be a challenging year for all at Blackburn with Darwen Borough Council due to the onset of the Covid pandemic. 2021/22 has seen those challenges continue as the Health and Safety team continue to help fight the ongoing effects of the pandemic.
- Throughout the period, the team has visited many key buildings and services across the council's estate offering support and guidance via inspection.
- School and council departments were provided with ongoing assistance relating to the management of staff, both at home and at work, which included enquiries relating to clinically extremely vulnerable staff, pregnant staff, display screen equipment and workstation set-ups whilst working away from the office.
- The health and safety team provided risk assessment templates for buildings, processes and individual staff members during this time. This provided a foundation upon which managers could add further controls to ensure the assessments became site/process specific.
- Whilst the Schools SLA was unfortunately disrupted during the reporting period, the health and safety team remained in close contact with key school managers, providing advice and guidance in what was a disrupted and challenging year for the school curriculum.
- The Health and Safety Team seconded team members to provide knowledge and expertise to sub-groups, including Incident management, Education Response Team and the Social Care Covid Response Group. Its members have provided an integral front line response, offering visits, support and guidance to both these important sectors.
- The team supported the Public Protection Department by conducting Covid compliance visits to faith settings, including Madrassah's, as well as to local supermarkets. Other support offered to private sector settings included local veterinary surgeries and local businesses across the Borough.
- Covid advice and visits stretched into community groups and across some specialist education centres, where this support was well received.
- The Events Safety Advisory Group (ESAG) reformed at the end of March to coordinate events that were planned following the lifting of some restrictions. Members of the Health and Safety Team sat on the Covid sub-team of ESAG to advise on the submission of event plans and risk assessments.
- The Health and Safety team continue to communicate with other departments via various meetings, including LNCC, the Health and Safety Committee and Trade Union catch – ups.
- The Health and Safety team were integral to the planning process in the run up to local elections in May. Generic risk assessments were provided to all voting and counting venues, with guidance provided as to how officers could make those documents more site specific.
- As certain departments began to consider a return to work, the Health and Safety team worked in conjunction with the Covid Response Team to ascertain office capacities with a view to maintaining social distancing.



Advice was given in relation to gradual returns, establishing rota's and ensuring restricted pinch point areas such as toilets, kitchens and meeting rooms didn't become overwhelmed.

- A checklist was established to help managers oversee the return to work of employees safely.

Health & Safety Performance

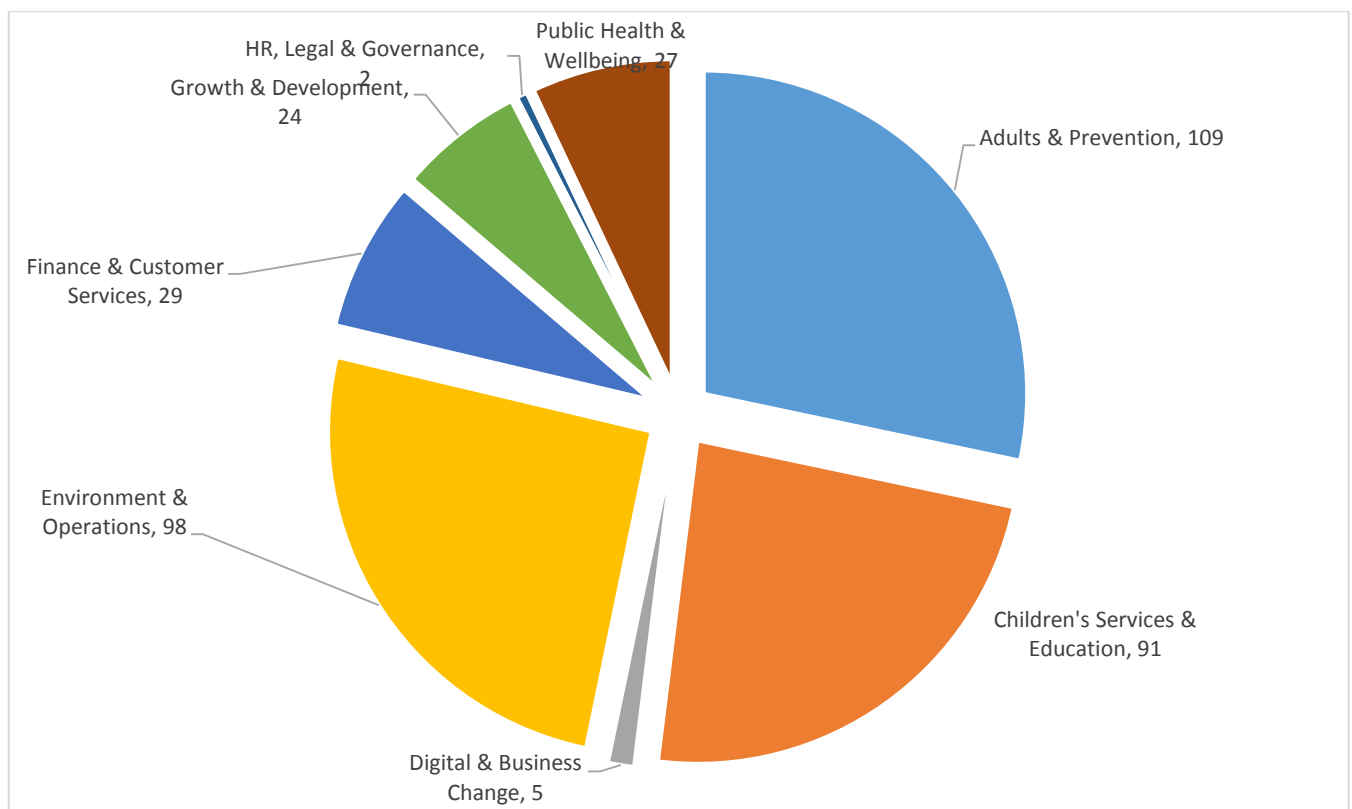
Accidents, Incidents & Near Miss Reports

There were 385 reported incidents in 2020/21, which is a significant decrease of 48% from 2019/20, where 735 incidents were reported. In the main, this is due to the number of services and buildings being closed or reduced due to the pandemic.

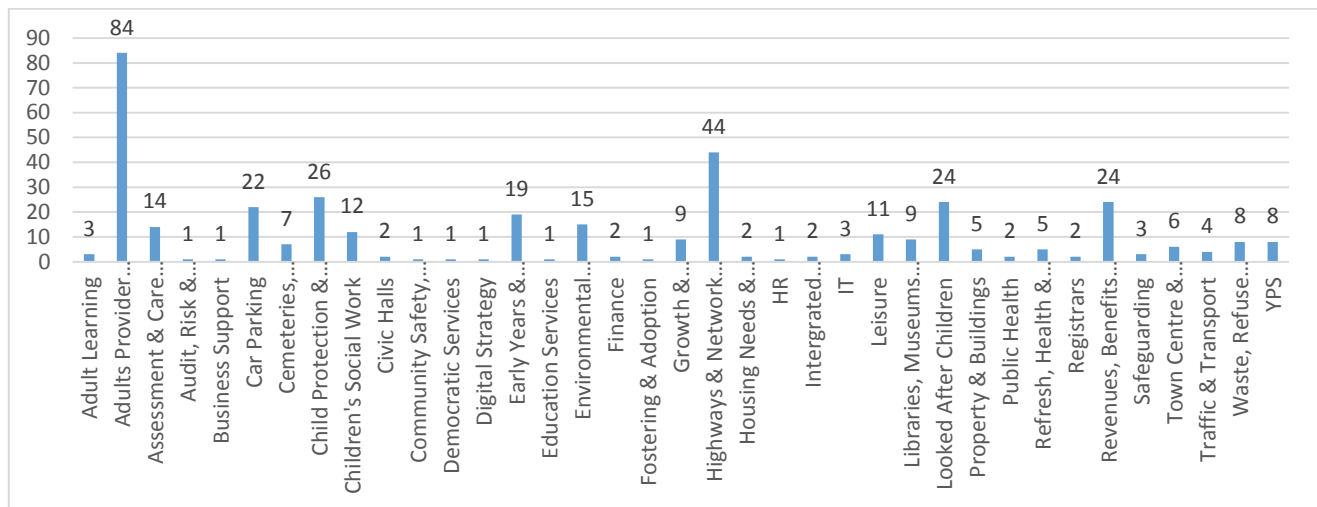
The Health, Safety & Wellbeing Team review each reported incident and, where necessary, further information is requested from departments to ensure that appropriate measures are considered and put into place to either reduce or eliminate the risk of reoccurrence.

Whilst figures may still be deemed on the high side, especially considering the reduced service, it should be noted that the higher risk departments and activities remained operational throughout the pandemic. Similarly, departments have been encouraged to report more than they had been doing in recent reporting periods, which will also be a contributing factor.

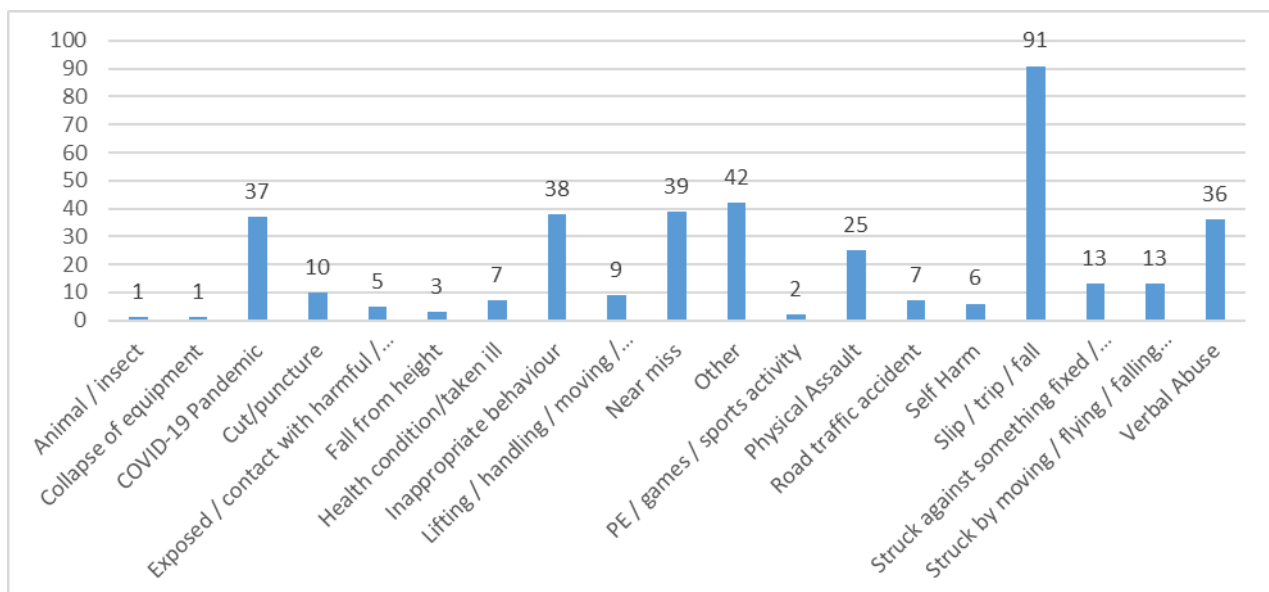
Incidents by Department



Incidents by Division



Incidents by Type



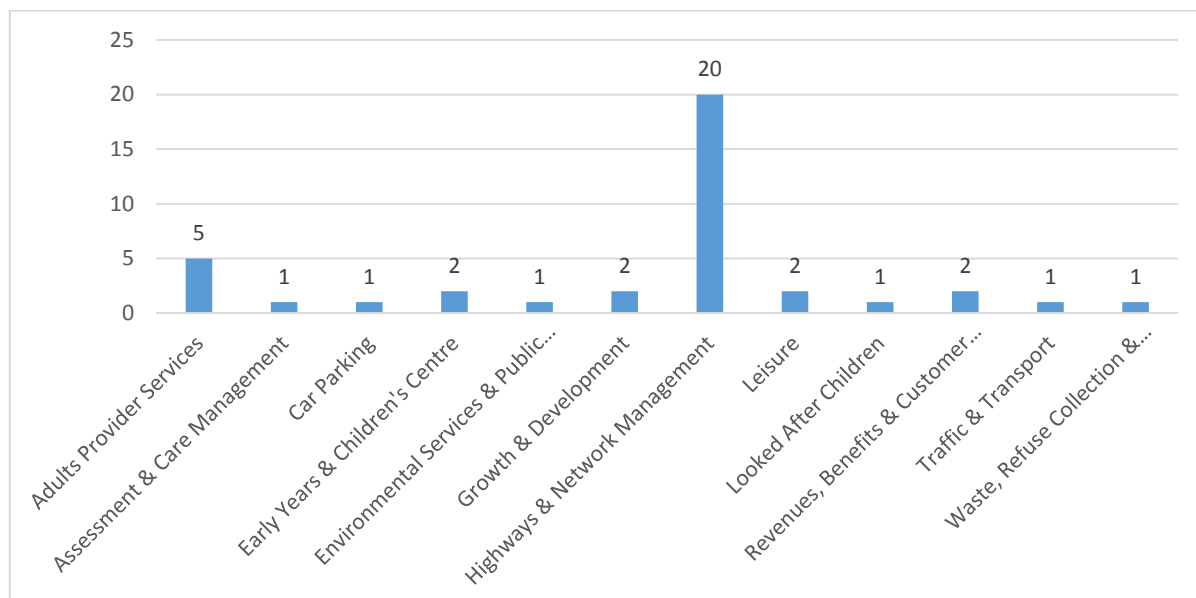
The above graph demonstrates that slips, trips and falls remain the highest contributory factor in council accidents, with the 'other' category remaining second. For the coming year's reporting, we are looking to break down this category further, thereby potentially reducing numbers in this category, but resultantly increasing elsewhere.

