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Audit & Governance Committee

Tuesday, 29th March, 2022
6.30 pm
Meeting Room 1, Town Hall Blackburn.

AGENDA

1. **Welcome and Apologies**

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

2. **Declaration of Interests**

   To receive any declarations of interest in items on the agenda.

   DECLARATIONS OF INTEREST FORM **4**

3. **Minutes of the Meeting held on 18th January 2022.**

   To approve as a correct record and to sign the minutes of the meeting held on 18th January 2022.

   Audit and Assurance committee 18th January 2022. **5 - 8**

4. **Significant Partnerships Register 2021/22**

   The Programme Management Office Manager will provide the Committee with a report on the Significant Partnerships Register for 2021/22

   Significant Partnerships Register Audit and Governance Committee v1 **9 - 12**
   Appendix 1 - Significant Partnerships Register 2022 v1

5. **External Audit- Audit Committee Progress Report.**

   The Council's External Auditors will provide the Committee with a report on their work.

   LG Audit Committee Progress report - March 2022 DRAFT JF **13 - 36**

6. **Application of Accounting Policies**

The Director of Finance will provide the Committee with a report on the accounting policies that will be used in the preperation of the Council’s Statement of Accounts for the financial year ending 31 March 2022.

7. Closure of Accounts 2021/22- Assessment Going Concern Status

The Director of Finance will provide a report to inform the Committee of an assessment of the Council as a going concern in respect of the production of the 2021/22 Statement of Accounts.

8. Treasury Management Report- December 2021 to February 2022.

The Director of Finance will provide the Committee with a report on Treasury Management activity, including the approved 2022/23 Treasury Management Strategy.

9. Audit and Assurance Progress and Outcomes to February 2022

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

10. Audit and Assurance Plan 2022/23, Three Year Strategic Plan and Internal Audit Charter.

The Head of Audit and Assurance will present the 2022/23 Audit and Assurance Three Year Strategic Plan and Internal Audit Charter for Approval

2022.2023 Appendix 3 3 Year Strategic Audit Plan
Agenda Item xx A & A Internal Audit Plan & Charter 2022.23 & Charter (Appendix 4 - Audit Charter)

11. Risk Management- 2021/22 Quarter 3 Review

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

Agenda Item xx Risk Management 2021.22 Quarter 3 Update	**124 - 127**

12. 2021/22 Audit and Governance Effectiveness Audit

The Head of Audit and Assurance will repot upon the result of2021/22 Audit and Governance Committee Effectiveness Assessment.

Agenda Item xx Audit & Governance Committee Effectiveness Self Assesment 2021.22	**128 - 140**

Agenda Item xx Audit & Gov'nce Cttee Effectiveness 2021.22 Appendix 1 - CIPFA Practical Guidance on Audit Committees
Agenda Item xx Audit & Gov'nce Cttee Effectiveness (Appendix 2) Effectiveness Assessment 2021.22

Date Published: Monday, 21 March 2022
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
18th January 2022

PRESENT – *Councillors Ron Whittle (Chair), Jon Baldwin, Maureen Bateson, Zamir Khan, (for Mahfooz Hussain), Abdul Patel and Neil Slater*

OFFICERS – *Dean Langton (Director of Finance), Colin Ferguson (Head of Service Audit and Assurance), Paul Conlon (Democratic Services),*

The Councils Auditors- John Farrar (Grant Thornton)

RESOLUTIONS

1. **Welcome and Apologies**

The Chair welcomed everyone to the meeting. Apologies were received from Cllrs Mahfooz Hussain and Vicky McGurk who joined the meeting virtually.

2. **Declarations of interest**

No Declarations of interest were made by members of the Committee. The auditors left the meeting during consideration of the Arrangements for the Appointment of the External Auditor.

3. **Minutes of the meeting held on 26th October 2021**

The Minutes of the meeting held on 29th October were submitted.

RESOLVED – That the Minutes of the meeting held on 29th June 2021 were approved as a correct record and signed by the Chair.

4. **External Audit: Audit Findings Report 2020/21**

John Farrar, Engagement Lead, Grant Thornton, presented a report which outlined the key Audit Findings for Blackburn with Darwen Borough Council for the Year ended 31st March 2021.

The report notes that the audit work was on going at the time of reporting and a number of outstanding matters were noted for reference. These included:

- receipt of satisfactory supporting information and responses to queries relating to the revaluation of property, plant and equipment;
- completion of a small number of outstanding audit procedures;
- receipt of the management representation letter; and
- a review of the final set of financial statements.

Whilst one adjustment to the financial statements had been identified, along with a resultant prior period adjustment, affecting the balance sheet, there was no overall impact on the reported outturn position. Other issues noted in the report relate to changes in disclosures in the accounts and these were outlined in the report.

External Audit anticipated providing an unmodified audit opinion and, although they had not yet completed all of their value for money work, no significant weaknesses had been identified from the work completed so far.

The audit work to date had not identified any inconsistencies in the other information published with the audited financial statements, including the annual governance statement. There were also no matters to report on by exception and the External Auditors have not had to exercise any of their additional statutory duties or powers.

The one medium level recommendation made was agreed with Council management. This related to one member of staff's access rights to the Finance system that led to a lack of separation of duties between the posting and authorisation of journals. This had been addressed immediately.

Members and Officers made comments and observations of the audit findings and thanks were passed to auditors and finance officers for their assistance during field work. In response to a members question relating to Pensions liabilities the committee were informed that this was not part of the Council's accounts and the audit but was addressed by the pensions fund actuary.

RESOLVED – That the report be noted.

5. Statement of Accounts 2020/21

The Committee considered a report that provided a summary of the key components of the Statement of Accounts for 2020/21 and the statutory framework for their approval by the Committee. The report referred to the adjustments made to the accounts as described in the Audit Findings Report presented by Grant Thornton. The accounts, amended for audit adjustments agreed to date, were included at Appendix B for approval. The report also included as an appendix the draft letter of representation, which is an agreed format, issued by the Council to the external auditor each year. The Committee was requested to approve the contents of the draft letter, although the final version will only be signed by the Director of Finance and the Chair of the Audit and Governance Committee when the audit work is fully concluded and the audit opinion is issued.

RESOLVED – That the Committee:

1. Note the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2020/21 (previous agenda item).
2. Approve the Statement of Accounts for 2020/21.
3. Approve the letter of representation from the Director of Finance to the external auditors for which a draft was provided, with the final version to be signed by the Director of Finance and Customer Service and the Chair of the Audit and Governance Committee at the date of issue of the audit opinion.

6. Treasury Management Report - September to November 2021

The Director of Finance submitted a report providing a summary of the treasury management activity and performance in the period. The Council had approximately £53m invested at 30 November 2021 and short term loans of £25m. The activity was within the agreed Prudential and Treasury indicators set by the Council for the current year.

The draft Treasury Management Strategy for 2022/23 was included in the report and the full strategy report will be submitted for approval to Executive Board in March 2022. The content of the strategy remain similar to the previous year, approved by Executive Board on 11 March 2021.

RESOLVED – That the Committee noted the Treasury Management Report.

7. Audit & Assurance - Progress & Outcomes September to November 2021

The Head of Audit & Assurance reported on the achievements and progress made by Audit & Assurance in the period from 1st October 2021 to 30th November 2021.

The report provided a summary of the eleven red priority areas/issues identified from the half year Director Exception/Dashboard Report reporting and the movements in these since 31 March 2021 for consideration. The overall opinions for the four audits finalised since the last progress report were also summarised. No significant areas of concern were identified from the audit work in the period for the members' attention.

The outcome of the in-year review of the 2021/22 approved internal audit plan was also included which noted that there was an anticipated shortfall of 58 days against the 818 audit days in the plan approved in March 2020. This had arisen due to a vacancy in the audit team during the year, which had now been filled. The resources available would be focussed on the higher priority audits in order to be able to provide the annual audit opinion.

RESOLVED – That the report be noted

8. Annual Governance Statement - Progress on 2020/21 Actions and Plan for 2021/22

The Committee considered a report that provided details of the steps being taken address the three significant issues noted in the 2020/21 AGS. The report noted that whilst these are appropriate, and largely in accordance with the expected targets as at the end of November, there were still demand and budget pressures which were being monitored and managed by senior managers in the areas concerned. There were also a level of uncertainty with regards to the impact of the planned social care reforms and on-going impact of the pandemic on services.

RESOLVED-

That the progress on the Annual Governance Statement and progress be noted.

9. Risk Management - 2020/21 Quarter 2 Review

The Committee considered a report that provided a summary of the corporate risk register as at the end of September 2021. The report highlighted the top two risks that the Council had identified and was managing. There have not been any changes in any of the risk scores in the period.

The report also noted that a corporate Risk Management Policy Statement had been drafted and the existing Risk Management Strategy and Framework had been reviewed and updated. These documents were subject to review and approval by the Executive Member for Finance and Governance.

RESOLVED –

- That the report be noted
- That Corporate Risk relating to the delivery of the Councils Growth Agenda be reviewed at the next meeting

10. Arrangements for the appointment of External Auditors

(The Council's auditors left the meeting prior to consideration of this item)

The Committee considered a relating to the appointment of External Auditors. The Council was required to appoint its external auditor for the 2023/24 Statement of Accounts audit by December 2022 and full Council approval is required for this appointment.

RESOLVED-
That the Committee recommend to February's Finance Council to opt in to the sector-led option for the appointment to be able to participate in the arrangement that will be led by Public Sector Audit Appointments, as the opt-in period closes on 11 March.

signed: …………………………………………………

Date: ……………………………………………………
Chair of the meeting
at which the minutes were confirmed

TO:	**Audit & Governance Committee**
FROM:	**PMO Manager**
DATE:	**29th March 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Significant Partnerships Register 2021/22

1. PURPOSE

To provide Members with an update on the Significant Partnerships Register for 2021/22. The Register identifies all the significant partnerships the local authority is involved in as per the Audit & Governance Committee's Terms of Reference.

2. RECOMMENDATIONS

The Audit & Governance Committee is asked to:

- Review and approve the significant partnerships submitted for inclusion in the 2021/22 register.
- Note the updated key lines of enquiry within the Code of Audit Practice and the important role of partnerships.

3. BACKGROUND

An update around Significant Partnerships in BwDBC is presented to the Audit & Governance Committee annually and this fulfils the organisation's responsibilities under the Council's Code of Corporate Governance. This year, it will also support the value for money key lines of enquiry within the new Code of Audit Practice.

The Significant Partnerships Register was audited by the BwDBC Audit & Assurance team in November 2021. The Audit categorised the Control Environment as Substantial Assurance and Compliance as Adequate Assurance. Three recommendations were made to improve the Register and its associated processes and these have been implemented. The register has been reviewed and will now hold more detail about changes to Partnerships and when these were made. The process to ensure frameworks are returned to the team has also been strengthened.

4. RATIONALE

Partnerships included in the Register are defined by the Council's Code of Corporate Governance. The Register is updated on an annual basis and a smaller mid-year review also takes place. Directors are responsible for updating the Register and approving the partnerships which will be added to or removed from the Register. The Register ensures that partnerships throughout the local authority are well governed and that appropriate oversight is in place.

The new Code of Audit Practice recognises the role significant partnerships hold in ensuring value for money and therefore it is a key line of enquiry within the workbook.

Five key areas of consideration are identified within the Code and the evidence collated by each Significant Partnership Framework supports the documentation of the requirements. This year's review will incorporate the areas of consideration and ensure lead officers are aware of the revised requirements under the Code of Audit Practice.

5. KEY ISSUES

The Significant Partnerships Register 2021/22 review is currently underway. The impact of the Omicron Covid-19 surge has delayed the initial timescales of the update. A list of the current partnerships is included as Appendix 1 (please note this is undergoing updates).

Work is ongoing to ensure all frameworks are in place and completed to the required standard. As reported in the update to Audit & Governance Committee in March 2021, numerous partnerships were established to support the Covid-19 response. The majority of these were not classed as Significant Partnerships but support and advice was provided by the team to ensure adequate governance and record-keeping arrangements were in place.

The Lancashire Resilience Forum which was formed in 2004 is the significant partnership which has led the Covid-19 response and recovery along with many sub-groups. Many of these have now ended whilst those still in operation are in recovery mode. Some of the groups have evolved or merged with other local/regional groups for example, the LRF Covid-19 BAME Cell is now the Pan-Lancashire COVID-19 impact on Ethnic Minority (EM) groups meeting.

There have also been some changes to the staff and lead officers responsible for existing Significant Partnerships due to the departure (or imminent) of senior staff and this will result in interim lead officers being assigned to the partnerships whilst recruitment takes place. The Register will be updated once positions are filled.

As we move into business as usual and into recovery post Covid-19 response, it is vital that partnerships and new structures are captured, updated, reported and undertaken with effective governance as well as reporting into the relevant strategic forums. A mid-year review is scheduled to take place in September 2022 which will ensure all updates are captured.

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 resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality implications arising from this report.

11. CONSULTATIONS

Individual Directors approve each entry on the register and the information within the related framework. Entries without a Director's signature are not accepted.

Contact Officer:	Mohsin Mulla (ext. 5525)
Date:	18.3.2022
Background Papers:	Significant Partnerships Register (Appendix 1 – attached separately)

Department	Service area	Name of partnership	Date established
Adults & Health	Commissioning	Joint Commissioning Recommendations Group	01/05/2013
Adults & Health	Community Safety	Pennine Lancashire Community Safety Partnership Board	01/10/2016
Adults & Health	Integrated Care	Local Integrated Care Partnership	June 2018
Adults & Health	Safeguarding	Local Safeguarding Adult's Board	01 April 2010
Chief Executive's Office	Health	Pennine Lancashire Transformation programme – Together a Healthier Future	2016
Chief Executive's Office	Health	Lancashire & South Cumbria ICS	
Chief Executive's Office	Policy	Lancashire Leaders	
Chief Executive's Office	Policy	Lancashire Enterprise Partnership	Steering Group 2000 Board 2008
Chief Executive's Office	Policy	Growth Lancashire	(Regenerate 2005) and Growth Lancashire 2016
Chief Executive's Office	Policy	The NW Evergreen Fund	2013
Chief Executive's Office	Policy	Blackburn with Darwen Employment and Skills Board	Dec-17
Children & Education	Safeguarding	Childrens Safeguarding Assurance Partnership (formerly known as LSCB)	2019
Children & Education	Safeguarding	Youth Justice Service Strategic Management Board	Steering Group 2000 Board 2008
Children & Education	Safeguarding	MAPPA Strategic Management Board	2001
Children & Education	Schools	BBCL School Improvement Board	2014
Children & Education	Adolescent Services	Strategic Youth Alliance Partnership Board	2019
Children & Education	Social Care	Corporate Parenting Special Advisory Group	2019
Children & Education	SEND	SEND Strategic Partnership Board	2019
Environment & Operations	Public Protection & Environmental Health	CHiL - Cosy Homes in Lancashire	2014
Environment & Operations	Public Protection & Environmental Health	Trading Standards North West	1995
Environment & Operations	Public Protection & Environmental Health	Environmental health Lancashire	1995
Environment & Operations	Public Protection & Environmental Health	Pennine Lancashire Night Time Noise Service	2000
Environment & Operations	Highways and Network Operations	Association of Directors of Environment, Economy, Planning & Transport (ADEPT)	2003
Environment & Operations	Highways and Network Operations	Local Council Roads Innovation Group (LCRIG)	2013
Environment & Operations	Highways and Network Operations	Northwest Highway Authority and Utility Committee (NWHAUC)	1993
Environment & Operations	Highways and Network Operations	Northwest Joint Authorities Group (NWJAG)	1991
Environment & Operations	Highways and Network Operations	Lancashire Road Safety Partnership	2002
Environment & Operations	Highways and Network Operations	North West Regional Flood and Coastal Committee (RFCC) and the Lancashire Flood Risk Partnership	2010
Growth & Development	Building Control	Pennine Lancashire Building Control	03/09/2009
Growth & Development	Property	Lancashire Property Board	January 2017
Growth & Development	Growth PMO	Barnfield Blackburn Ltd.	2019
Growth & Development	Growth PMO	Maple Grove Blackburn Ltd	2021
Growth & Development	Policy & Research	Hive Ambassadors Network	2012
HR and Engagement	Resilience & Emergency Planning	Lancashire Resilience Forum	2004
Public Health	Public Health	Health and Wellbeing Board	February 2011 Statutory Board 2013
		Strategic Alliance Meeting	10/05/2017
		Local Outbreak Engagement Board	Jul-20
		Health Protection Board	Jul-20

Working draft.
Correct as of 18.3.2022

Grant Thornton

Blackburn with Darwen Council
Audit Progress Report and Sector Update

Year ending 31 March 2021

March 2022

Contents

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

Introduction

Your key Grant Thornton team members are:

John Farrar
Key Audit Partner
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Gareth Winstanley
Engagement Manager
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Wesley Kellingray
In Charge Auditor
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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

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

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

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

Progress at March 2022

Financial Statements Audit 2020/21

As reported to the January 2022 Audit and Governance Committee in our draft Audit Findings Report our audit of your 2020/21 financial statements is on-going. Since the last Audit and Governance Committee meeting significant progress has been made and we are now focusing our audit work on the final outstanding areas. These include:

- receipt of satisfactory responses to a small number of queries relating to the revaluation of your property, plant and equipment assets;
- obtaining and considering responses to a series of questions around how the Council has accounted for its infrastructure assets, in light of a national issue that has come to our attention;
- clearance of our final audit queries.

There are a number of issues which we have finalised since the last meeting and these are summarised below and will be included within our updated Audit Findings Report at the completion of the audit.

Heritage Assets

The Council's valuation of its Heritage assets has been amended to reflect the insurance value of those assets. The existing balance sheet value was based on valuations done several years ago and the insurance valuation provides a more recent figure. The balance has been adjusted by £16.3m.

There is also a prior period adjustment and third balance sheet required, to comply with financial reporting requirements given the change of accounting policy in this area.

Pension Liability

We requested that the Council obtain a revised actuarial report from its actuary Mercers, to ensure that the pension liability disclosed in the financial statements agreed with actuary's estimated liability, having considered the impact of the Council's decision to make an early payment of contributions covering the financial years 2020/21 – 2022/23. We are satisfied that the Council's pension liability figure in the financial statements agrees to the revised actuarial report.

Property, Plant and Equipment – revalued assets

Our review of the calculations performed by the Council's valuer and the associated accounting treatment is close to completion. We are now focusing our testing on properties for which the Council receives a "peppercorn" rent. Management has agreed to make an adjustment for a number of these assets which will see an increase in their valuation. The final figure has yet be to determined but we expect this to be approximately £3.8m, leaving relatively insignificant differences of judgement.

Infrastructure Assets

A national issue has arisen regarding the audit of infrastructure assets. Specifically where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets authorities may not readily be able to identify the cost and accumulated depreciation relating to original asset components being replaced or enhanced. In addition, some local authorities are not considering or accounting for impairments of infrastructure assets and some may not be identifying and applying appropriate useful lives to calculate depreciation.

Whilst this is a national issue the Council has infrastructure assets of £190.3m. We are liaising with management regarding Blackburn's treatment and also liaising with CIPFA on this issue. At the moment the issuing of all audit opinions has been put on hold until further guidance has been issued.

Progress at March 2022 (cont.)

Financial Statements Audit 2020/21

Minimum Revenue Provision (MRP)

Our audit has raised a number of observations and challenges with regards to the Council's recent change in its MRP policy. Local authorities are required to charge 'Minimum Revenue Provision' to their revenue account in each financial year as a consequence of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The regulations give local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'.

In calculating a prudent provision, local authorities are required to have regard to statutory guidance. The broad aim of MRP is to require local authorities to put aside revenue over time to cover their 'Capital Financing Requirement' (CFR). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

Government guidance includes four options for making prudent provision, but this does not rule out a local authority from using an alternative method, should it decide that is more appropriate.