Covid-19 related incidents/illnesses are a new contributory factor that were not present in previous reporting.

In 2020-21 we had 39 near misses reported, against 139 in the 2019-20 period. Again, this reduction will be due to closed or reduced services.



Near Misses



RIDDOR

Cases reported under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 2013 (RIDDOR) to the Health and Safety Executive (HSE)

There were Seven (7) reports for 2020-21 made to the HSE, which are detailed below. In 2019-20 there were 8 cases reported.

Over Seven Day	Environment and Operations Twisted ankle - slip	Environment and Operations Slip injuring back	Environment and Operations Slip injuring back	Environment and Operations Slip injuring back and neck	Environment and Operations Movement injuring back	Third Party Contractor Vehicle incident - shock	Growth and Development Assault
Specified Injury	Refresh Health and Wellbeing Fractured Wrist fall						

RIDDOR reporting is a focus for the health team in 2021/22, with a view to reducing the overall numbers submitted. RIDDOR can be used as a positive means of MI. As an example, at the time of this report's completion (October 2021), there have been no RIDDOR's submitted to the HSE regarding our council buildings/operations since early May.

Health and Safety Significant Incidents and Challenges

Covid-19 has clearly been the main challenge for the council over the 2020-21 reporting period. It has proved both testing and confusing for the many council staff involved. Guidance has been ever changing and has often been unclear in its nature. Blackburn with Darwen has also suffered more than many other areas - and over a much longer period. This has resulted in Covid-19 being a continuing priority, putting a requirement on the health and safety team to dedicate its time and resources to this particular area. The result being, that progress has been restricted in other important areas of health and safety, allowing a more reactive response, as opposed the favoured pro-active.

Covid-19 has introduced new challenges that were not present in previous reporting regimes. There was a requirement for safe working practices specific to the virus. There were also additions to our incident rate and challenges around working remotely from home. Mental health issues were highlighted following a sustained period of remote working. Similarly, there are anxieties about returning to the workplace after such a period of being away. There was a need



for consistency and the requirement for the formulation of departmental risk assessments that had not been required previously.

Amongst the backdrop of Covid, the Health and Safety team supported the re-opening of the third and fourth floors in the Town Hall and the transfer of relevant staff from the Tower Block into the same. This had to be conducted in a controlled manner, having due regard to maximum capacities and implementing rotas to ensure staffing levels did not exceed the maximum, thereby increasing risk in the process.

Assaults and aggression in the social care sector remain a concern, as does aggression to both reception and civil enforcement staff. Health and Safety are also reviewing safe practices and procedures for slim line 'off road' sweepers following the overturning of one, having apparently driven through a large number of fallen leaves.

March saw the team's involvement in providing specialist advice to other key agencies following a significant leak from an underground petrol tank at a local filling station.

Focus for the next 12 months

Over the coming year the team intend to build on the positive work, ensuring health and safety is built in to the way the council operates. The key areas of focus and actions are:

1. *Continuing to assist with the Covid security strategy offering support and advice via site visits and helpline.*
2. *Enhancing communication with the wider council via health and safety advice notices / alerts on the intranet.*
3. *Continuing supporting schools through the Health & Safety SLA and support the LEA meet its Health and Safety obligations in Education.*
4. *Targeted campaigns to reduce accident numbers within the council – beginning with slips, trips and falls.*
5. *Assist managers with the return to the workplace with support to ongoing refurbishment work.*
6. *Create a positive health and safety culture to enable Directors and Senior Managers to take the lead.*
7. *Assisting managers to build more robust health and safety due diligence systems, both generally and in the wake of an accident.*
8. *Continue to analyse and utilise MI to shape the proactive work carried out by the team. Encourage reporting, in particular near misses, with a targeted approach to highest risk departments and those with low reporting figures.*
9. *Departments where violent or aggressive incidents are prevalent will be a focus for advisory campaigns by the team.*
10. *Provide assistance and work alongside other departments and groups to bolster systems and reduce negative publicity and claims – e.g. collaborating with insurance, Events Safety Advisory Group.*
11. *Programme of health and safety audits, monitoring visits and inspections to continue in the highest risk areas with action plans issued to ensure compliance.*
12. *The provision of health and safety assistance & advice, helping to rebuild and enhance systems at Davyfield Road, across the Leisure sector and crematorium.*



Blackburn with Darwen Council Audit Plan

Year ending 31 March 2021

5 October 2021

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Section

Key matters
Introduction and headlines
Significant risks identified
Accounting estimates and related disclosures
Other matters
Materiality
Value for Money Arrangements
Audit logistics and team
Audit fees
Independence and non-audit services
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Council developments

Local Government funding continues to be stretched with the Council facing increasing cost pressures and demand from residents. The Council confirmed the 2021-22 budget in March 2021 alongside indicative budgets up to 2023-24 that support the vision for Blackburn with Darwen. Integral to this plan is the delivery of desired outcomes from within available resources with the Council recognising the need to ensure that a financially sustainable position is achieved.

Impact of COVID-19 pandemic

The outbreak of the COVID-19 coronavirus pandemic has had a significant impact on the normal operations of the Council during 2020/21, including the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines.

The Council implemented governance arrangements at the start of the pandemic to ensure tight controls were in place around the use of additional grant funding and expenditure. The Council's Q3 revenue monitoring report forecasted a 2020-21 underspend of £2.8m, due in part to the receipt of funding from the government in respect of COVID-19 related expenditure.

The COVID-19 pandemic had a significant impact on the valuation of property, plant and equipment and investments. This led to the Council's valuer reporting a material uncertainty in relation to the valuation of properties as at 31 March 2020, and the Lancashire Pension Fund disclosing a similar material uncertainty relating the valuation of directly held investment property.

We included Emphasis of Matter paragraphs in our 2019/20 audit opinion drawing attention to these material uncertainty disclosures in the financial statements. The possibility of similar material uncertainties will need to be assessed as at 31 March 2021.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the COVID-19 pandemic and uncertainty has continued in 2020/21. We have identified a significant risk in regards to the valuation of properties – refer to page 8.
- The 2019/20 financial statements for the Lancashire Pension Fund also included a material uncertainty disclosure in relation to the valuation of directly held properties, with market volatility continuing in 2020/21. We have identified a significant risk in regards to the valuation of the pension scheme net liability – refer to page 9.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

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

Group Audit

The Council is not required to prepare group financial statements.

Significant risks

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

- Management override of control.
- Valuation of Property, Plant and Equipment.
- Valuation of the pension fund net liability.

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

Materiality

We have determined planning materiality to be £6.80m (PY £7.10m) which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.34m (PY £0.36m).

Introduction and headlines cont.



Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to assess the Council's arrangements and will provide a commentary against all key lines of enquiry in the Auditor's Annual Report. Should we identify any areas of significant weakness as part of our further work we will bring them to your attention.

Audit logistics

Our planning work commenced in April 2021 and our final accounts audit is taking place between September - December 2021. We plan to issue our Auditor's Annual Report within three months of completing our accounts opinion work, in line with the National Audit Office's recent auditor guidance. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed on page 16.

Our fee for the audit will be £132,186 (PY: £108,223) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Blackburn with Darwen Borough Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• evaluate the design effectiveness of management controls over journals;• analyse the journals listing and determine the criteria for selecting high risk unusual journals;• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification
ISA240 revenue and expenditure recognition risk	<u>Revenue</u>
	ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.
	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:
	<ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Blackburn with Darwen, mean that all forms of fraud are seen as unacceptable.
	<u>Expenditure</u>
	In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of misstatement as a result of improper recognition of expenditure.
	This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.
	Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Property, Plant and Equipment	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment property carried at fair value should be revalued at each year end.</p> <p>Additionally, valuations are significant estimates made by management in the accounts.</p> <p>Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the COVID-19 pandemic. This paragraph did not represent a modification of our audit opinion.</p> <p>We have identified the valuation of land and buildings and investment property as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • review whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£325.2m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.</p> <p>During 2020/21 the Council made an early payment of contributions to the Pension Fund of £38.3m, covering the three financial years 2020/21 - 2022/23. There is a risk this isn't appropriately accounted for given the complexities of statutory accounting for pensions in local government</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 march 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion; • review the accounting treatment for the early payment Pension Fund contribution; and • obtain assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates.



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation

Year end provisions and accruals

Valuation of defined benefit net pension fund liabilities.

The Council's Information systems

With respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

how management understands the degree of estimation uncertainty related to each accounting estimate; and

how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management requesting written responses from the Council across a range of areas and issues including on the approach taken to derive key accounting estimates. We have now received the Council's responses and have considered them as part of our ongoing planning. The responses will be shared and presented to the Audit and Governance Committee at a forthcoming meeting.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

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

- we read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council;
- we carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA;
- we carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions;
- we consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- we certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a "continued provision of service approach" to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 15).

Materiality

The concept of materiality

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

Materiality for planning purposes

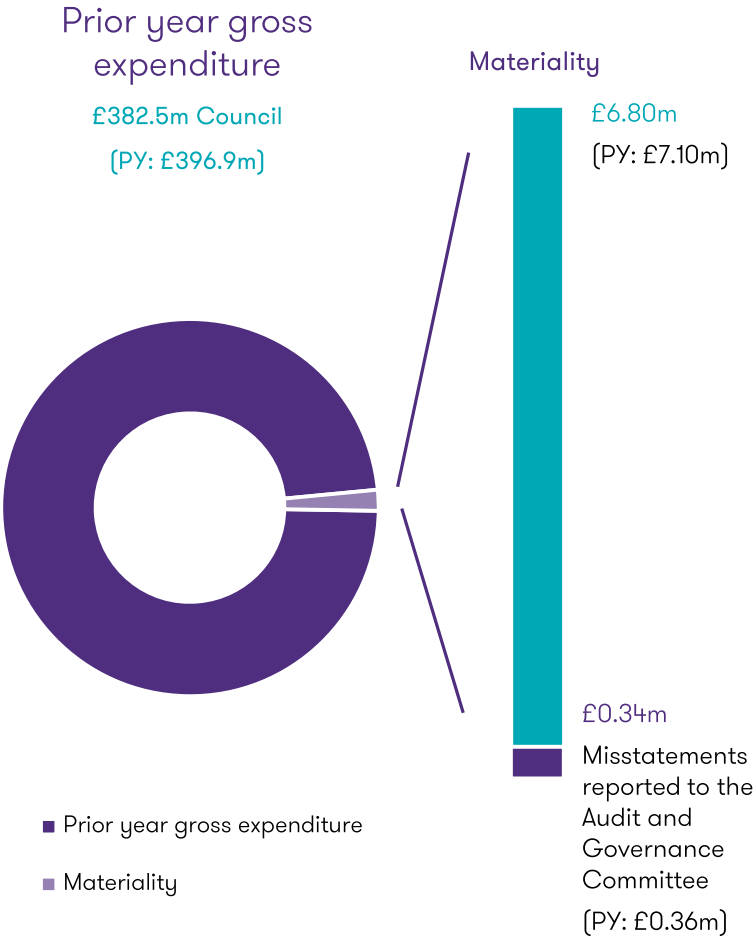
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £6.80m (PY: £7.10m) for the Council, which equates to 1.8% (PY:1.8% at planning) of your precast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. For Senior Officers remuneration, we will agree figures to supporting evidence and will request amendment of differences which we consider would be of interest to a reader of the accounts.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.34m (PY £0.36m).

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



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- a new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- more extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and
- the replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria as set out opposite.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement and evaluating a range of key documentation before we issue our auditor's annual report. We have identified one area of focus where we need to undertake further work to understand the arrangements that the Council has in place;

- How the Council identifies and manages risks to financial resilience e.g. how plans are established to identify and bridge funding gaps and achievable savings.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

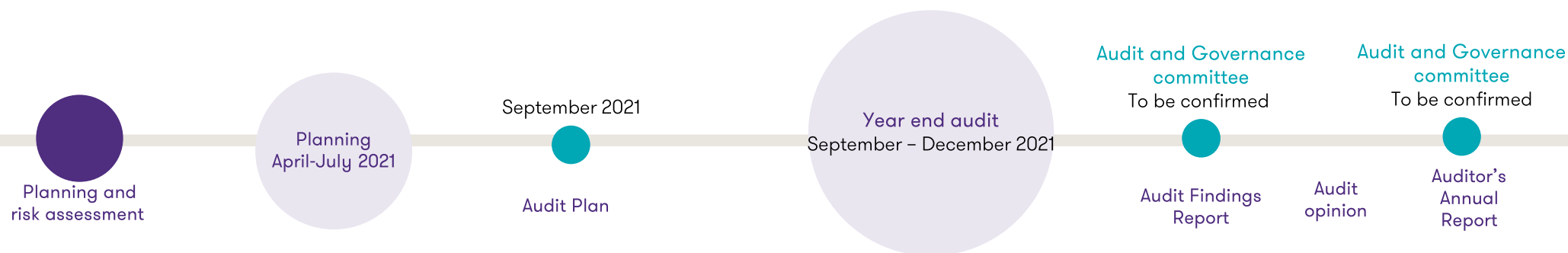


Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.



Audit logistics and team



John Farrar, Engagement Lead

Key contact for senior management and Audit and Governance Committee.

John will oversee the implementation and delivery of the audit and will be the audit signatory. He will meet with senior management to help identify risks for the audit and provide advice and assistance as required.

Gareth Winstanley, Audit Manager

Gareth will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will also lead completion of the VFM assessment. He will attend Audit and Governance Committee with John, and will undertake reviews of the team's work and draft clear, concise and understandable reports.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we may not be able to maintain continuity of all team members. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

As an audit team we will use our Info software tool to raise queries and information requests in an efficient and timely way thus reducing the impact of our audit on your finance team.