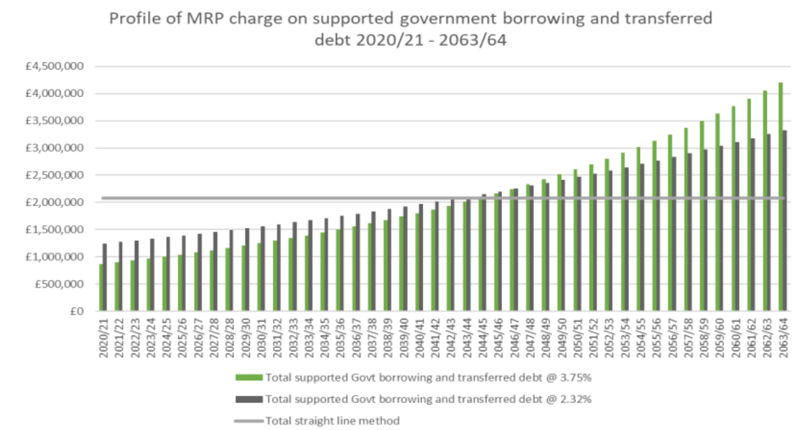
A local authority can change the method(s) that it uses to calculate MRP at any time and where it changes the method(s) that it uses it should explain why the change will better allow it to make prudent provision.

In March 2021 the Council approved changes in its MRP policy for the 2020/21 and subsequent financial years. The changes relate to capital expenditure financed from debt arising up to 2007/08, all new Government-supported borrowing arising from 2007/08 and historic debt entered into prior to unitary authority status. The Council has adopted an annuity method of calculating MRP, rather than a straight-line basis that had previously been applied for these areas of capital expenditure.

In line with statutory guidance the Council reported the change in its MRP policy to members at the Finance Council, recommending that the proposed changes were to be implemented for 2020/21 and subsequent years. However, it is not clear that the financial impact of this change to an annuity based calculation was quantified and explained to members at the time.

The graph below shows that the MRP charge related to capital expenditure financed from Government-supported borrowing (£78m) and transferred debt (£15.3m) will steadily increase in the future under the annuity approach, giving rise to increased pressures on the Council's revenue budget in later years.

The Council's MRP charge on supported borrowing and transferred debt based on a straight line basis would have been £2.07m per annum. The impact of the change to an annuity method is a reduced MRP charge for 2020/21 of £0.863m, progressively rising to £4.21m by 2063/64.



Note: the above chart reflects actual forecast MRP charges, unadjusted for the time value of money. The chart does not include debt service charges (interest).

Progress at March 2022 (cont.)

Financial Statements Audit 2020/21

The revised MRP policy affects the amount of MRP charged in connection with capital expenditure incurred several years ago. Prior to the introduction of the CIPFA Prudential Framework, MRP was calculated with reference to formulae provided by government, now described as 'Option 1' and 'Option 2' in the current statutory guidance. Under the historic approach to calculating MRP, capital financing records did not need to capture the period over which capital expenditure was expected to provide benefits. The Council has therefore been unable to provide us with a breakdown of the capital expenditure relating to the Government-supported borrowing of £78m, which we understand predates 2008/09.

As a result, we have been unable to confirm whether charging MRP on this unfinanced capital expenditure over a 44 year period is commensurate with the period over which the underlying capital expenditure will provide benefits to the Council (and we note the total period over which MRP will have been charged will be in the region of 60 years).

A key component of the annuity charge basis of calculating MRP is the choice of and application of an annuity rate. The Council applied the 2015 PWLB Annuity New Loan Rate (3.75%) for a new 44 year loan within its revised 2020/21 MRP calculations. It is unclear to us why the Council chose to use the 2015 rate in 2021.

Had the Council applied the prevailing PWLB 2021 rate (2.32%) at the time the policy change was made the effect would have been a £0.4m higher MRP charge in 2020/21, with MRP rising at a slower rate in later years than if the 2015 PWLB rate had been applied. The overall effect of the change to an annuity basis is that the Council's total MRP charge for 2020/21 was £ 5.688m, a reduction of £0.8m compared to the previous year when the straight line basis was adopted.

A recent Grant Thornton benchmarking exercise comparing MRP charged in 2020/21 as a percentage of the Capital Financing Requirement (CFR) at the end of 31 March 2021. This exercise included data from 62 authorities across the country. The Council's 2020/21 MRP charge of £5.688m was 1.91% of its closing CFR, below the median of 2.15% and simple average of 2.68% noted across our sample.

Given the issues highlighted with regards to MRP, it is important that the Council is assured that its MRP charge is prudent and that it has been prepared in line with statutory guidance.

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2020/21 claim began in November 2021. DwP extended the deadline for reporting the findings of this work to 28 February 2022. We completed our work and reported to DwP on 3 February 2022.

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 is close to completion and will be finalised ahead of the next Audit and Governance meeting.

Meetings

We meet with Finance Officers on a regular basis as part of our final accounts feedback meetings. We will also continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Progress at March 2022 (cont.)

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six opinion files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

Financial Reporting Council annual report (cont.)

Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

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Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

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

Public Sector

Local government

Levelling up White Paper – Department for Levelling Up, Communities and Housing ("DLUCH")

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

The paper states "Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six "capitals":

Page 23

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability."

The paper also states "This new policy regime is based on five mutually reinforcing pillars." These are set out and explained as:

1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.
3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

Levelling Up the United Kingdom - GOV.UK (www.gov.uk)

Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

Commenting on the release of the government's Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

"The publication of today's White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The '12 missions' can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

"Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country's devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton's Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

"To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people's lives.

"The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals."

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states "In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report."

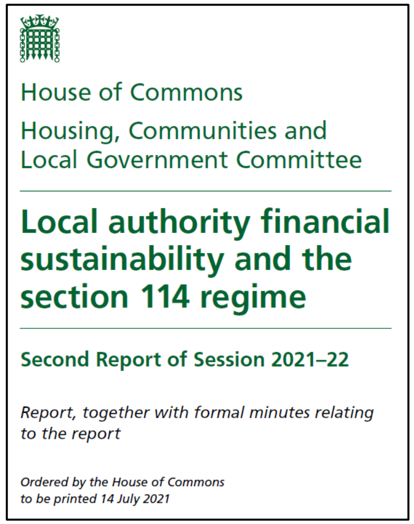
The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

The report made 13 recommendations, and the Government response to these was published in October. The response notes "Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms."

The initial report can be found here: https://committees.parliament.uk/publications/6777/documents/72117/default/

Government response can be found here: https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime


House of Commons
Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 14 July 2021

Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that "delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention."

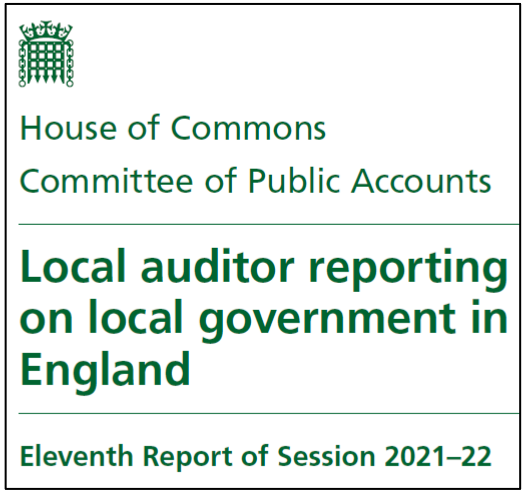
The PAC report found "Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors."

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.
- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here: [Timeliness of local auditor reporting on local government in England - Committees - UK Parliament]



2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state "The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete."

Grant Thornton commented "Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused."

Public Sector Audit Appointments

The news article can be found here: https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: "DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work."

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a "temporary expedient to help improve an unacceptable situation".

The consultation closed on Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-2022223-codes

The Board decided:

1. Not to progress any option to pause professional valuation of operational property, plant and equipment (OPPE), or to apply indexation to otherwise paused balances of OPPE.

2. By the narrowest of voting margins to pursue the option of deferring implementation in the Code of IFRS 16 Leases. However, any deferral would be subject to consideration and review by the Financial Reporting Advisory Board (FRAB). For the time being deferral remains uncertain and we will update colleagues as soon as the position is settled.

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented "These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds."

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state "Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.

The news article can be found here:
https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/

The procurement strategy can be found here:

https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/

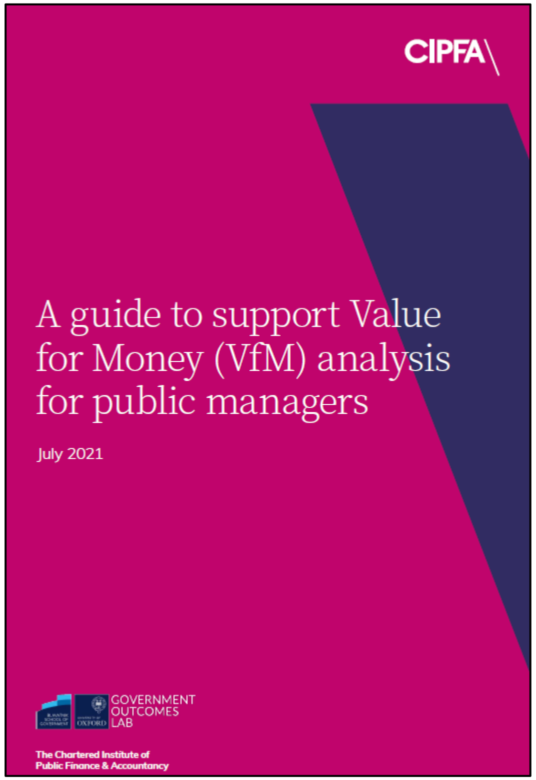
Guide to support Value for Money (VfM) analysis for public managers – CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state "The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to 'doing nothing' as well as the closest comparator."

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.



The guide is available to CIPFA members through the website.

Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

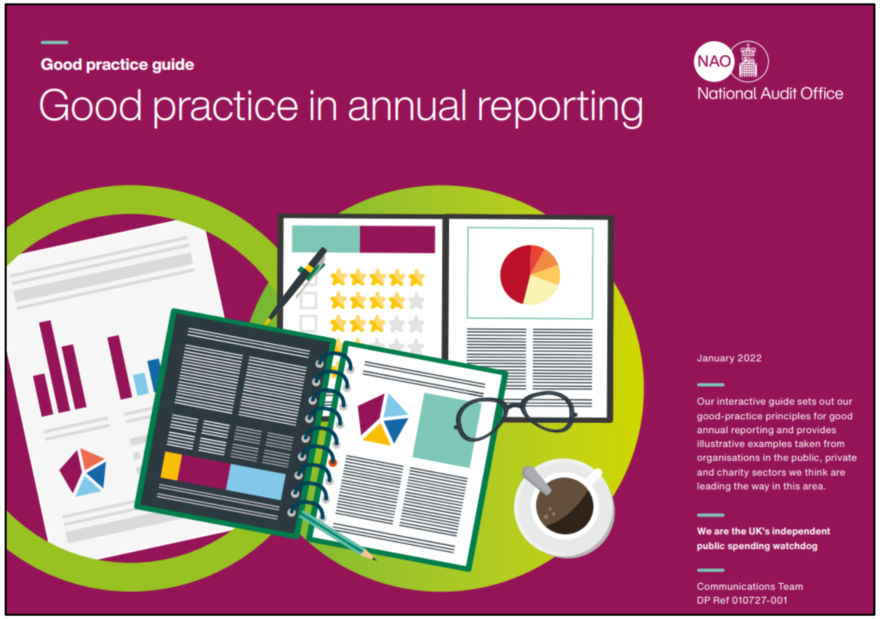
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

The NAO further comment "The best annual reports we have seen use these principles to tell the "story" of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation's strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers' money that has been spent to deliver the outcomes the organisation seeks to achieve."

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:
[Good practice in annual reporting - National Audit Office (NAO) Report]

Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

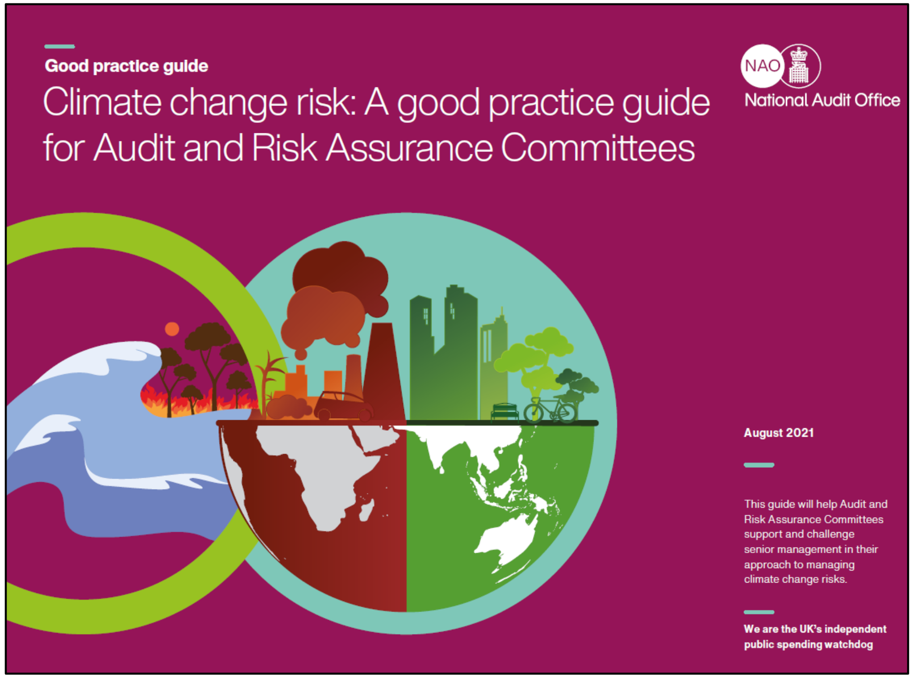
The NAO comment "Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes."

The guide includes sections on "How to support and challenge management". This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a "Complete list of questions that Audit and Risk Assurance Committees can ask" for each of these areas. The guide also includes "Key guidance and good practice materials" with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office (NAO) Report]

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK's statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach."

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities' reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

https://www.nao.org.uk/report/local-government-and-net-zero-in-england/

Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state "Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation's data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

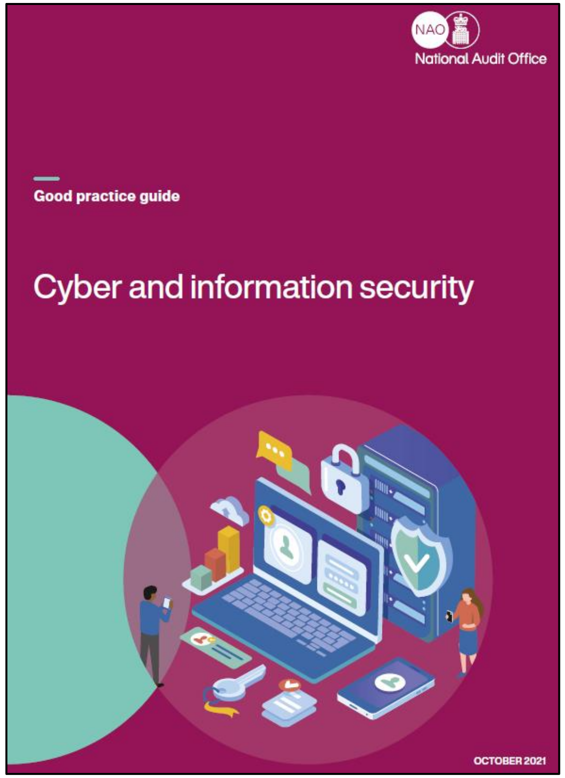
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management."

The report can be found here:

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/



Grant Thornton

grantthornton.co.uk

TO:	Audit & Governance Committee
FROM:	Director of Finance
DATE:	29th March 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Accounting Policies to be used in the preparation of the Statement of Accounts 2021/22

1. PURPOSE

1.1 This report seeks the approval of the Committee to the Accounting Policies to be used in the preparation of the Council's Statement of Accounts 2021/22.

RECOMMENDATIONS

1.2 The Committee is recommended to note the use of the Accounting Policies as set out at ***Appendix A*** for the preparation of the Council's Statement of Accounts 2021/22.

2. BACKGROUND

2.1 In accordance with the Accounts and Audit Regulations 2015, the Council is required to produce annually a Statement of Accounts. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) specifies the principles and practices required to give a *'true and fair'* view of the financial position, financial performance and cash flows of a local authority.

2.2 The Council's Director of Finance, as the officer appointed by the Council in discharge of its responsibilities under s151 of the Local Government Act 1972, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper is practices set out in the Code. In doing so, the Director of Finance is required to select suitable accounting policies and then apply them consistently. Accounting policies are the specific principles conventions, rules and practices applied in preparing and presenting the financial statements.

3. KEY ISSUES

3.1 The Accounting Policies to be used in the preparing the Council's Statement of Accounts for 2021/22 are set out at ***Appendix A***. These policies are largely unchanged from those applied in the preparation of the 2020/21 Statement of Accounts. The main changes include:-

- the addition of a policy on the Council's role as agent for the Business Improvement Districts (although this is not a material issue);
- a revised policy for the valuation of heritage assets reflecting an update following the audit of the Council's Statement of Accounts 2020/21. In essence, whilst still compliant with the Code, the policy is to base the value of Heritage Assets on their insurable value;

3.2 At the time of writing, it should be noted that CIPFA/LASAAC has recently concluded an exceptional consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. The consultation, which ended on 3rd March 2022, relates to proposals on the following matters:-

- an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment (PPE) for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores whether valuations should be changed by reference to a standard index in lieu of a proper valuation;
- deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 Code to implement that standard (the implementation of IFRS 16 has already been deferred for 2021/22 and, therefore, will have no bearing on the Council's Accounting Policies for the that year).

3.3 As the outcome of the consultation was not known at the time of writing this report, it is not possible to determine what impact the change in approach to PPE will have on the Council's policy at this stage. Should the outcome be known at the time of the meeting, a verbal update will be provided.

3.4 On a similar note, as part of the audit of local authority Statement of Accounts for 2020/21, there is an emerging issue associated with the derecognition of costs associated with Infrastructure improvements. This matter affect most, if not all, Councils including Blackburn with Darwen and currently under review by the relevant Accounting Standards bodies. It is not known what the outcome of this review will be and whether it may lead to a change in accounting policy. Again, as more information is known, the Committee will be updated.

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

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

7. RESOURCE IMPLICATIONS

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

8. EQUALITY AND HEALTH IMPLICATIONS

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

9. CONSULTATIONS

9.1 None arising from the contents of this report.

10. STATEMENT OF COMPLIANCE

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

Appendices

Appendix A – Draft Accounting Policies 2021/22

VERSION:	1

CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	March 2022
BACKGROUND PAPERS:	

Accounting Policies 2021/22

General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2021/22 and its position at the year-end of 31 March 2022. The Council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22* (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

Accounting policies can be defined as the principles, bases, conventions, rules and practices applied that specify how the transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

All accounting policies are disclosed where they are material and reflect the particular circumstances of the Council.

Accruals of income and expenditure

Activity is accounted for in the financial year in which it takes place, not when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and cash equivalents

Cash consists of cash in hand and deposits with financial institutions repayable without penalty on notice of no more than twenty four hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and instant access Money Market Funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Business Improvement Districts

There are two business improvement district (BID) schemes applying to defined areas of Blackburn. The schemes are funded by a BID levy paid by non-domestic ratepayers. The Council acts as agent under the schemes and does not, therefore, account for the income received from the BID Levy in its Comprehensive Income and Expenditure Statement. Any income derived from the Council's role as Agent is credited to the Comprehensive Income and Expenditure Statement.

Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (i.e. Minimum Revenue Provision or MRP). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council tax and non-domestic rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for council tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi leave or time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Council are members of three separate pension schemes:

- **Teachers' pension scheme** - administered by Capita Teachers' Pensions on behalf of the Department for Education (DfES).
- **NHS pension scheme -** administered by NHS Business Services Authority on behalf of the Department of Health.
- **Local government pension scheme** (LGPS) – Pension administration services are provided to the Lancashire County Pension Fund by Local Pensions Partnership, with Lancashire County Council as the Administering Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The *Schools and Education DSG* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The *Public Health and Wellbeing* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value

The change in the net pension's liability is analysed into the following components:

Component	Description	Treatment
Service costs		
Current service costs	The increase in liabilities as a result years of service earned this year	Allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
Past service costs	The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years	Debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement - within Non-distributed costs
Net Interest on the net defined benefit liability i.e. interest expense for the Council	The change during the period in the net defined benefit liability that arises from the passage of time. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments	Charged to the *Financing and investment income and expenditure* line of the Comprehensive Income and Expenditure Statement
Re-measurements		
The return on plan assets	The return on plan assets, excluding amounts included in net interest on the net defined benefit liability.	Charged to the Pensions Reserve as other comprehensive income and expenditure
Actuarial gains and losses	Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.	Charged to the Pensions Reserve as other comprehensive income and expenditure
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities	These are not accounted for as an expense in the Comprehensive Income and Expenditure Statement, but are charged to the General Fund under statutory accounting requirements.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the reporting period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payment over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

However, the Council has taken some market loans subject to “stepped” interest rates, where the initial rates payable were lower than over the rest of the loan. Interest charges for these loans are averaged out over the life of each loan and effective interest rates are used to calculate their amortised cost for the Balance Sheet. As the loans were taken before 9 November 2007, however, there is no impact on the General Fund Balance as reconciling adjustments are made to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves a modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan. In this scenario the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of the amounts charged to the Comprehensive Income and Expenditure Statement to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The Council holds financial assets measured at:

- Amortised cost
- Fair value through other comprehensive income (FVOCI), and
- Fair value through profit or loss (FVPL),

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely repayment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument.

FVOCI assets relate to financial instruments where the amounts received relating them are solely principal and interest and they are held **both** to generate cash flows and to sell the instrument. It also includes equity investments that the Council may elect into this category i.e. an equity investment that has been classed as FVPL can be designated as FVOCI if it is not held for trading (e.g. a strategic investment). Once this designation has been made it cannot be reversed.

Financial assets measured at amortised cost

Financial assets measured at amortised costs are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially valued at fair value. They are subsequently valued at their amortised cost. Annual credits to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council sometimes makes loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement at a marginally higher effective interest rate than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year – the reconciliation of amounts debited and credited to the

Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains or losses that arise on derecognition of an asset are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement.

Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised costs (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses are calculated to reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. In practice, for trade receivables, unless it is known that a counterparty is at risk of going into administration the calculation is largely based on age of debt and amount of debt overdue.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are measured at FYOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Cumulative gains and losses are charged to the Surplus or Deficit on the Provision of Services when they are disposed of. Under capital accounting regulations, where these assets are treated as capital expenditure any gains or losses are reversed to an unusable reserve – the Financial Instruments Revaluation Reserve.

Financial assets measured at fair value through profit or loss (FVPL)

Financial assets that are measured at FYPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

These assets relate to financial instruments where the amounts received relating them are not solely principal and interest (e.g. Money Market Funds or equity investments not designated as a strategic investment).

Fair value measurements of financial assets

The fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on derecognition of the asset are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement. Under capital accounting regulations.

Fair value measurement of non-financial assets

The Council's policy for fair value measurement of financial assets is set out in the previous section (Financial Instruments). The Council also measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset, or

b) in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 – unobservable inputs for the asset.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants and contributions are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant or contribution has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Heritage Assets

The Council's Heritage assets are held by the Council in support of the primary objective of increasing the knowledge, understanding and appreciation of the Borough's history and local area. They include collections of art, books and manuscripts, civic regalia and other artefacts, which are held in Blackburn museum and art gallery, Blackburn town hall, Turton Tower and the Council's libraries. Heritage assets are recognised and measured largely in accordance with the Council's accounting policies on property, plant and equipment although there is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. Heritage assets are recognised in the Balance Sheet at the insurance valuation quoted in the Council's "All risks" policy for the twelve month period commencing the 1 April immediately after the balance sheet date.

The schedule of items held within this category is reviewed each year and adjusted for additions, deletions or impairments (e.g. where an item has suffered physical deterioration, or breakage or where doubts arise as to its authenticity). These assets have an indeterminate life and are subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The museum recognises its responsibility to work within the parameters of the Museum Association Code of Ethics when considering acquisition and disposal. If an item becomes unsuitable for the collections it may be transferred to a more suitable venue, which is likely to be another museum or gallery. There is a process for removing items from a museum's collection which is very controlled and specific. The guiding principal for this is the Disposal Digest put together by the Museums Association and available on their web site.

Heritage assets such as Darwen Jubilee Tower, the War Memorial and various statues have not been recognised in the Balance Sheet as recent information on cost is not available or the cost of obtaining the information outweighs the benefit to the users of the financial statements.

Historic buildings that have been identified as having heritage characteristics are all used by the Council for operational purposes and are accounted for within the Council's Balance Sheet as property, plant and equipment. Examples include Blackburn Town Hall, King George's Hall, Blackburn Museum, Lewis Textile Museum, Corporation Park Conservatory and Turton Tower.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the *Other operating expenditure* line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses, and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds over £10,000) the Capital Receipts Reserve.

Inventories and Long-term contracts

The Council's inventories are valued on a variety of bases depending on the nature of the items involved. These bases include cost, average cost and first in first out. The Code requires inventories to be included in the Balance Sheet at the lower of cost and net realisable value. The different treatment of stocks is not considered to be material.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Industrial and commercial properties held by the Council are not considered to be held solely to earn rentals and/or for capital appreciation. Rather, they are held for regeneration, planning reasons and estate management and, therefore, have been classified as property, plant and equipment.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year end. Gains and losses on revaluation are posted to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the *Financing and investment income and expenditure* line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance leases

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. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and
- a finance charge (debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where the ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the *Other operating expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the *Other operating expenditure* line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium at the commencement of a lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis of rental income.

Overheads and support services

The costs of overheads and support services are charges to service segments in accordance with the authority's arrangements for accountability and financial performance.

Prior period adjustments, changes in accounting policies and estimates, and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Private Finance Initiatives (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts in its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **finance cost** – an interest charge on the outstanding Balance Sheet liability, debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement
- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator
- **lifecycle replacement costs** – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council only capitalises items that exceed the de minimis threshold of £10,000. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price, and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the *Taxation and non-specific grant income* line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets - depreciated historical cost
- Assets under construction - historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Land and buildings and other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings - straight line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment – straight line allocation over 1-20 years, as advised by a suitably qualified officer
- Infrastructure – straight line allocation over 2-40 years

The standard approach is that newly acquired assets are not depreciated in the year of acquisition, and assets in the course of construction are not depreciated until they are brought into use. An exception to this is in respect of vehicles purchased outright when this represents better value for money than leasing. Depreciation is also charged on PFI schemes in the year the asset is recognised on the Balance Sheet, in order to be consistent with the minimum revenue provision (MRP) calculation. In these cases a full year's depreciation is charged in the initial year.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and derecognition

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the *Other operating expenditure* line of the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserve Statement

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Provisions, Contingent Liabilities and Contingents Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line of the Comprehensive Income and Expenditure Statement when the Council has obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue expenditure funded from capital under statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Schools

The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council. This includes community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. The Code also stipulates that these schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (i.e. the single entity accounts rather than group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

The accounting treatment of land and buildings in relation to schools is based on the legal framework underlying each type of school. The Council controls the management and running of community and foundation schools (where the foundation school is subject to a PFI contract), and therefore the land and buildings of those schools are included within property, plant and equipment on the Council's Balance Sheet.

The land and buildings of voluntary aided, voluntary controlled, foundation (not subject to a PFI contract), academy and free schools are owned and controlled by the trustees of the schools or the foundation body and are, therefore, not shown on the Council's Balance Sheet.

Capital expenditure on community schools is added to the balances for those schools as reported in the property, plant and equipment note. Capital expenditure on voluntary aided and foundation schools is treated as Revenue Expenditure Funded from Capital under Statute (REFCUS) and written off each year to the Comprehensive Income and Expenditure Statement within School's and Education Services (Non-DSG). Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement within taxation and non-specific grant income based on amounts due from the Department for Education. (Further details are provided in Note x).

DSG is allocated between centrally retained Council budget and budgets delegated to individual schools. Expenditure from centrally retained budgets and delegated schools budgets is charged to the Comprehensive Income and Expenditure Statement under School's and Education Services (DSG). Academies are funded directly from the Government, not via the local authority apart from funding for pupils with high needs. Income and expenditure in relation to academies is therefore not charged to the Comprehensive Income and Expenditure Statement.

Individual schools' balances for local authority maintained schools at the year-end are included in reserves in the Council's Balance Sheet.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

TO:	Audit & Governance Committee
FROM:	Director of Finance
DATE:	29th March 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Assessment of Going Concern Status

1. PURPOSE

1.1 This report informs the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts 2021/22.

2. RECOMMENDATIONS

2.1 The Committee is recommended to accept the outcome of the assessment made of the Council's status as a 'going concern' for the purposes of preparing the Statement of Accounts for 2021/22.