Audit fees

In 2017, PSAA awarded a contract of audit for Blackburn with Darwen to begin with effect from 2018/19. The fee agreed in the contract was £79,186. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 15, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach. Auditors now have to make more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. This has been reflected in the additional fees for the work as shown on the following page, which are in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance & Customer Services.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Blackburn with Darwen Council Audit	£89,186	£108,223	£132,186

*Analysis of 2019/20 actual fees

Actual 2019/20 fees were made up of the amended scale fee plus additional fee variances resulting in total fee of £108,223 as set out in the Council's 2019/20 Annual Audit Letter.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Final 2019/20 fee	£108,223
Less non-recurring variations	-£19,037
recurring scale fee and variations	£89,186
<i>Being:</i>	
<i>Scale fee</i>	£79,186
<i>Additional recurring variations</i>	
Raising the bar/regulatory factors/new standards and developments	£4,000
Enhanced audit procedures for Property, Plant and Equipment	£3,000
Enhanced audit procedures for Pensions	£3,000
Recurring scale fee and variations	£89,186
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Total audit fees 2020/21 (excluding VAT)	£132,186

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP team providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Return	11,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,685 in comparison to the total fee for the audit of £132,186 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teachers Pension Return	5,985		
Total	£17,685		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	





TO: Audit & Governance Committee

FROM: Director of Finance

DATE: 26th October 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: External Audit Fees 2020/21

1. PURPOSE

- 1.1 The purpose of this report is to inform the Committee of the proposed Audit Fees for 2020/21 from Grant Thornton for the audit of the Council's Statement of Accounts and the work necessary to report on the Council's arrangements for value for money.

2. RECOMMENDATIONS

- 2.1 The Committee is recommended to:-
- a) approve in principal the proposed Audit Fees for 2021/22 as set out in the report, subject to the outcome of Public Sector Audit Appointment's (PSAA) consideration of the additional audit fees proposed by Grant Thornton;
 - b) note the additional grant funding to be made available by the Government for additional External Audit Fees and the rebate from PSAA.

3. BACKGROUND

- 3.1 At the meeting of this Committee on 30th March 2021, Councillors were provided with a report giving an update on fees chargeable by the Council's External Auditors, Grant Thornton. This included information on the prospective fees for 2020/21 and additional commentary indicating that, in the light of changes to the Code of Audit Practice and more detailed work in areas such as value for money, the final audit fees for the year '*could not be accurately or reliably estimated*' at that stage.
- 3.2 The report also highlighted that the Government was to make available £15 million to local authorities in 2021/22 to meet an expected increase in External Audit fees arising from changes to the Code of Audit Practice and new reporting requirements recommended by the Redmond Review into Local Public Audit and Local Authority Financial Reporting. An update on this matter is provided in this report.

4. KEY ISSUES

- 4.1 On 9th September 2021, Grant Thornton notified the Council of their likely fees for audit of the Council's Statement of Accounts for 2020/21 and the work to be undertaken to assess the Council's arrangements for value for money. A copy of the notification is provided at **Appendix A** (with details of the fees chargeable also set out in the proposed External Audit Plan for 2020/21 which is provided elsewhere on the Agenda for this meeting). In summary, the proposed fees are (with a comparison to 2018/19 and 2019/20 also provided:-

	2018/19	2019/20	2020/21
Scale Fee	79,186	79,186	79,186
Other Fees	10,000	29,037	53,000
Estimated Audit Fees	89,186	108,223	132,186

- 4.2 As Councillors will note, and as noted in the previous report on this matter, the fees have increased as a consequence of a range of factors including changes to the Code of Audit Practice, impact of Covid-19 and much more in-depth work on value for money with a particularly focus on financial resilience. Details of these matters are set out in the letter from Grant Thornton.
- 4.3 It should be noted that, in accordance with established procedures, the additional fees over and above the normal scale fee are subject to approval by PSAA. Equally, the fees proposed are estimated based on the anticipated work required; as the audit of the Council's Statement of Accounts and value for money arrangements progresses, this may lead to variations in the work required that may change the final fees chargeable. As a consequence, it is not possible at this stage to confirm these fees.
- 4.4 Councillors should also note that, as set out in Audit Plan for 2020/21 and in line with previous years, the Council is also required to pay for the audit of the Housing Subsidy Return (£11,700) and Teachers Pension Return (£5,985).

Additional Funding

- 4.5 Over the Summer of 2021, the Government consulted on the allocation of the £15 million additional funding made available to meet the additional costs of external audit in 2021/22 (and associated with the audit of the Statement of Accounts for 2020/21 and work on the value for money assessment).
- 4.6 The outcome of that consultation are funding allocations based on the Government's preferred methodology. On the basis of this preferred methodology, the Council's share of the additional funding is £40,821 and broadly equivalent to additional charges from External Audit.
- 4.7 Councillors should also note that the Council has received a rebate from PSAA of £15,620, being a repayment of surplus Audit Scale Fees paid in previous years. As Councillors may know, whilst Grant Thornton invoice the Council for the Audit Scale Fees, they belong to PSAA. The revenue received by PSAA is to cover directly the costs of the auditors and the operating expenses of PSAA. If at the end of the period there is a remaining surplus or a shortfall, as a result of expenses being over or under-estimated, revenue is adjusted to the actual amount receivable from the opted-in bodies and payable by PSAA in total. Surplus funds are repaid to the opted in bodies the surplus was generated from hence the rebate here.

5. POLICY IMPLICATIONS

5.1 There are no policy implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

6.1 The Council's budget for External Audit Fees in 2021/22 is £91,900. On the basis of the information contained in this report, the cost of External Audit Fees for 2021/22 is estimated to be £132,186 plus a further £17,685 for non-audit services. Assuming these fees are confirmed, and taking into account the grant funding from Government and the rebate from PSAA Ltd, the net cost of audit fees for 2021/22 is expected to be £93,430.

7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising directly from the contents of this report.

8. RESOURCE IMPLICATIONS

8.1 There are no other resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

9.1 There are no equality and health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendation in this report are made further to advice from the Monitoring Officer.

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	4 th October 2021
BACKGROUND PAPERS:	Report to Audit and Governance Committee on 30 th March 2021 'External Audit Fees and Statutory Accounts Audit Deadlines'

Our ref:
Your ref:

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9 September 2021

Dear Dean

Audit Scope and additional work 2020/21

Introduction

As you are aware, local audit has gone through major changes in the last couple of years. More and more councils are getting involved in complex and innovatory financial arrangements, increased regulatory pressures, the expectations of stakeholders and enhancements to Codes and Standards have fundamentally changed the landscape in which we work. COVID - 19 and lockdown have added further unanticipated pressures on both auditors and audited bodies. In this letter, I set out my expectations of the increased audit work which will be required in 2020/21. I also set out the expected fee impact, the need for which has recently been acknowledged by both the Redmond Review and MHCLG's subsequent response. I hope this is helpful in setting out the context in which we will work with you, as well as a sign of Grant Thornton's continued commitment to the highest audit quality.

Looking back to 2019/20

In March 2020, I wrote to the Council regarding the increased regulatory focus facing all audit suppliers and the impact this would have on the scope of our work for 2019/20 and beyond. I referred to this as 'raising the bar', reflecting the expectation from the FRC that all audit work should now be of level 2a (limited improvement only) or better. I set out my expectation that there would be an additional fee requirement for the 2019/20 audit, compared to the scale fee published by PSAA, of £11,000 (an increase of 13%).

The agreed final fee for 2019/20 was £108,223. The main reasons for the further variation were as follows:

- The disruption caused by COVID-19, necessitating that the audit be conducted remotely, as well as the additional audit considerations including in respect of asset valuations. These meant that like you, we incurred considerable extra costs. Across all firms, only 45% of local government audits were signed off by the target date of 30 November, which indicates the scale of the challenge involved.

In the sections below, I set out the main factors which will impact on the audit fee for 2020/21. These include the introduction of the new NAO Code of Audit Practice, with consequent implications for Value for Money work; the revision to major auditing standards, including those covering estimates and fraud, and the update of Practice Note 10 (the adaptation of auditing standards to public sector audits).

Following the national lockdown in January 2021, COVID-19 continued to impact in a large way on the audit, and I have also commented on this below. We also note that the Government [response](#) to the Redmond Review, published on 17 December 2020 promised that MHCLG will provide relevant local authorities with £15 million in additional funding in 2021/22 to be used to support the additional costs of reporting and audit anticipated related to the 2020/21 financial year.

New audit requirements for 2020/21 – the new NAO Code

On 1 April 2020, the National Audit Office introduced a new [Code of Audit Practice](#) which came into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money. These changes are set out in more detailed in the NAO's [Auditor Guidance Note 03](#) which was published in October 2020.

We plan to issue our Audit Plan for 2020/21 in September 2021. I have set out below the main changes in respect of Value for Money, and the implications for the timing and resourcing of our work, as well as for the audit fee.

There are three main changes arising from the NAO's new approach.

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as recommendations on any significant weaknesses in arrangements identified during the audit.

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The need to publish a separate Auditor's Annual Report. To ensure we are able to complete the necessary work by the due date, we undertook our initial planning during August 2021 and the results of our risk assessment are reflected within our draft Audit Plan. We will allow sufficient time for you to comment on our Value for Money audit work and findings at each key stage before we present the results to Audit and Governance Committee.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.

- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000 for 2020/21. This in line with increases we are proposing at all our local audits.
- PSAA recognise that the additional work required as a result of the new Code will continue in future years and are consulting on how best to reflect this in any revision to scale fees with effect from 2021/22. For 2020/21 the fee variation will be approved by PSAA via the fee variations process in the usual manner.
- There will be increased documentation and reporting requirements on the audit team. The value for money work will now cover a much wider scope, as set out above. Each year we will need to assess the arrangements in place across these areas and explore the arrangements in more detail than previously. We envisage that across the country, auditors will be identifying more significant risk areas and will be reporting more extensively than in previous years. The financial and governance aspects of the COVID-19 pandemic are likely to feature heavily in our work.

Enhanced auditing standards for 2020/21: ISA 540 - Estimates

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. The single most significant of these for this year's audit is ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes a number of enhancements in respect of the audit risk assessment process for accounting estimates.

In summary, the revised Standard reflects increasing focus from regulators and other stakeholders on all key estimates, especially those which are complex, require significant judgements. ISA 540 has been enhanced to place increasing demands on auditors to understand and assess an entity's internal controls over accounting estimates.

In practice, you will see an increased focus during our audit on key internal controls including:

- How management identifies the need for and applies specialised skills
- The information system as relates to estimates
- How management reviews the outcomes of previous accounting estimates
- The role of those charged with governance: to what extent does the Audit Committee understand and oversee the estimation process?

We will also look for you to articulate clearly:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

The following are examples of where this could apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year-end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

As the audit progresses, we will discuss the practical ways in which you can support us in meeting our obligations through the audit.

Enhanced auditing standards for 2020/21: ISA 240 - Risks in respect of fraud

The auditor's responsibilities in relation to fraud in an audit of the financial statements are set out in ISA 240. This was most recently updated in January 2020, with effect for audit year 2020/21. Note that the FRC is currently [consulting](#) on further enhancements to the Standard, reflecting concerns expressed amongst others by Sir Donald Brydon that that auditors are not doing enough work to detect material fraud.

In response to the new Standard, and to the increased expectations of regulators, we are heightening our focus on fraud risks. The following are examples of where this could apply:

- Increased scope and coverage of journals testing
- Increased cut off testing
- Increased testing of income and expenditure
- Automated/data interrogation techniques
- Keeping materiality under review throughout the audit.
- More robust reporting (including the use of Statutory Recommendations where appropriate).

As with estimates, our work in this area may look and feel different to you, and you will notice an increased audit presence. We will discuss emerging findings with you, and ensure you have an early opportunity to comment on findings.

Revised ISA (UK) 700 Forming an opinion and reporting on financial statements (Updated January 2020):

This revised Standard is effective for engagements relating to financial periods commencing on or after 15 December 2019. The key change is that all auditor's reports will be required to include an explanation as to what extent the audit was considered capable of detecting irregularities including fraud. This explanation may include:

- how the engagement team obtained an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework
- which laws and regulations the engagement team identified as being of significance in the context of the entity
- the engagement team's assessment of the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur
- the engagement partner's assessment of whether the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations
- the engagement team's understanding of the entity's current activities, the scope of its authorization and the effectiveness of its control environment where the entity is a regulated entity
- in the case of a group audit, how the engagement team addressed these matters at both at the group and component levels and relevant communications with component auditors.

Practice Note 10 (PN 10): The application of auditing standards for public sector audits

Reflecting the differences between public sector and commercial audits, Practice Note 10 provides guidance for auditors on the application to relevant standards in the public sector. An updated version of PN 10 was published in November 2020. This updated version reinforces the enhancements described above in respect of estimates and risk of fraud.

In addition, there is one other major change in PN 10 and this is in respect of the auditor's responsibilities in respect of going concern. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and

- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The revisions to PN 10 are helpful in that they allow auditors to apply a 'continued provision of service approach' to auditing going concern where appropriate. Applying such an approach enables auditors to change focus somewhat. Whilst we will still undertake relevant work in respect of management's disclosure around going concern, the concept of the 'material uncertainty' disclosure is far less likely to apply. The NAO's guidance to auditors makes clear that auditor's focus should instead be based on the financial resilience of the authority. As such, there is no reduction in respect of work on going concern and financial resilience, but rather a shift in emphasis.