3. BACKGROUND

3.1 The concept of a 'going concern' assumes that an Authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the Statement of Accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

3.2 If an Authority were in financial difficulty, the prospects are that alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

3.3 Where the 'going concern' concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

3.4 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2021/22 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

3.5 The Code guidance for 2021/22 remains largely unchanged from previous years and contains the following provisions in respect of the concept of a going concern:

Going concern – local authorities

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. The Code confirms that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. ***As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis****. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.*

Practitioners have in the past been concerned that the abolition of an authority or the transfer of some of its services could bring the going concern assumption into question. However, paragraph 3.4.2.23 of the Code makes clear that combinations of public sector bodies are not to be taken as negating the presumption of going concern. Even though assets are to be taken from the authority, with perhaps no compensation, the continued use of the property for the public benefit means that the authority does not need to consider the restriction on its own ability to make use of the property from the going concern perspective.

The substantial resource issues that some authorities may be experiencing do not negate the presumption of going concern, even though there might be a tension between the going concern assumption and those resource issues. Authorities should ensure that, where required, appropriate reference to financial resilience and sustainability is included in the relevant reports. The authority's relevant officers (eg the Responsible Finance Officer and Monitoring Officer) must also ensure that they comply with their statutory and professional duties in respect of reporting such resourcing issues.

On a smaller scale, there may be occasions where part of an authority's operations ceases to be viable or affordable. For example, a trading unit might curtail its activities, requiring stocks to be written down and provisions set up for redundancy payments and other costs of closure. However, this will not give rise to a going concern issue for the authority, the impact being restricted to the results of the trading unit.

3.6 The requirement to use the going concern basis of accounting means that authorities do not have to apply paragraph 25 of International Accounting Standard 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. That said, in view of the concerns generally regarding the financial pressures facing local government and the impact of Covid-19, the report author has undertaken such an assessment for the purposes of the 2021/22 Statement of Accounts only. The main factors which underpin this assessment are outlined below and include the following:-

- The Council's current financial position;
- The Council's projected financial position – Medium Term Financial Plan (MTFP);
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

4. KEY ISSUES

The Council's current financial position (revenue)

Financial Year 2021/22

4.1 At the meeting of the Executive Board on 10th February 2022, Councillors were provided with an update on the Council's General Fund Revenue Budget for 2021/22. It was estimated that the outturn position on the Revenue Budget would be an overspend of £3.9m. At the time of reporting, it was anticipated that, should this overspend materialise at the year end, it would be funded by way of a contribution from the Council's reserves. In the meantime, monitoring of the Council's Revenue Budget will continue with any variations to the estimated outturn position being reported to the Executive Board as part of the reports on the Council's outturn position for the years.

4.2 On the basis of this outturn position, the Council revenue reserves as at the 31st March 2022 are forecast to be £73.185m although this is artificially higher than would normally be the case given, for example, the way in which the Council has had to account for s31 Grants associated with Business Rate Reliefs awarded to Retail businesses in 2021/22 due to the impact of Covid-19. For that reason, also provided below is the estimated balance of the Council's Reserves at 31st March 2023:-

	Forecast at 31st March 2022 £m	**Forecast at 31st March 2023 £m**
Working Balance	8.977	8.977
Budget Strategy (Support) Reserve	5.000	3.880
Invest to Save Reserve	4.950	4.336
School Related Reserves	12.660	12.660
Earmarked Reserves	41.598	30.186
Total Estimated Reserves	**73.185**	**60.039**

Financial Year 2022/23

4.3 In February 2022, the Council approved a balanced budget for 2022/23. This allows for net spending of £150.003m and required a Council Tax increase of 1.99%, an increase in the Social Care Precept of 2.0%, savings of £2.065m and the use of £13.146m from reserves (of which £5.471m of this relates to the s31 Grant referred to above which is being used to offset an estimated deficit on the Council's Business Rates Collection Fund in 2021/22 which is to be funded in 2022/23).

4.4 Whilst the budget for the financial year 2022/23 is balanced, the likely continuing impact of Covid-19 combined with the underlying pressures on the Council's funding means that the Council's financial sustainability remains under pressure. As required by statute, the Council has in place good arrangements for monitoring its budget with reports considered by the Executive on a quarterly basis.

The Council's current financial position (capital)

4.5 Details of the forecast capital outturn for 2021/22 were reported to the Executive Board on 10th February 2022 and Finance Council in February 2022. The report highlighted significant slippage of expenditure on the approved Capital Programme for the year albeit that this was matched by slippage on Capital Resources. Of the resources carried forward, c £7m reflects a borrowing requirement, the impact of which has been factored in to the Council's MTFP.

4.6 The Council has a well-established process for the development and delivery of the Capital Strategy (the latest version of which was approved by Finance Council at its meeting on 28th February). This approach ensures that the Council maintains a Capital Programme which is prudent, sustainable and affordable whilst acknowledging that the underlying need for capital spending continues to exceed the level of Capital Resources available.

4.7 In this respect, over the life of the Medium Term Capital Programme to 2024/25, 'new' borrowing is limited to an amount equivalent to the in-year Minimum Revenue Provision so that the Council's Capital Financing Requirement (which represents the underlying need to borrow for capital investment) does not increase.

The Council's Balance Sheet as at 31st March 2022

4.8 A financial overview will form part of the Narrative Report to be included within the draft Statement of Accounts for 2021/22. This will include reference to the Council's balance sheet as at 31st March 2022.

4.9 In finalising the Council's balance sheet, detailed consideration will be given to a wide range of matters to ensure it is robust and soundly based including the following:-

- an assessment of asset valuations based on the latest information;
- review of debts owed to the Council;
- the adequacy of risk-assessed provisions for doubtful debts and, in relation to business rates, of provisions for appeals;
- the range of reserves set aside to help manage expenditure;
- An adequate risk-assessed working balance to meet unforeseen expenditure.

The Council's Financial Strategy and Medium Term Financial Plan (MTFP)

4.10 The Council's Financial Strategy was approved at Finance Council on 28th February 2022. It provides a framework for the delivery of a sustainable budget over the medium term. The Strategy includes, for context, a review of the environment the Council is operating within, an assessment of the Council's current financial positions, details of the Council's Medium Term Financial Plan (MTFP) and the assumptions upon which it is based, those matters that are likely to affect the Council's finances and an outline strategy – Grow, Charge, Save, Stop – which, if implemented, should lead to the Council having a sustainable budget over the medium term.

4.11 The MTFP is updated at least annually and reflects a three year assessment of the council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the Council's Capital Programme, as well as the management of debt and investments. An update on the Council's MTFP covering the three year period 2022/23 to 2024/25 was reported to Finance Council in February 2022. The report outlined a residual savings requirement over the plan period of c£6m. The Plan is underpinned by various assumptions, details of which were included in the Financial Strategy together with an assessment of the main risks to the plan and some scenario planning.

4.12 In this context, Councillors will be aware of the progress made on the implementation of savings in previous budget rounds. It is considered that most of the savings which can readily be achieved have been made and that any subsequent proposals will be challenging. As set out by the Local Government Association in their report following a Peer Review of the Council, the Council should '*take a whole Council approach to the budget process across different service and portfolio areas to ensure resources align to key priorities and desired outcomes*'.

4.13 Work on the development of options will start early in the new municipal year to providing sufficient opportunity for these to be considered in detail. The Council has a good track record of delivering savings

The Council's governance arrangements

4.14 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the posts of Chief Executive (as Head of Paid Service), Corporate Director (Monitoring Officer) and Chief Finance Officer (as s151 Officer).

4.15 An overview of this governance framework forms part of the Annual Governance Statement which will be published as part of the Statement of Accounts for 2021/22 later in the year. This will include a detailed review of the effectiveness of the Council's governance arrangements. These matters are overseen by the Council's (Officer) Statutory Governance Officers Group and reported to this Committee in due course.

4.16 Whilst it is not possible to provide absolute assurance the review process has in previous years concluded that our existing arrangements remain fit for purpose and help provide reasonable assurance of their effectiveness.

The external regulatory and control environment

4.17 As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In relation to the latter, a report on this matter was considered by Finance Council at its meeting on 28th February 2022.

4.18 In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit, inspection regimes led by Ofsted and the Care Quality Commission as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

4.19 Against this backdrop it is considered unlikely that a local authority would be ‘allowed to fail’ with the likelihood being, when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery. Indeed, over recent years, this has been case with a number of Councils (for example, Croydon, Slough and Luton, each of which have received support from the Government).

Conclusions

4.20 It is considered that having regard to the Council’s arrangements and such factors as highlighted in this report that, for the purposes of producing the Statement of Accounts for 2021/22, the Council remains a going concern in 2021/22 and the for the following 12 months. This assessment is based on information available at the time of writing this report. An updated assessment will be carried out each financial year with the outcome reported to the Committee.

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 is made further to advice from the Monitoring Officer.

VERSION:	1

CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	March 2022
BACKGROUND PAPERS:	

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance
DATE:	29th March 2022

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2021/22

Based on monitoring information for the period 1st December 2021 – 28th February 2022

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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 <u>Bank of England Bank Rate</u>
The Bank of England Bank Rate was increased twice during the period. At the start of the period, the Bank Rate was 0.10%, rising firstly to 0.25% on 16 December 2021 and increasing further to 0.50% on 3 February 2022.

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 £40M and £65M. Investment balances continued to be unusually high during this period, because of funds received from central government. Funds received from central government included 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 have started to rise over the period, following the Bank Rate increases, averaging around 0.11% 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 0.01-0.30%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	16-Feb-22	Thurrock Metropolitan Borough Council	£5,000,000	0.40%
16-Feb-22	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.75%
17-Dec-21	19-Sept-22	Moray Council	£5,000,000	0.08%

At 28th February, the Council had approximately £41.2M invested, compared to £52.5M 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 0.11%.

For comparison, benchmark bid rates were:

(a) 1 month lending – increased over the period, starting at a low of -0.50%, reaching highs of 0.52% and averaging 0.15%

(b) 3 month lending – increased over the period, starting at a low of 0.10%, reaching highs of 0.84% and averaging 0.41%.

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 risen sharply during the period, following the Bank Rate rises. Interest rates on loans from 3 months out to a year were priced at rates between 0.55% to 1.35% by the end of the period.