Impact of COVID-19

As last year, we expect that our detailed work programme will need to take account of a number of risks arising from COVID-19 related issues, including lockdown. These include potential uncertainties around the valuation of property and pension liabilities, as well as the accounting for government income received in respect of COVID-19 pressures. There are also complications arising from the remote preparation of accounts and working papers, as well as challenges for us in providing support for our junior team members working remotely.

Overall impact

MHCLG have acknowledged, via their response to Redmond, that audit fees need to increase due to the additional work being undertaken by auditors and the pressure on the audit market. Funding of £15m is being provided to local government to cover these additional costs in 2020/21.

Our estimate is that, for your audit, this will result in an increased fee of £43,000. This in line with increases we are proposing at all our local audits. I set out below the core strategic constituents of this fee.

	Total (£)
Scale fee published by PSAA	79,186
Plus:	
Ongoing increases to scale first identified in 2019/20	
Raising the bar/ regulatory factors	4,000
PPE	3,000
Pensions	3,000
Revised base fee, including 2019/20 increases	89,186
New issues for 2020/21	
Increase in respect of additional work on Value for Money under new NAO Code	26,000
Increased audit requirements of revised ISA	
Impact of ISA 240 / 700 – risks in respect of fraud/ associated reporting	17,000

Increase on prior year	43,000
Fee proposed for 2020/21	132,186

All variations to the scale fee will need to be approved by PSAA.

Next steps

I hope this is helpful in explaining how the audit world is changing, as well as the practical implications in terms of the Audit Plan, and the benefits to audited bodies from an even more rigorous and robust audit. I look forward to discussing this in more detail at our next meeting. If you have any questions in the meantime, please don't hesitate to contact me.

Yours sincerely

John Farrar

Engagement Lead, Public Sector Assurance
For and on behalf of Grant Thornton UK LLP



TO: Audit & Governance Committee

FROM: Director of Finance

DATE: 26 October 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

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

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

2. RECOMMENDATIONS

The Committee is asked:

- to consider and approve the response attached at Appendix 1.

3. BACKGROUND

The Council's external auditor, Grant Thornton, is required to comply with the requirements of the International Standards on Auditing (UK) (ISA), as adopted by the UK Financial Reporting Council (FRC), in conducting the audit of the Council's financial accounts for the year ended 31 March 2021.

Under the ISA Grant Thornton has specific responsibilities to communicate with the Audit & Governance Committee. The matters that should be communicated as also specified. To support their work, the Audit & Governance Committee has been asked to provide information on how it gains assurance from management in order to fulfil its responsibilities in respect of the financial reporting process.

As part of the risk assessment procedures Grant Thornton is required to obtain an understanding of the management processes, and the Committee's oversight, of the following areas in respect of the year ended 31 March 2021:

- General Enquiries of Management
- Fraud;
- Laws and Regulations;
- Related Parties ; and
- Accounting Estimates.

Grant Thornton sent a questionnaire to the Council setting out their enquiries of management covering the above areas. The information provided by the Council will assist Grant Thornton in understanding the Council's business processes and support its work in arriving at an audit opinion for the 2020/21 accounts.

4. RATIONALE

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

5. KEY ISSUES AND RISKS

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

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

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

The Local Audit and Accountability Act 2014 (the Act) states that the accounts of a relevant authority for a financial year must be audited:

(a) in accordance with the Act and provisions made under it, and

(b) by an auditor (local auditor) appointed in accordance with the Act or provision made under it.

A local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the Code of Audit Practice applicable to the authority that is for the time being in force. The current Code of Practice for UK Local Government is the Code of Audit Practice issued by the National Audit Office, which came into effect from the 2020/21 audit year. The Code adopts the International Standards on Auditing (ISAs) as issued by the FRC.

9. RESOURCE IMPLICATIONS

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

10. EQUALITY AND HEALTH IMPLICATIONS

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

11. STATEMENT OF COMPLIANCE

The recommendation in this report is made further to advice from the Monitoring Officer. The Section 151 Officer has confirmed that it does not incur unlawful expenditure. It is also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendation reflects the core principles of good governance set out in the Council's Code of Corporate Governance.

12. CONSULTATIONS

Director of Finance, Head of Financial Services (Resources & Place) Strategic Head of Services Legal / Council Solicitor, Head of Audit & Assurance.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance— Ext: 5326
Date:	07 October 2021
Background Papers:	None

Informing the audit risk assessment for Blackburn with Darwen Borough Council 2020/21



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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes in the following areas:

General Enquiries of Management

- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>Coronavirus pandemic:</p> <ul style="list-style-type: none"> significant additional costs and loss of income to the Council caused by the pandemic has led to variations in expenditure and income across all the Council's portfolios additional funding has been received from Government to offset these losses – we need to ensure that we have identified the many grant funding streams and have accounted for them appropriately impact on Collection Fund accounting impact on provision for bad debts
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Council ? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>No changes to the accounting policies section of the Statement of Accounts document.</p> <p>The Council has undertaken a review of its MRP policy with Arlingclose, treasury management advisors. As a result of this review the Council has updated its policy to apply the annuity calculation method to all elements of the CFR. The estimated lives used have not changed.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>No changes since 2019/20 and nothing unusual. No derivatives are used. We have longstanding LOBO's but they do not involve complex arrangements and are not significant. Details are reported to the Audit & Governance Committee on a regular basis.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<ul style="list-style-type: none"> As above significant additional expenditure related to the Covid pandemic, also loss of fees and charges income but increase in grant funding will impact on gross expenditure and income in CIES Sale of BSF shares Prepayment of all pensions deficit costs and employers' contributions for the next 3 year period in April 2020 totalling £38 million

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	This has been discussed with the in-house property valuer and the annual impairment review requested. Nothing identified to date.
6. Are you aware of any guarantee contracts?	<p>The only contracts we are aware of are where the Council is in effect a guarantor in relation to the Local Government Pension Scheme, where we are the Scheme Employer for an Admitted Body Status Agreement.</p> <p>There are a few pension guarantees in place where staff have TUPE transferred to external companies. However, the numbers are low and the companies have no pensions deficit therefore these are not considered to be material.</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	We are aware of a small number of social care insurance claims which involve Human Rights Act breaches. These are being handled by the Council's insurers and are not expected to have an impact on the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>DAC Beachcroft – Advised on sales of PFI shares</p> <p>External solicitors are usually instructed via the North West Legal Consortium. This is a legal consortium [with nearly 50 public sector members] who procure external solicitors at preferential rates to provide legal services via a framework agreement.</p> <p>At present there are no external solicitors working on open litigation or contingencies from prior years.</p> <p>NB Social care lawyers have not been included in this response.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	We have not been made aware of any instances of this type of issue during the last 12 months.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Asteros – financial advisors on BSF PFI PSTAX – advice on complex VAT issues in addition to general support and VAT training for our staff</p> <p>Arlingclose – Treasury Management advisors</p> <p>Croftons Solicitors (Now Knights Professional Services Ltd) and Beever and Struthers – proposed Local Housing Company</p>

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have management assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the Council's risk management processes link to financial reporting?</p>	<p>Overall we consider that there is a low risk that the financial statements may be materially misstated due to fraud. There are a number of processes in place to prevent and detect fraud with the accounts. These include:-</p> <ul style="list-style-type: none"> • Via regular monitoring we review expenditure / income throughout the year with the budget holders • Portfolio Finance Officers check accruals for reasonableness, including review of period one transactions • Approval hierarchy / limits in Civica Purchasing – this is the point of authorisation for most of the spending • Approval hierarchy for journals / virements • Internal audit review of main control areas linking through to the Annual Governance Statement • Keeping up to date with the latest guidance to ensure proper accounting rules are adhered to. <p>The Council has appropriate arrangements in place to identify and respond to the risk of fraud. These include the Fraud Policy Statement, Whistle Blowing Policy and Fraud Response Plan. These set out the Council's position regarding this area. There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-Fraud Network to relevant managers and staff and the provision of eLearning packages for managers and staff covering fraud awareness, preventing bribery and corruption and working with the Bribery Act.</p> <p>The Council has a dedicated whistle blowing phone number in place which is monitored by Audit & Assurance staff who will follow up any calls relating to fraud allegations and carry out appropriate investigations. The audit team are also informed of any potential or suspected fraud which may be brought to managements attention through other channels, such as the corporate complaints process. These are followed up under the whistle blowing policy where relevant. The results are reported to senior management and the Audit & Governance Committee</p>

Fraud risk assessment

Question	Management response
	<p>The Council also participates in the National Fraud Initiative (NFI). NFI data matches are followed up by departments to determine the reasons for the matches being identified and assess if they are the result of timing difference, fraud or other errors.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<ul style="list-style-type: none"> • Handling cash and banking • Ordering and payment for goods and services • Situations where we are dealing with service users' (often vulnerable adults) own money or assessing their financial position e.g. Corporate Appointee / Financial assessments • Bank mandate fraud • Direct payments

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There has been one low value potential or suspected fraud reported to Audit & Assurance in the last 12 months. The audit investigation did not identify any substance to the allegation. In addition, Audit & Assurance carried out work during the year to review the system and procedures for claiming mileage and expenses. A small number of duplicate mileages claims were identified during audit testing. The results from the follow up of these exceptions did not indicate that any fraud had occurred.</p> <p>The Audit & Governance Committee receives regular progress reports from Audit & Assurance on the progress of the Audit Plan. This includes an update on any fraud investigations and counter fraud work carried out in the period, as well as the overall opinion for audits finalised in the period and a summary of issues where 'limited' or 'no assurance' opinions are provided. The Committee invites Senior Officers to provide updates on any areas of concern raised in the reports. The 2019/20 Internal Audit Annual Opinion Report presented to the Committee in July 2020, concluded that the Council has adequate systems of risk management, control and governance in place which are being applied to an adequate standard.</p> <p>The Committee also receive a Counter Fraud Annual report setting out the results of investigations carried out and counter fraud activity undertaken during the previous year.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The Council has developed a counter fraud risk register which identifies 13 key areas for the risk of fraud and related controls in place to manage these areas. During 2021/2022 Audit & Assurance staff will work with the key contacts for each risk identified to review and update the details of the risks and controls identified.</p> <p>Audit & Assurance considers the Council's control and risk management framework and processes as part of the development of its risk based plan, which is presented annually to the Audit and Governance Committee for approval, and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, with some exceptions identified regarding compliance with the controls in place, no material issues have been identified during the year.</p>

Fraud risk assessment

Question	Management response
	<p>We do not have any particular concerns that there are any specific areas that are at particular risk of fraud or any locations where fraud is more likely to occur.</p>
<p>5. What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has various arrangements in place to identify and respond to the risk of fraud. These include the Fraud Policy Statement, Whistle Blowing Policy and Fraud Response Plan. These documents set out the Council's position regarding this area. There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-Fraud Network to relevant managers and staff and the provision of eLearning packages for managers and staff covering fraud awareness, preventing bribery and corruption and working with the Bribery Act. The Council has a dedicated whistle blowing phone number in place which is monitored by Audit & Assurance staff who will follow up any calls relating to fraud allegations and carry out appropriate investigations. The Council also participates in the National Fraud Initiative.</p> <p>Directors are responsible for self-assessing the effectiveness of the control arrangements in their departments and are required to complete a Director's Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement. These statements include specific reference to effective controls to prevent, detect and deter fraud, anti-fraud and corruption and confirmation that budget monitoring is carried out on a regular basis.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Council has a comprehensive and robust internal control framework in place, including Financial Regulations, Standing Financial Instructions, Contract and Procurement Procedure Rules, an Officer Scheme of Delegation, a Counter Fraud Policy and Strategy and resource and budget monitoring processes. These various documents and processes are monitored and reviewed periodically to ensure that they are up to date and fit for purpose.</p> <p>Directors are responsible for self-assessing the effectiveness of their arrangements and required to complete a Director's Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement.</p> <p>Audit & Assurance considers these control processes as part of the development of the risk based plan and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, and some exceptions were identified regarding compliance with the controls in place no material issues have been identified during the year in respect of the fundamental financial systems.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Accruals and other estimation techniques, however, detailed guidance is sent out to senior management for cascade down to staff in departments. Also, Finance teams work closely with budget holders to advise on recording expenditure and income in the correct accounting period</p>

Fraud risk assessment

Question	Management response
<p>8. How does the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has an Officer's Code of Conduct which is used to encourage ethical behaviour in staff. This is reviewed annually as part of the review of the Constitution. There are also Standing Financial Instructions relating to Registers of Personal and Business Interests and the receipt of Gifts and Hospitality. An annual email is sent to staff reminding them of the importance of this area and the need to complete the appropriate declarations and return them to their Directors for consideration.</p> <p>There are also online training courses for staff covering Fraud Awareness, the Prevention of Bribery in Business and Working with the Bribery Act.</p> <p>Staff are expected to report any concerns that they may have regarding any potential or suspected fraud, either to their line manager or to Audit & Assurance.</p> <p>There have been no significant issues reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those in relation to exchequer functions – making payments / collecting and recording income etc. Treasury management – dealing with borrowing and investments HR & Payroll Posts responsible for procurement activity and raising and approving orders</p> <p>Controls ensuring separation of duties e.g. setting up new vendors; change of bank details; authorisation hierarchy for ordering; set-up / changes to employee details etc. Financial procedures, Procurement and Purchasing Rules and Standing Financial Instructions are in place setting out staff roles and responsibilities.</p>

Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None that we are aware of currently</p> <p>Registers of Interest for staff and Member maintained – see above</p> <p>Related party relationships and transactions are fully reviewed as part of the closure process and all significant transactions disclosed in the notes to the accounts. Members Register of Interest reviewed for personal / business interest with which the Council has transactions. Management Board (Chief Executive & Directors) each required to make a personal return in respect of their own / any family members potential interests</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit & Governance Committee receives regular reports from Audit & Assurance setting out the progress of the approved Audit Plan. This includes an update on the progress of work on the follow up of data matches identified from the National Fraud Initiative and any fraud and other investigations and carried out in the period, as well as the overall opinions for the audits finalised in the period and a summary of issues identified where 'limited' or 'no assurance' opinions are provided. The Committee members are able to ask questions of officers during the year regarding the details of the counter fraud activity to clarify any of the details reported and improve their understanding of this area. The Committee also invites senior officers to provide updates on any significant areas of concern raised in the reports in respect of key or fundamental financial systems.</p> <p>The 2019/20 Internal Audit Annual Opinion Report presented to the Committee in July 2020, concluded that the Council has adequate systems of risk management, control and governance in place which are being applied to an adequate standard.</p> <p>The Committee also receives a Counter Fraud Annual report setting out the results of investigations carried out and counter fraud activity undertaken during the previous year. The 2019/20 report concluded that that the Council had effective measures to enable the prevention and detection of fraud and irregularities.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes. These have been investigated by Audit & Assurance, or are in progress, to establish if there has been any evidence to support the allegations made by the whistleblowers. The findings have been or will be reported to management and the Audit & Governance Committee. Whilst the reviews have identified areas where controls could be strengthened in some cases, no instances of fraud have been identified.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council's Legal & Governance department provides advice on law and regulation on a number of areas that relate to Council's business and activities. In addition, the Contracts & Procurement team also advise on laws and regulations relating to that area. There are a number of qualified legal professionals with expertise in specific areas of the law, who would provide advice and legal support to departments.</p> <p>The Legal & Governance department also includes the Council's Complaints team, who coordinate complaints receive, and where they escalate undertake internal investigation and liaise with the LGO when referred. The consideration and dealing of complaints are supported by qualified legal staff. Any legal issues that are identified from the complaints are actioned appropriately.</p> <p>Instruction of external legal advisers including Counsel as appropriate in complex matters.</p> <p>To update knowledge, qualified legal staff are required to undertake extensive training and collate CPD points-regulated by the Solicitor's Regulatory Authority.</p> <p>The Council's Constitution is regularly reviewed and updated, ensuring that relevant changes in the law are reflected and that the governance framework is legally sound.</p> <p>There have been no actual claims for judicial review issued against the Council for a number of years. However, letters before action under the Judicial review protocol were received which were responded to adequately and thereby negating the need for a claim to be made.</p> <p>The Strategic Head of Service (who is also the Monitoring Officer) is the authorised signatory for all court documentation, statutory notices and signing of deeds etc.</p> <p>Regular legal performance information provided to management e.g. children's social care order applications and prosecution numbers.</p>

Impact of laws and regulations

Question	Management response
<p>Page 70</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Council has written procedures/protocols to deal with regular situations where we have legal obligations to discharge e.g. Traveller/Unauthorised Encampments-discharge of our legal duties in relation to equalities and human rights, RIPA Procedural Guide, CCTV Policy and Enforcement and Prosecution Policy. Legal & Governance have drafted and advised on the content of these documents, which are reviewed and updated to reflects changes in the law.</p> <p>Staff who are members of professional bodies are bound by their codes of conduct and requirements to comply with professional standards and relevant laws and regulations</p> <p>Corporate and Departmental risk registers are in place.</p> <p>Directors complete and sign an annual assurance statement as part of the process to prepare the Council's Annual Governance Statement</p> <p>The risk based audit plan would consider compliance with laws and regulations for key risk areas.</p> <p>See above. Also Monitoring Officer and 2 Deputy Monitoring Officers[solicitors] to ensure lawful decision-making as well as provision/procedure to ensure legal implications are considered for all Executive and other reports.</p> <p>Legal representatives attend at Council, Executive Board and regulatory committees to advise as appropriate.</p> <p>The statutory role of Proper Officer for Births Deaths and Marriages is held by a senior qualified legal officer-last service assurance report submitted was rated by General Registry Office with 'high assurance'. External Inspections would also detect non compliance e.g. a recent RIPA desktop inspection provided positive feedback. We also have a RIPA Monitoring Group.</p>

Impact of laws and regulations

Question	Management response
<p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Regular training is provided to elected members and officers at all levels from the in-house legal team and externally on a wide range of subject matter relating to our statutory duties and legal compliance in general.</p> <p>Regular Statutory Officers Group meeting has been set up to focus on the overall governance of the Council, assurance including better decision-making.</p> <p>No.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through Audit & Assurance reports and opinions on specific areas of business via the delivery of the risk based annual audit plan.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Full disclosures are made in relation to the MMI Scheme of Arrangement and claims the Council are pursuing to recover costs of care in a small number of cases – included as contingent liability / asset</p> <p>The Council is currently involved in a construction litigation matter with a former contractor on the Bus Station project. Legal proceedings commenced in the High Court and the Council are supported by specialist external legal advisors. Related his matter, the Council is pursuing a performance bond provided by the former contractor, and is subject to the outcome of the legal proceedings. The value of the claim is over £3m plus associated costs. There are no other insurance claims or other litigation known of that would affect the financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Claims in Legal services over recent years have generally declined and have been relatively low in value. High risk claims would potentially be monitored via our risk register. Outcomes of cases or situations where the council could be legally challenged tend to be evaluated 'organically' and procedures changed/developed by way of lessons learnt e.g. procedures for remedial action for data breaches-outcomes monitored for the organisation, issues identified from feedback/complaints received and LGO reports etc..
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There are no reports known of that would affect the financial statements.

Related Parties

Issue

Matters in relation to Related Parties

The Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and the Council whether the Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The Council is a minority shareholder in a new Special Purpose Vehicle (Maple Grove Blackburn Limited) along with Maple Grove Developments Ltd. This company was incorporated on 05/03/2021. The purpose of this arrangement being to acquire the former Thwaites site in Blackburn town centre to provide opportunities for a range of redevelopment options and encourage inward investment for the Borough. The minority shareholding by the Council will help to ensure the site is master planned and delivered in a way which maximises positive outcomes for the local area, and also to allow a holistic strategy to be developed, to include the adjacent Council-owned former Blackburn Markets site and other Council assets in the area. No transactions had taken place prior to year end, apart from the acquisition of the Council's shareholding of 49 shares of £1 each.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Registers of Interest for staff and Members maintained</p> <p>Related party relationships and transactions are fully reviewed as part of the closure process and all significant transactions disclosed in the notes to the accounts. Members Register of Interest reviewed for personal / business interest with which the Council has transactions. Management Board (Chief Executive & Directors) each required to make a personal return in respect of their own / any family members potential interests</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Decision making hierarchy specified within the Council's Constitution. Significant transactions would be classed as "Key Decisions", which require reporting to / decision making by the Executive Board. Finance Managers receive weekly email with links to Officer / Exec Member / Exec Board decisions taken</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Those where the basis of measurement for the amount recognised in the accounts is uncertain, therefore an estimation technique is required, e.g.:</p> <ul style="list-style-type: none"> • Accruals of expenditure and income • Valuation and depreciation of property, plant and equipment assets • Fair value measurements • Impairment allowance offset against arrears • Assumptions made when calculating accounting provisions • The valuation of the Pensions liability
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Included within guidance issued / procedures followed in relation to the annual closure of accounts process. For example detailed guidance on the requirement to make accruals to ensure expenditure and income is recorded in the correct accounting period</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Management follows the latest professional guidance to assist in identifying issues that may impact on accounting assumptions and estimates used in preparing the statement of accounts e.g. events causing increased uncertainties. Also, discuss with:</p> <ul style="list-style-type: none"> • LCFO's Finance Sub Group and G M Chief Accountant's groups to compare approach; and • external audit regarding any new areas they will be focussing on <p>Assumptions / source data is taken from historical data wherever possible amended to reflect known / likely changes</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	Comparison of actual outcomes to estimates made – review and update historical information to inform future estimates
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Detailed review of sundry debt and impact of restrictions due to pandemic on collectability of debt – impact on potential write-offs and calculation of bad debt provision. Also assumptions regarding collectability of council tax and business rates arrears will be reviewed in line with recent collection rates.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	If estimates involve specialised professional judgements and access to specific relevant data, which the Finance team do not have / have access to, then a relevant expert / advisor is needed e.g. Treasury Management Advisors / Property Valuers / Pensions Actuaries
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	For significant accounting estimates provided by the advisors above, the Finance team will review supplementary information to support the calculations provided by the advisors and discuss the methodology to ensure they understand the estimates made

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Accounting Estimates - General Enquiries of Management

Question	Management response
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The Council is starting to review evidence to support property valuations on a sample basis in order to challenge the valuations carried out. An exercise is also carried out to compare the movement in valuations to that expected by an uplift in sector specific indices.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Finance Managers review evidence of accruals requested by budget holders. Month1 creditor payments are reviewed to ensure all either relate to the new year or have been accrued for Outstanding purchase orders are reviewed by budget holders / finance teams during the last quarter of the year to ensure system generated accruals are appropriate
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Possibly accounting treatment of various Covid related grants but otherwise no
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes

Accounting Estimates - General Enquiries of Management

Question	Management response
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Not explicitly reported to Audit & Governance Committee currently but specific disclosures are included within the Statement of Accounts</p> <p>A short presentation / training session is planned for the next Audit & Governance Committee to raise awareness of the accounting estimates used in the preparation of the Council's accounts</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>Management engage a valuation expert, who is a member of the Council's Property Team, to undertake a sample of property valuations each year.</p> <p>Properties are valued in line with accounting standard requirements and in accordance with the applicable RICS standards.</p>	Appropriately qualified valuer is engaged to undertake valuations.	Yes	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited.	No
Investment property valuations	As above.	As above.	Yes	<p>As above.</p> <p>The Council only has one investment property (TV Relay Station) which is not of significant value (~£50,000) so changes in the estimate of fair value are unlikely to have a material impact.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation Page 81	<p>Civica Asset Register used to calculate amounts generated by latest property valuation</p> <p>Civica asset register is used to calculate and process the annual depreciation charge. Depreciation is charged on a straight line basis over the useful life of each specific asset.</p>	Suitably qualified officers/valuer advise the estimate of useful life for each asset.	Yes	<p>The main assumption in the depreciation is the useful life of the asset.</p> <p>Property assets have their useful life estimate by our expert valuer. Other assets have their useful lives estimated by a suitably qualified officer.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities Page 82	<p>The Projected Unit method of valuation is used to calculate:</p> <ul style="list-style-type: none"> benefit obligation (liability) - the total present value of individual scheme members benefits in relation to service completed up to the date of the calculations Service cost - the total present value of individual scheme members benefits which is attributable to service during the accounting period 	Appropriately qualified experts used to derive valuations.	Actuarial services including calculation of accounting information provided by Scheme Actuary - Mercers	<p>Detailed information to support calculations and assumptions used is provided by the Actuary based on data submitted by the employer. The Council has not been subject to:</p> <ul style="list-style-type: none"> Significant outsourcing / bulk transfer of scheme members Amalgamation/reorganisation Significant redundancy/restructuring programs Average pay increases significantly in excess of assumptions adopted <p>Therefore, the only cause of uncertainty is the impact of the Covid pandemic on financial markets</p>	<p>Yes, prepayment will reduce liability from that assessed by Actuary</p> <p>Also fundamental changes in market- implied RPI due to a change in the RPI formula has impacted on Actuary's assumptions for CPI</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 investments Page 83	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments	Appropriately qualified experts used to derive valuations.	Fair value calculations provided by Arlingclose	The Council does not have any complex investments with high degrees of uncertainty. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value – being its professional treasury advisers, Arlingclose.	No
Level 3 investments	Fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness	Appropriately qualified experts used to derive valuations.	Fair value calculations provided by Arlingclose	As above	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates Page 84	<p>PPE, investment property and treasury investments fair values as detailed above.</p> <p>The calculations for the fair value of borrowings are provided by the Council's treasury management advisers, Arlingclose. This are generally for disclosure only.</p>	Appropriately qualified experts used to derive valuations.	Fair value calculations provided by Arlingclose	<p>The Council does not have any complex borrowings with high degrees of uncertainty.</p> <p>The Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value – being its professional treasury advisers, Arlingclose.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions: Business Rates Appeals	Data from VOA for both 2010 List appeals and 2017 List Check, Challenge, Appeal data	Approach discussed at GM Collection Fund Accounting Group	No	Uncertainty due to variance in appeal decisions and significant backdating re 2010 list. Check, Challenge, appeal system has curtailed activity to some extent	No
Accruals	Creditors generated by Purchasing Module of Civica where orders receipted but not paid at 31/03/21.	Detailed guidance issued to budget holders and manual accruals reviewed by Finance team prior to input. Transactions in first month of new year examined to identify if accruals have been missed	No		No
Credit loss and impairment allowances	Consideration of age profile of arrears and other specific issues impacting on collectability of debt	Calculation done corporately then reviewed by service finance officers with more in depth knowledge of specific issues relating to debt	No	Covid pandemic has impacted on ability of debtors to clear arrears – in particular Markets / Commercial Properties but these areas have been subject to greater scrutiny over the past year	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.	Experts used where appropriate.	A valuer is engaged to provide the asset fair value where appropriate. Where appropriate, management will engage with Arlingclose.	There is a limited degree of uncertainty involved with Finance Lease Liabilities. Leases are classified as appropriate at inception and accounted for in line with the applicable accounting standards.	No
PFI Liabilities	PFI Accounting model reflecting changes in RPIx	Accounting model	The Council worked with advisors to construct the initial model that has been used for and audited throughout the life of the scheme's to date	There is a limited degree of uncertainty as the significant values in the contract are fixed. He model uses RPIx to identify changes	No

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TO: Audit & Governance Committee

FROM: Director of Finance

DATE: 26th October 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Provision of External Audit – PSAA Opt-In Invitation

1. PURPOSE

- 1.1 The purpose of this report is to inform the Committee of an invitation from Public Sector Audit Appointments (PSAA) Ltd to join the national scheme for the procurement of external audit services with effect from the financial year 2023/24.

2. RECOMMENDATIONS

- 2.1 The Committee is recommended:-
- a) to note the requirement for the Council to appoint an external auditor for the audit of the Statement of Accounts for 2023/24 (and subsequent years) no later than December 2022;
 - b) note the requirement to notify PSAA Ltd of the Council's decision whether opt-in to the national procurement process no later than 11th March 2022;
 - c) that a further report on this matter is presented to this Committee on 18th January 2022 with a view to making a recommendation to Finance Council in early March 2022.

3. BACKGROUND

- 3.1 Councillors may be aware that in 2014, the then Government undertook a range of structural reforms to the external audit framework for local public audit (including the arrangements for local government). This led to abolition of the Audit Commission and the decentralisation of the framework for the provision of external audit services to local public services.
- 3.2 The arrangements for the appointment of external auditors under the new regime are set out in the Local Audit and Accountability Act 2014 (the Act). The Act sets provides for the creation of a locally-led audit regime providing local authorities with greater flexibility over the procurement of their external audit service. In essence, Councils can:-
- a) undertake their own procurement and appointment of an External Auditor – this would require the Council to establish an Audit Panel comprising Elected and Independent Members who would be consulted on the selection and appointment of an Auditor;

- b) work collaboratively with other local authorities on a procurement for an External Auditor – this is the same as (a) above but with a procurement exercise undertaken by a group of local authorities who may use a shared Audit Panel for consultation about selection and appointment of an Auditor;
- c) opt in to a Sector-led procurement – this is a national procurement exercise whereby a designated body undertakes the procurement and appointment of an External Auditor on behalf of those Councils that choose to opt-in to this process.

3.3 In response to this, the Local Government Association (LGA) established PSAA as a not-for-profit company to act as an Appointing Body for principal local government and police bodies; in essence, PSAA undertake the procurement, appointment and setting the scale of fees payable for those bodies that opt in to the national scheme.

3.4 With the current contracts for External Audit, 98% of eligible public bodies, including Blackburn with Darwen Council, opted-in to the 5-year period commencing in April 2018.

4. KEY ISSUES

4.1 The Council's current contract for the provision of external audit expires with the conclusion of the audit of the Council's Statement of Accounts and arrangements for Value for Money in 2022/23. In accordance with the Act, the Council must have appointed an external auditor for the audit of the Council's Statement of Accounts for 2023/24 onwards before the end of December 2022.

4.2 In line with the options set out above, PSAA have issued an invitation to Councils to opt-in to a national procurement exercise. The deadline for responding to the invitation is 11th March 2022 and, in accordance with the Act, the decision to opt-in must be taken by the Full Council.

4.3 It is proposed that this matter is considered in more detail by the Audit and Governance Committee in January 2022 with a view to making a recommendation to Finance Council in early March 2022. Given the volatility in the audit environment as a result of, for example, changes in the Code of Audit Practice, concerns over the resilience of local authorities and the broader implications of the Redmond Review and the Government's response to that – all of which have, in some way, led to rising audit fees – a number of Councils are considering the merits of the alternative procurement routes set out above as a way of having a greater degree of control over what they pay for External Audit.

4.4 Between now and then, there will be an opportunity to see whether there is any appetite amongst other local authorities to consider alternatives to the PSAA and what the benefits and disadvantages of these alternatives are. This will form the basis of the report to the Audit and Governance Committee in January 2022.

5. POLICY IMPLICATIONS

5.1 There are no policy implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising directly from this report.

7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising directly from the contents of this report.

8. RESOURCE IMPLICATIONS

8.1 There are no other resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

9.1 There are no equality and health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendation in this report are made further to advice from the Monitoring Officer.

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	4 th October 2021
BACKGROUND PAPERS:	PSAA Opt-In Invitation



BRIEFING PAPER

REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance

DATE: 26th October 2021

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2021/22

Based on monitoring information for the period 1st June – 31st August 2021

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 2021/22, approved at Executive Board in March 2021, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

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

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES

4.1 Bank of England Bank Rate

The Bank of England Bank Rate has remained steady at 0.1% during the period.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated across the period, ranging between £50M and £85M. Investment balances continued to be unusually high during this period, 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 businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on MMF holdings remained low over the period, at around 0.01% throughout the period. Bank deposit account rates have remained steady over the period, paying 0.01%.

For limited periods, funds were also placed with the Government’s Debt Management Account Deposit Facility (at 0.01%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.40%
26-Mar-21	15-Jul-21	Leeds City Council	£5,000,000	0.03%
15-Apr-21	15-Jul-21	Cornwall Council	£5,000,000	0.04%
29-Apr-21	29-Jul-21	Royal Borough of Windsor and Maidenhead	£5,000,000	0.04%
28-Apr-21	28-Jul-21	Flintshire County Council	£4,000,000	0.03%
06-Jul-21	06-Oct-21	Slough Borough Council	£5,000,000	0.03%
24-Jun-21	26-Jul-21	Lancashire County Council	£5,000,000	0.02%
29-Jul-21	27-Oct-21	Royal Borough of Windsor and Maidenhead	£5,000,000	0.02%
15-Jul-21	15-Oct-21	Cornwall Council	£5,000,000	0.03%

At 31st August, the Council had approximately £54.2M invested, compared to £72.7M 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 0.05%.

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

- (a) 1 month lending – fairly stable over the period, averaging -0.07%
- (b) 3 month lending – fairly stable over the period, averaging -0.05%

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, have remained stable during the period. Interest rates on loans from 3 months out to a year were priced at low rates between 0.02% to 0.20% throughout the period.

The Council continues using short-term borrowing, with balances having fallen over the period as loans have not been replaced as they have matured, but should we need to borrow over the longer term this may be more expensive. 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 a decrease in short-term borrowing of £28M, as loans of £33M were repaid and £5M of new loans were taken (listed below).

New loans taken in the period				
Start Date	End Date	Counterparty	Amount £	Rate
26/08/2021	25/08/2022	North Tyneside Council	5,000,000	0.20%
			5,000,000	

Future deals already agreed by end of period				
Start Date	End Date	Counterparty	Amount £	Rate
13/09/2021	12/09/2022	Crawley Borough Council	5,000,000	0.20%

4.5 Current Debt Outstanding

	31 st May 2021		31 st August 2021	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	33,000		24,250	
Greater than 3 months (full duration)	<u>39,250</u>		<u>20,000</u>	
		72,250		44,250
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	127,418		127,418	
Stock & Other Minor Loans	<u>262</u>		<u>262</u>	
		145,680		145,680
Lancashire Council County – Transferred Debt		13,583		13,448
Recognition of Debt re PFI Arrangements		<u>61,293</u>		<u>60,828</u>
TOTAL DEBT		292,806		264,206

LESS: TEMPORARY LENDING		
Fixed Term	(46,975)	(33,600)
Instant Access	(25,758)	(20,648)
NET DEBT	220,073	209,958

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

- (a) £18M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%.
- (b) £127.4M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% to 3.77%.
- (c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 1.82%.
- (d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over, and use of these assets is thereby shown “on balance sheet”, with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax Payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

4.6 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 August 2021 was £264.3M, which is below both our Operational Boundary (£337.6M) and our Authorised Borrowing Limit (£347.6M) for 2021/22.

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 £3.0M, against the **limit** set for this year of £108.6M.

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 £132.7M, against the **limit** of £245.3M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of much higher levels of new long-term, fixed rate borrowing. There are still significant levels of short-term debt.

4.7 Mid-Year Treasury Management Strategy Review

Executive Board approved the Treasury Management Strategy for 2021/22 on 11th March 2021. A mid-year review has been undertaken, a copy of which is appended (Appendix 6), which will be taken to Executive Board on 10th November 2021, as part of the budget monitoring process.

The conclusion of the review is all Investment Criteria and Treasury Indicators set before the start of the financial year can remain unchanged.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

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

7. LEGAL IMPLICATIONS

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

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

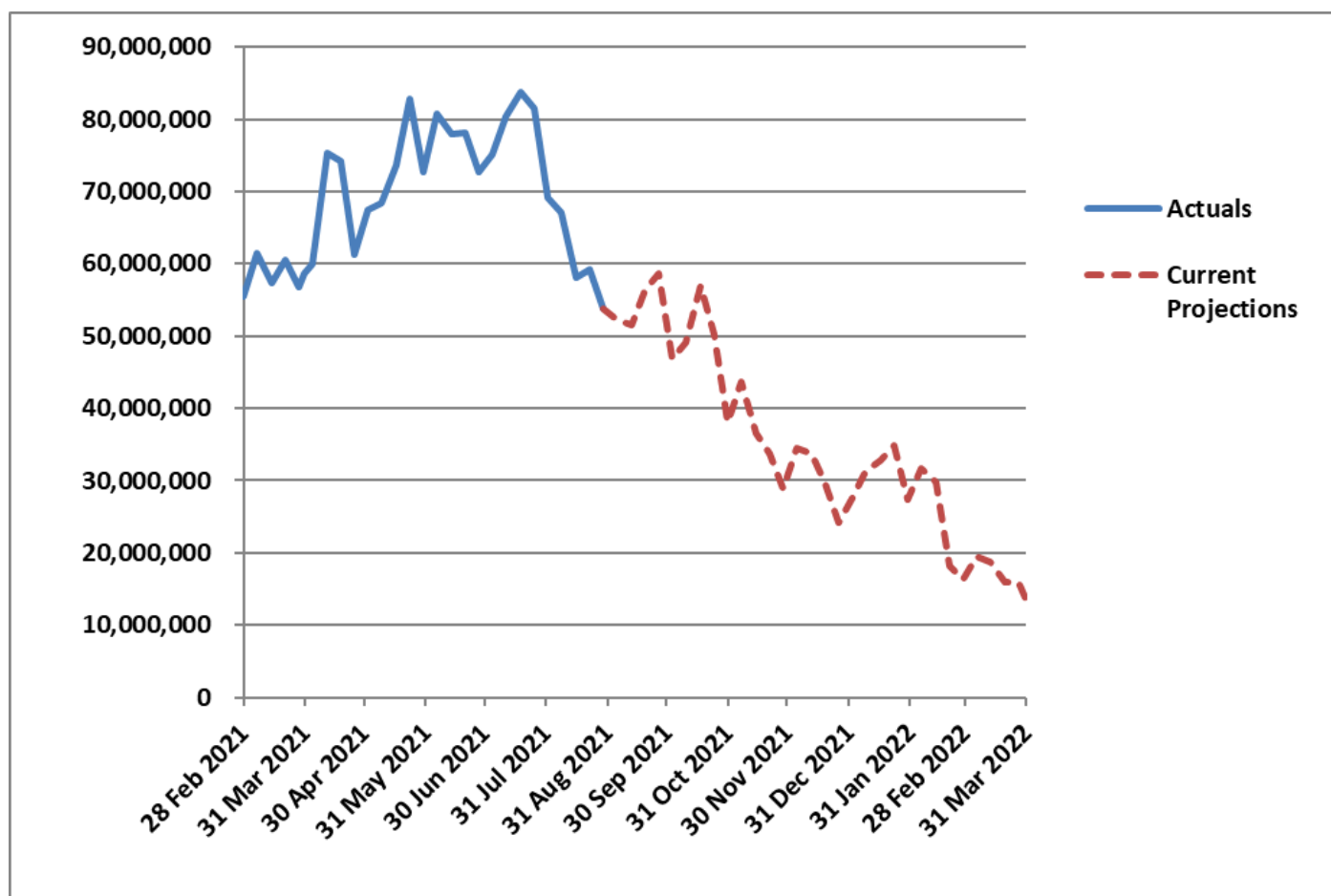
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The