The Council continues to use 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.

4.4 Short Term Borrowing in the 3 Month Period

The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing **need** in the long term. It is

(a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)

less

(b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -

less

(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long-term debt is significantly below the CFR – the gap has widened as long-term debt has been repaid. We have been using "internal borrowing" from available revenue cash balances to partly cover this gap. The remaining gap has been covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and to anticipate future borrowing needs. This has resulted in net interest savings.

Up to the end of February, there was a decrease in short-term borrowing of £5M, as loans of £10M were repaid and £5M of new loans were taken (listed below).

New loans taken in the period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
28-Feb-22	31-Aug-22	Torfaen County Borough Council	5,000,000	0.85%
			5,000,000	

Future deals already agreed by end of period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
21-Mar-22	20-Mar-23	Derby County Council Pension Fund	5,000,000	1.20%
20-Apr-22	20-Oct-22	West Midlands Combined Authority	5,000,000	0.80%

4.5 Current Debt Outstanding

	30th November 2021		28th February 2022	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	10,000		5,000	
Greater than 3 months (full duration)	15,000		15,000	
		25,000		20,000
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	125,302		125,302	
Stock & Other Minor Loans	262		262	
		143,564		143,564
Lancashire Council County – Transferred Debt		13,311		13,175
Recognition of Debt re PFI Arrangements		60,364		59,899
TOTAL DEBT		**242,239**		**236,638**
LESS: TEMPORARY LENDING				
Fixed Term		(26,205)		(14,350)
Instant Access		(26,300)		(26,828)
NET DEBT		**189,734**		**195,460**

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) £125.3M 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 28th February 2022 was £236.6M, 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 – any borrowing 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 part of its debt portfolio in loans of less than a year's duration – short-term loans currently still represent a relatively cheap way to fund marginal changes in the Councils 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 -£8.2M, 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 £130.6M, 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 <u>Treasury Management Strategy for 2022/23</u>

The Council's proposed Treasury Management Strategy and Treasury Management Indicators for 2022/23 were submitted to Executive Board on 10th March 2022.

The draft content of the strategy was summarised in an appendix to the report presented at the January 2022 Audit and Governance Committee. The final strategy content remains largely similar to the previous year.

Details of the approved strategy are included in Appendix 6.

4.8 <u>Codes of Practice and MRP – Consultation and Proposed Changes</u>

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 the changes to the Prudential Code for Capital Finance in Local Authorities. The final publications have now been released and a detailed review will be undertaken into any impact they have on the Council.

Government have recently consulted on changes to the capital framework: Minimum Revenue Provision. The outcome of this consultation is unlikely to have an impact on the Council, this will be reviewed in detail once the outcome of the consultation is issued and an update will be provided in due course.

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.

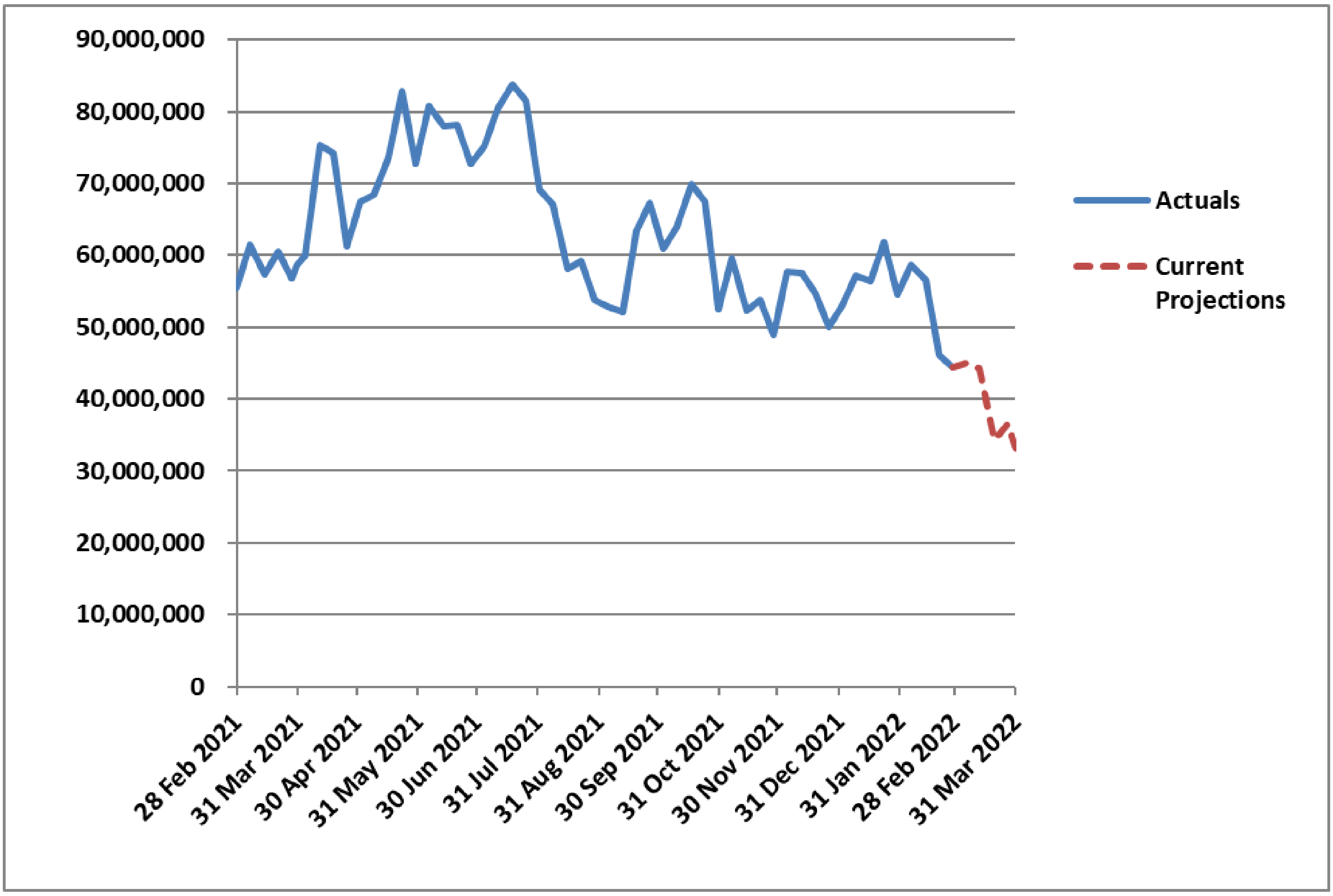
VERSION:	**0.01**

CONTACT OFFICER:	Jody Spencer-Anforth – Finance Manager extn 507748 Dean Langton – Director of Finance extn 666703
DATE:	March 2022
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy for 2021/22 approved by Executive Board 11th March 2021 - Council Treasury Management Strategy for 2022/23 approved by Executive Board 10th March 2022

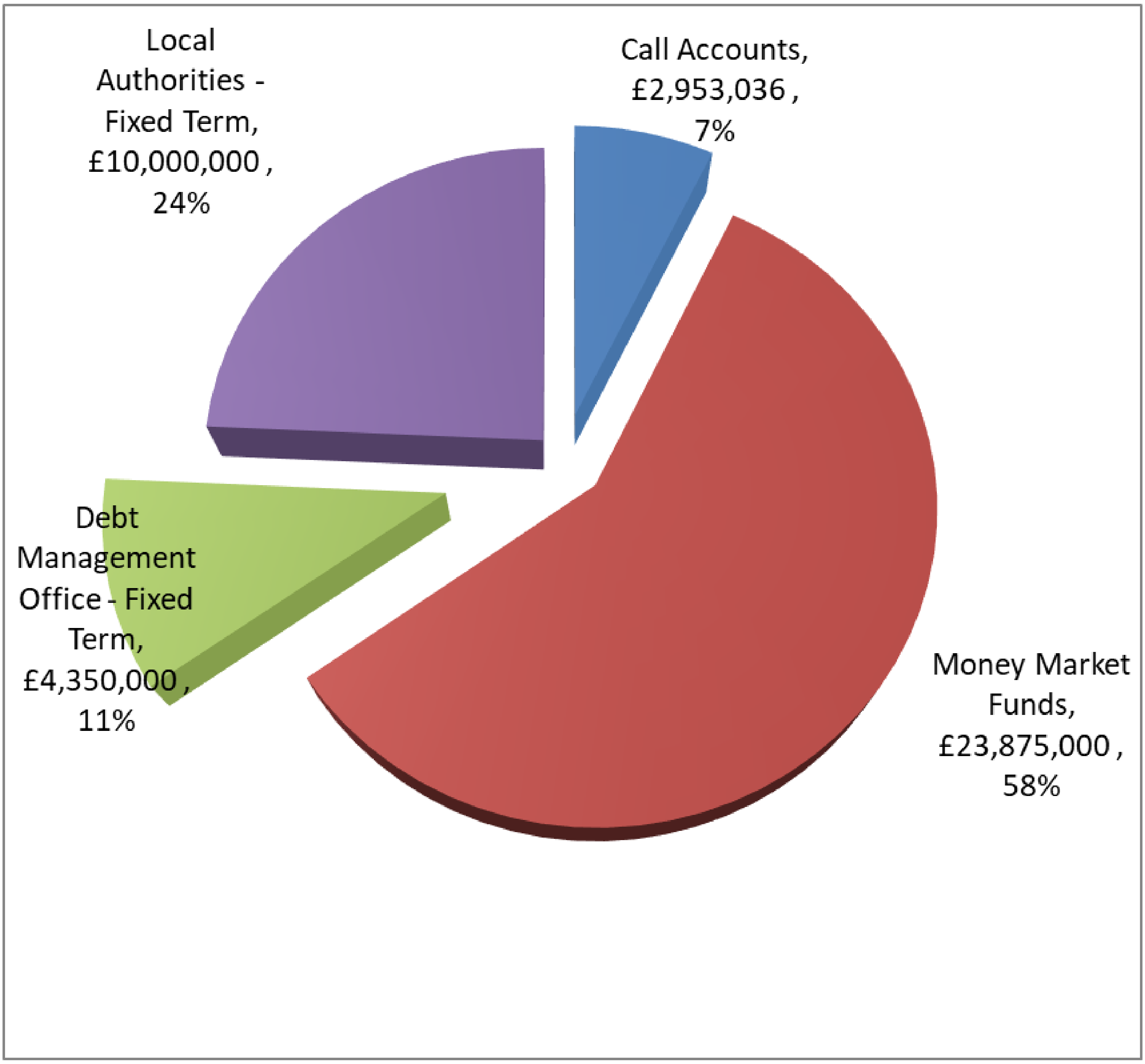
Weekly Investment Balances

Appendix 1

2021/22 (Feb 21 to Mar 22)