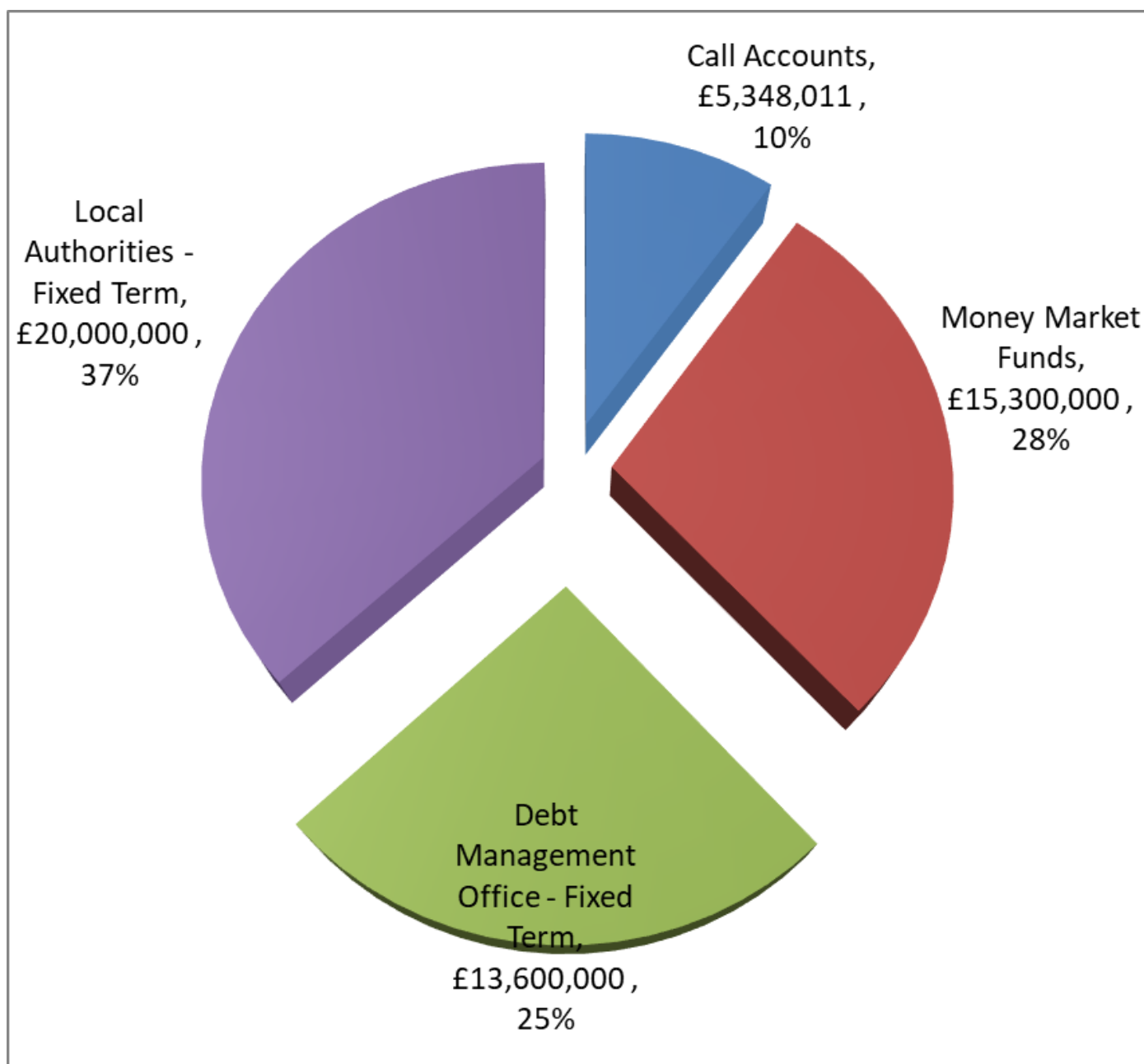
recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

VERSION: 0.01

CONTACT OFFICER:	Jody Spencer-Anforth – Finance Manager	extn 507748
	Dean Langton – Director of Finance	extn 666703
DATE:	September 2021	
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy for 2021/22 approved by Executive Board 11 th March 2021	

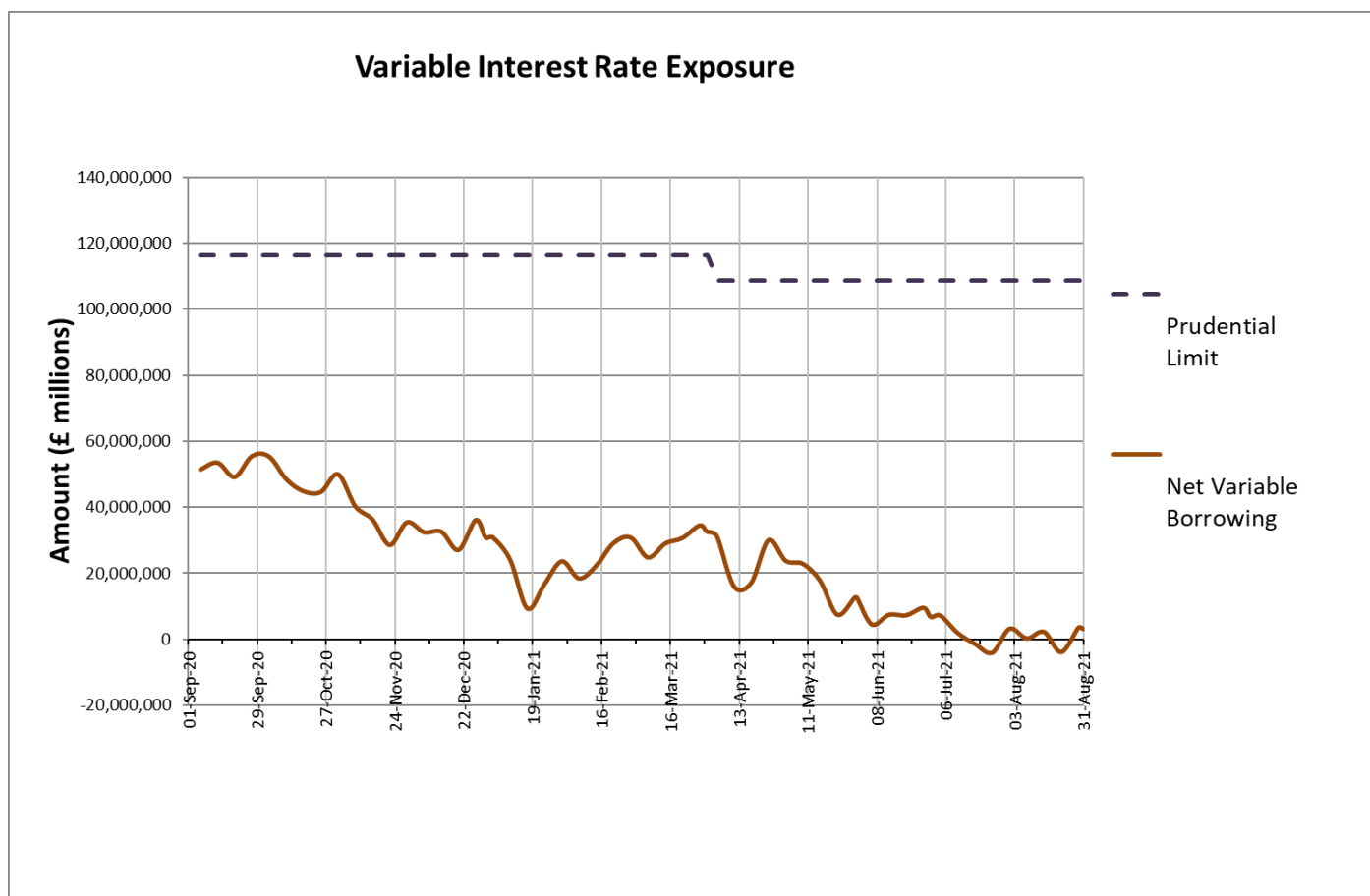
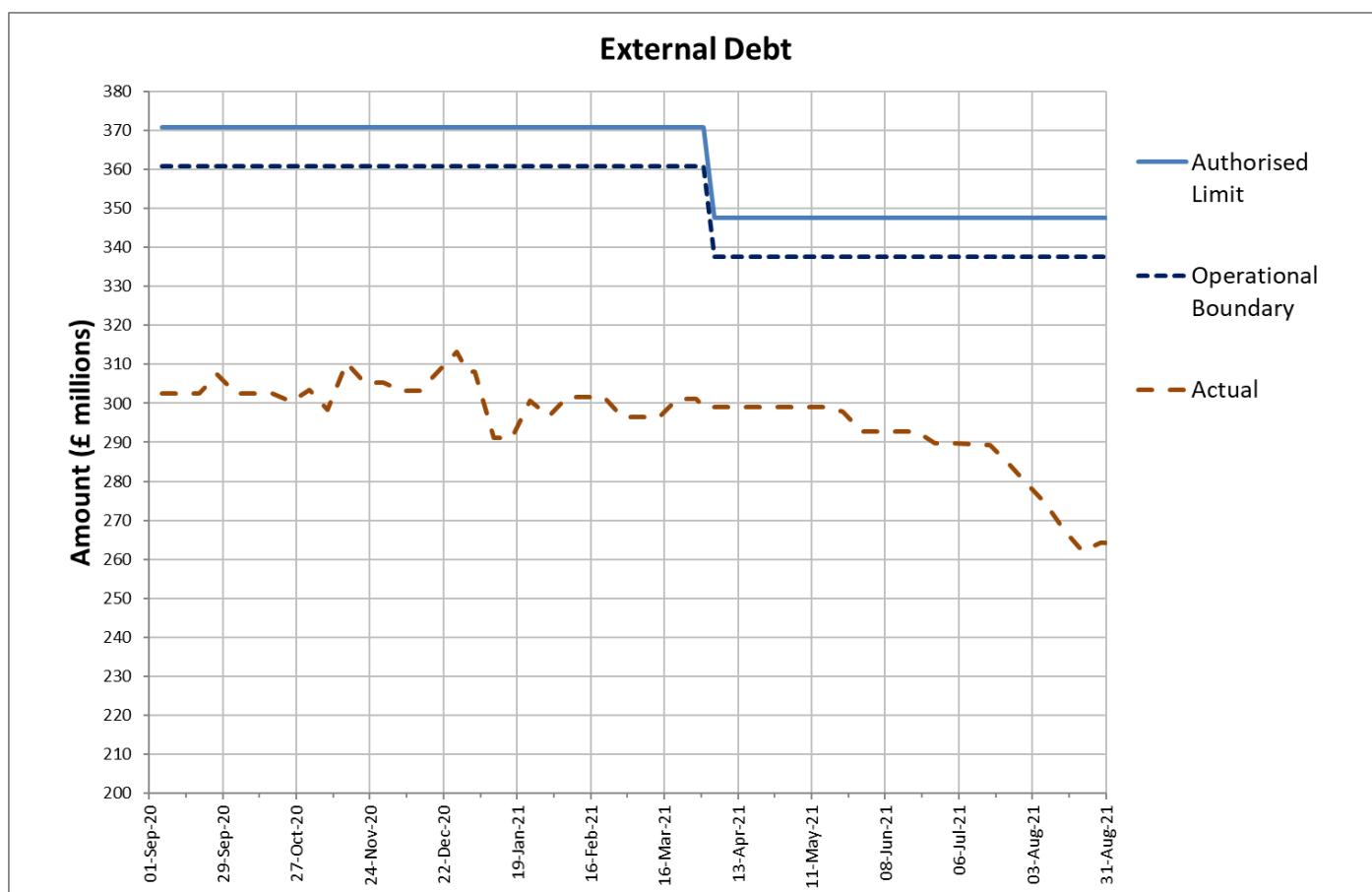
2021/22 (Feb 21 to Mar 22)





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	Indicator 2021/22	As Approved Mar 21			Current Monitoring			Commentary
	Estimated Capital Expenditure	£25.5M			£33M			
	Estimated Total Capital Financing Requirement at End of Year	£301.6M (incl projections re LCC debt £15.1M and accumulated PFI/lease debt £69.1M)			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 Ration of Financing Costs to Net Revenue Stream							12.60%
	Outturn External Debt Prudential Indicators	LCC Debt	15.2M		Borrowing to Date	£M	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made	
		PFI Elements (no lease)	69.3M		LCC Debt	13.5		
		Remaining Elements	253.1M		PFI Elements	60.8		
		Operational Boundary	337.6M		BwD	189.9		
		Authorised Borrowing Limit	347.6M		Total	264.2		
	Variable Interest Rate Exposure	£108.6M			Exposure to Date £3.0M			Limit not breached during the year
	Fixed Interest Rate Exposure	£245.3M			Exposure to Date £132.7M			Limit not breached during the year
	Prudential Limits for Maturity Structure of Borrowing				Actual Maturity Structure to Date			
		Lower Limit	Upper Limit	Period (Years)	Period (Years)	£M	%	
		0%	50%	<1	<1	56.2	30%	
		0%	30%	1-2	1-2	3.5	2%	
		0%	30%	2-5	2-5	26.7	14%	
		0%	30%	5-10	5-10	27.4	14%	
		25%	95%	>10	>10	76.1	40%	
					Total	189.9	100%	
	Total Investments for Longer than 364 Days	£7M			No Long Term Investments Made			



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

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

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

MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW 2021/22

1 Original Strategy for 2021/22

1.1 The Treasury Management Strategy for 2021/22 was approved by Executive Board on 11th March 2021.

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

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

1.2 The Original 2021/22 Investment Limits were set by reference to amount, duration and credit rating – and distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, in which there was less risk. The limits set were largely comparable to those applying in previous years.

2 Economic Review 2021/22

2.1 The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose

2.2 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

2.3 Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

2.4 The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

2.5 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' preferred measure of CPIH, which includes owner-occupied housing, was 3.0% year/year, marginally higher than expectations for 2.7%.

2.6 The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

2.7 As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

3 Treasury Performance to date

3.1 Thus far, cash balances have ranged between £50M and £85M, continuing to be higher than in previous years as a result of grants received in advance from central government. These investment levels have also been supported by short-term borrowing (at rates averaging around 0.36%). No further long-term borrowing has been taken, while short-term borrowing levels have fluctuated, currently standing at levels lower than the start of the year.

<u>Analysis of Debt Outstanding</u>	31st March 2021 £m	30th September 2021 £m
Short-Term Debt	78.3	40.0
Longer-Term Debt:		
Public Works Loan Board (PWLB)	127.4	125.3
Market Loans	18.0	18.0
Other Market Debt	0.3	0.3
	145.7	143.6
Lancashire County Council (LCC) Debt	13.6	13.3
Debt re PFI Arrangements	61.6	60.7
Gross Borrowings	299.2	257.6
This was offset by investments of:	58.6	61.9
Net Borrowing (gross borrowing less investments)	240.6	195.7
Net Borrowing (if LCC and PFI debt are excluded)	165.4	121.7

3.2 Investments have continued to be made with a limited range of banks and Money Market Funds, along with other local authorities and the Government's Debt Management Office (DMO), earning exceptionally low levels of interest. Interest rates have remained historically low to date this year, with the average interest earned on investment balances being around 0.05% in the first half of the year. It is likely that investment returns will remain low in the second half of the year.

3.3 Decreased net interest costs have already been reported through corporate monitoring, reflecting lower interest rates achieved on short-term borrowings this year.

4 Investment and Borrowing Strategy for the rest of the year

Investment

- 4.1 Both the CIPFA Code and government guidance require that funds be invested prudently, and with regard to security and liquidity, before seeking the optimum rate of return or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.2 The Council's Investment Criteria allow investment in a range of other organisations and structures, but as there are limited opportunities for straightforward trading in Secured Deposits, and as priority is given to maintaining liquidity, short-dated and simpler options are mainly used. Investments are made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office. It is expected that these will continue to be the main investment options taken up across the remainder of the year.
- 4.3 In the light of the continuing pandemic and the higher likelihood of unexpected calls on cash flow, the Authority continues to keep more cash available at very short notice. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks.
- 4.4 It is proposed that there be no changes to the existing Investment Criteria and Investment Counterparty Limits.

Borrowing

- 4.5 The Council's key objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should long-term plans change is a further, secondary objective.
- 4.6 In keeping with these objectives, no new long term borrowing was undertaken in the first half of the year, while £38.3M of existing short term loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 4.7 It is proposed that the Borrowing Strategy remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in actual and projected long-term interest rates.

5 Risk Management

- 5.1 The Council's main objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. Therefore, most surplus cash is held in short-term investments with government bodies, and with highly rated banks and pooled funds. In addition, the Council can hold investments that entail a slightly higher level of risk, but such risks are mitigated by limiting the amount and duration of exposure.
- 5.2 The Council's main objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the PWLB at long-term fixed rates of interest.

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

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

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

5.5 The significant part of the debt portfolio - of around £40M in short-term loans from other local authorities - does raise interest rate risk issues. If the medium to long-term cost of debt were to move sharply upwards, it may be necessary to restructure the Council's debt quickly, and cope with an increased cost of borrowing. This issue is kept under review, with regular updates from Arlingclose.

6 Indicators

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

6.2 The Council has complied with the Limits and Indicators it has set, and expects to do so over the remainder of the year.

7 Codes of Practice – consultation and proposed changes

7.1 Earlier this year CIPFA consulted on the principles to support the changes to the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code), as well as on the changes to the Prudential Code for Capital Finance in Local Authorities.

7.2 The final outcomes from these consultation exercises may result in changes to the Council's Treasury Management Strategy going forward.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 26 October 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 30 September 2021

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 June 2021 to 30 September 2021.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 September 2021 against the annual Audit & Assurance Plan 2021/22, as approved by the Committee on 30 March 2021.

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 for their particular

areas of responsibility throughout the year.

5. KEY ISSUES

Outcomes achieved in the year to 30 September 2021:

Counter Fraud Activity

National Fraud Initiative (NFI)

A total of 5,835 data matches were received from the Cabinet Office in January as part of the 2020/21 National Fraud Initiative exercise (NFI 2020/21), across various Council datasets. To date, 600 matches have been processed and a further 33 follow-ups are ongoing. Sixty five errors have been identified to date, resulting in savings of £50,103 and arrangements are in place to recover this money from the individuals concerned. The table below illustrates main area of activity and the savings that have been identified so far.

Summary of Results

Area	No. of Errors	Value (£)
Benefits (Housing/Council Tax Support)	14	£21,353
Resident Parking Permits*	1	£0
Blue Badge Parking Permits**	50	£28,750
TOTAL	65	£50,103

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

** The value attached to the Blue Badges Parking Permits has been determined by the Cabinet Office which considers the average loss of fraud/error to be £575 per case. These permits have either been recovered and destroyed or are in the process of being recovered.

Other investigations

Following a joint investigation between Audit & Assurance and the Police, a Social Care client fraud has been successfully prosecuted for the offence of fraud by false representation. The value of the fraud was £20,347. The defendant was sentenced at Preston Crown Court on 16th September to 12 months imprisonment suspended for 2 years and will be subject to an electronically monitored curfew. The Council has applied to the Court for a Court Order in order to recover the debt.

Whistleblowing Policy

Audit & Assurance staff are currently supporting HR colleagues in a review of the Council's Whistleblowing Policy. Steps will be taken to promote staff awareness of the policy and to encourage staff to report any relevant concerns that they may have.

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Budgetary Controls	Substantial	Substantial	3
Building Control Performance Standards	Adequate	Adequate	5
Ofsted Inspection Framework	Substantial	Substantial	0
Corporate Appointee and Deputyships	Substantial	Substantial	1
St Stephens Tockholes CE Primary School	Adequate	Adequate	14
Daisyfield Primary School	Adequate	Adequate	8
Turncroft Nursery	Adequate	Limited	18
Holy Trinity CE Primary School	Adequate	Adequate	20
Police & Crime Commissioner Grant	Adequate	Adequate	4

A brief commentary on the audit assignment where we have provided a part limited assurance opinion is set out below.

Turncroft Nursery School - The final report provided an **adequate assurance** opinion for the control environment in place within the school and **limited assurance** regarding compliance with the controls identified in respect of the areas covered during the visit. We made 18 recommendations to strengthen arrangements in place across the eight areas covered during the visit. This included four 'must' level recommendations.

In addition to the above audit reviews, Audit & Assurance staff have also completed reviews during the period to enable the Covid 19 Emergency Active Travel Fund Capital Grant, Additional Dedicated Home to School and College Transport (S31 of the Local Government Act 2003) and annual Local Authority Bus Subsidy Ring-Fenced (Revenue) and Local Transport Settlement 2020/21 Grant Declarations to be signed by the Chief Executive and Head of Audit & Assurance. The results of the work confirmed that, in our opinion, the conditions attached to the grant determinations had been complied with in all significant respects.

Work has also been carried out to ensure that the terms and conditions attached to the Arts Council England Culture Recovery Grant Funding award to the Council had been fully complied with. An Income & Expenditure Statement for the activity carried out has been certified as correct.

Current internal audit reviews

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

- Restart Grant;
- IT Device/Asset Management;
- Local Discretionary CV-19 Grant Payments;
- Highways Maintenance Contract Procurement and Monitoring;
- Section 17 Payments/Financial Support for Families;
- Commercial Property Rental;
- Governance Arrangements; and
- Planning Enforcement.

Audit staff are also providing on-going advice and support to the Project team implementing the replacement HR and Payroll system.

PSIAS Compliance Peer Review Exercise

During the period, the peer review of internal audit against the PSIAS was also completed. The results of the assessment have been received and are summarised below for the Committee's consideration. The overall judgement confirms that the Council's internal audit team (within Audit & Assurance) conforms with the requirements of the PSIAS across all areas of focus:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Judgement: Conforms	

The exercise was conducted during July 2021 by two chief internal auditors from within the Lancashire Districts Chief Auditor Group. The exercise involved an evaluation of the "Impact of Internal Audit" following the receipt of customer survey forms, on-site interviews and a review of audit documentation. Their findings included the following observations:

- Internal Audit is a professional well respected service with capable officers with the support of management and members;
- There is a good practice of separation of assurance of control system and compliance with the control system; and
- The Chief Audit Executive liaises with senior management and is able to influence the organisational governance arrangements.

No significant observations were noted. A number of minor observations were made and six actions were identified for consideration to further improve the service, its status or impact, or the quality of the service provided. The Head of Audit & Assurance has responded to the report and will be implementing relevant actions over the next 12 months.

Internal Audit Performance

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

Performance Measure	Target	Q2 2021/22	Q1 2021/22
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	60%	60%
3. Final Reports Issued Within Deadline	90%	91.7%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	83%
5. Recommendations Implemented	90%	94%	90%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	100%	N/A

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

2. Planned Audit Completed Within Budget

The four school audits completed during the period required additional time as these were carried out remotely. Additional time was required to complete and finalise the Police and Crime Commissioner grant to ensure that the file and report met the required audit standards and to agree the audit recommendations.

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. STATEMENT OF COMPLIANCE

The recommendations in this report are made further to advice from the Monitoring Officer. 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.

12. CONSULTATIONS

Directors

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

Date: 7 October 2021

Background Papers: Audit & Assurance Plan 2021/22, approved by the Audit & Governance Committee on 30 March 2021.



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 26 October 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2021/22 Quarter 1 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2021 to 30 June 2021.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of Quarter 1 2021/22;
- Note the risk management activity that has occurred during the period; and
- Consider the selection of a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

3. BACKGROUND

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

4. RATIONALE

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

5. KEY ISSUES AND RISKS

The Corporate Risk Register contained 15 open risks at 30 June 2021. A summary of the corporate risk details is set out in Appendix 1 of this report.

As at 30 June 2021 the Council's top corporate risks were:

- Risk 1 - Failure to deliver a balance budget and Medium Term Financial Strategy, which may result in a Government Commission taking control of the Council's finances; and
- Risk 14 - A high profile serious or critical safeguarding case that is known to the Council services, in light of Covid-19 working arrangements.

The residual risk score for Risk 21 (The ability of the Council to recover its critical functions, core services and income generation during the response and mitigation phases of a Covid-19 outbreak due to high staff absences and a failure of effective business continuity arrangements) was reduced during the quarter from high to medium. The likelihood of this risk occurring remained high at this date, due to the uncertainty regarding further variants of the virus emerging, and their effect on the community. However, the impact on the Council if this occurred was reduced compared to previously. By that date the Covid Core Team had been established and was fully operational and Covid safe working practices had been embedded as business as usual.

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

We have also continued to use the risk management support that is available as part of the current long term insurance agreement that the Council has with Zurich Municipal. During the period, Zurich delivered health & safety awareness training for senior managers. The aim of the training was to enable attendees to understand the importance of health and safety in the workplace and their role in reducing risk and influencing behaviour. It covered the moral, legal and financial implications of managing health and safety risks effectively, including the management of third party contractors. Guidance was also provided covering the health, safety and well-being considerations of agile workers and some of the challenges around homeworking.

We have also continued to liaise with departments and our underwriter to respond to policy related queries relating to a variety of topics, including Covid related matters as well as to arrange additional insurance cover where required.

Zurich has also published a wider range of risk management guidance during the pandemic. These have covered topics such as risk control measures for the cyber dimension of the corona virus, guidance on moving from response to recovery, planning for a return to the workplace and guidance for reopening schools. These have been circulated to relevant managers to share with staff.

6. POLICY IMPLICATIONS

There are no policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

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


11. STATEMENT OF COMPLIANCE

The recommendations in this report are made further to advice from the Monitoring Officer. 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.

12. CONSULTATIONS

The Corporate Risk Register has been reviewed by Risk Owners and Key Contacts, and agreed by Corporate Leadership Team.

Contact Officer:	Colin Ferguson Head of Audit & Assurance – Ext: 5326
Date:	7 October 2021
Background Papers:	Corporate Risk Management Strategy 2015/2020, 2020/21 Annual Risk Management Report (including Quarter 4 Review)



Directorate:

Department: Corporate Risk Register

Service:

Quarter and Year: Quarter 1 - 2021/22

Date of last review: 31-Mar-21

Date: 30-Jun-21

Date of next review: 30-Sep-21

Update

Create

Insert

Risk R	Risk Description	Date Raised	Strength of Existing Controls	Inherent			Residual			Target			Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	Previous Residual			Change in Score
				L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating					L	I	Risk Rating	
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Government Commission taking control of the authority's finances	26-Jan-15	Good	5	5	HIGH	3	5	HIGH	1	2	LOW	Dean Langton	Simon Ross, Zoe Evans	Open	29-May-20	3	5	HIGH	-
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	Rob Addison, 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	Ben Greenwood / Katherine White	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	Asad Laher	Asad Laher	Open	23-Mar-21	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	Corinne McMillan, Rachel Hutchinson, Sarah Riley	Open	24.03.2021	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. Corp Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	Corinne McMillan, Paul Fleming, Rachel Hutchinson, Sarah Riley	Open	10-May-21	2	4	MEDIUM	-
10	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	-
11	Due to the breakdown of community relations or a deterioration of community cohesipn, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Sayyed Osman	Katherine White /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	3	3	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services in light of Covid-19 working arrangements	20-Aug-13	Fair	4	5	HIGH	4	5	HIGH	3	5	HIGH	Sayyed Osman (DASS) / Jayne Ivory (DCS)	Katherine White	Open	05-May-20	4	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.	01-Apr-20	Fair	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Corinne McMillan	Rachel Hutchinson	Open	23-Mar-21	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	11-May-21	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	28-Apr-20	3	4	MEDIUM	-
21	The Council is unable to recover its critical functions, core services and income generating functions during the transition and recovery phases of a COVID-19 outbreak, due to financial impacts, high staff absences and a failure of effective business continuity management.	04-May-20	Fair	5	4	HIGH	4	3	MEDIUM	1	3	LOW	Denise Park / Dominic Harrison (Public Health element)/ Corinne Mcmillan (Resilience & Emergency Planning Service)	Gifford Kerr / Richard Brown / Rachel Hutchinson	Open	21-Jul-21	4	4	HIGH	Down
Summary of closed risks																				
3 IT Infrastructure (Resilience) - OTH. The risk is now incorporated into the Business Continuity risk above.																				
6 Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget. Risk closed following discussion at Mgmt Board 12 June 2019. May require re-opening again during 2019/20 depending on budget pressures																				
8 Failure to contribute effectively to economic growth within Blackburn with Darwen. Risk merged with Risk 18																				
12 The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax. Risk merged into Risk 18																				
16 Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services. Merged with Risk 1																				
19 EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements on the 29.03, 12.04, 31.10.19. Risk retained but closed temporarily until end of December 2020.																				
20 The Council is unable to deliver its critical and core services and functions during the response and mitigation phase of a COVID-19 outbreak, due to high staff absences and a failure of effective business continuity management.																				

Appendix 1