Investments at 28th February 2022 **Appendix 2**



	Indicator 2021/22	As Approved Mar 21	Current Monitoring	Commentary
	Estimated Capital Expenditure	£25.5M	£25.5M	
	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 PFI Elements (no lease): 69.3M Remaining Elements: 253.1M **Operational Boundary: 337.6M** **Authorised Borrowing Limit: 347.6M**	**Borrowing to Date (£M)** LCC Debt: 13.2 PFI Elements: 59.9 BwD: 163.5 **Total: 236.6**	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made
	Variable Interest Rate Exposure	£108.6M	Exposure to Date -£8.2M	Limit not breached during the year
	Fixed Interest Rate Exposure	£245.3M	Exposure to Date £130.6M	Limit not breached during the year
	Prudential Limits for Maturity Structure of Borrowing	see limits table below	see actual maturity structure table below	
	Total Investments for Longer than 364 Days	£7M	No Long Term Investments Made	

Prudential Limits for Maturity Structure of Borrowing – As Approved Mar 21:

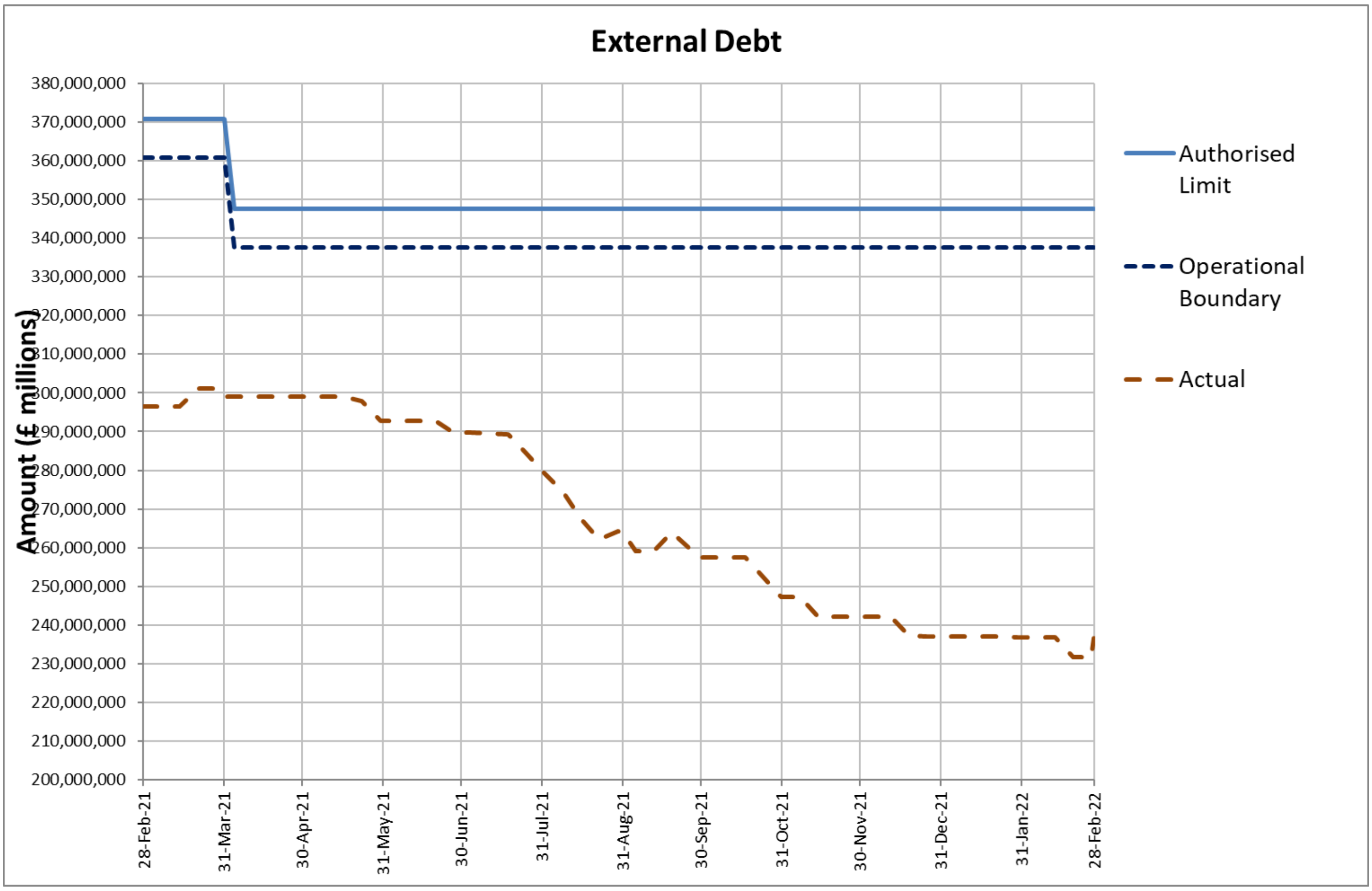
Lower Limit	Upper Limit	Period (Years)
0%	50%	<1
0%	30%	1-2
0%	30%	2-5
0%	30%	5-10
25%	95%	>10

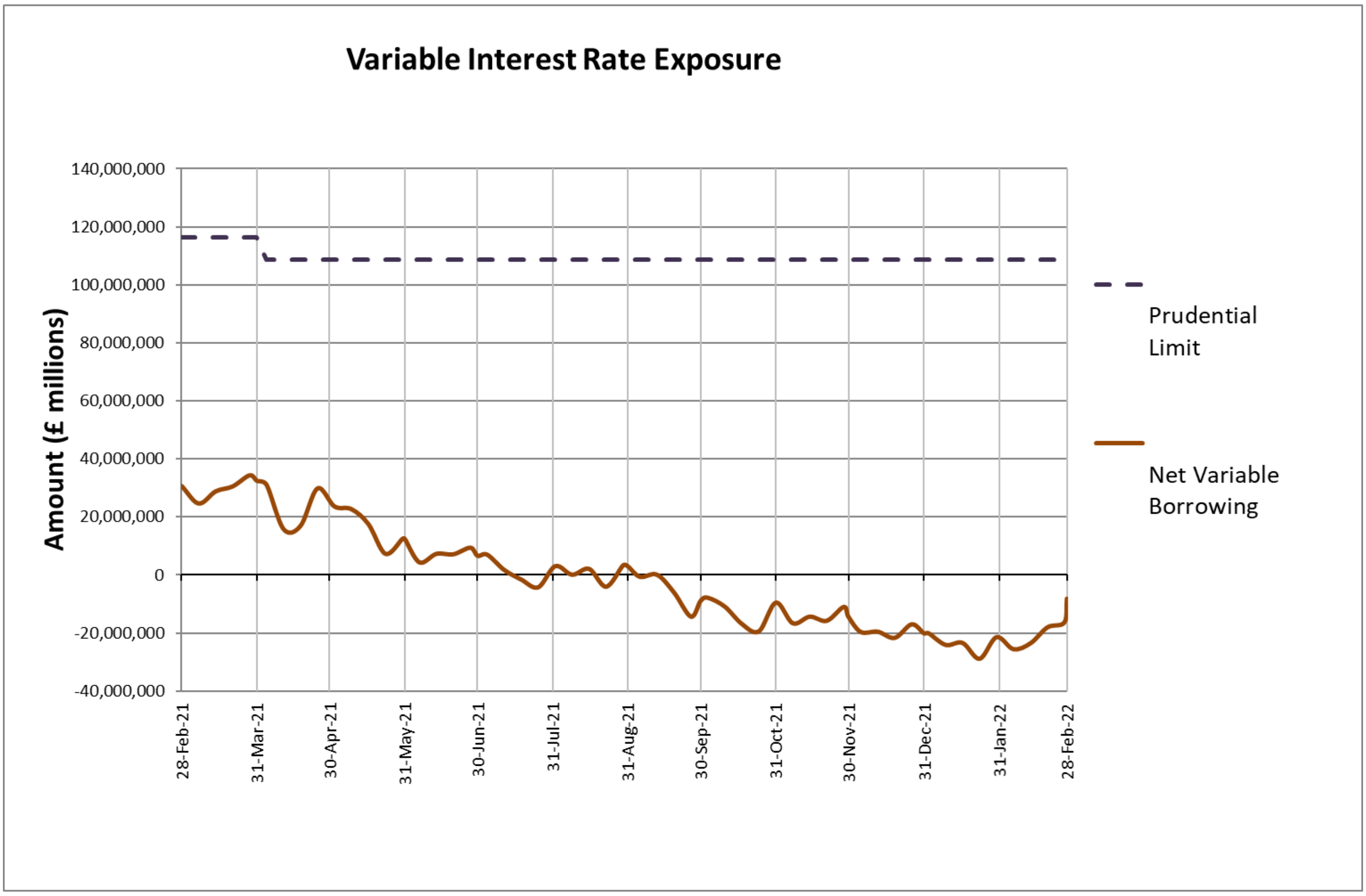
Actual Maturity Structure to Date

Period (Years)	£M	%
<1	31.6	20%
1-2	3.5	2%
2-5	26.6	16%
5-10	26.6	16%
>10	75.3	46%
Total	**163.6**	**100%**

Movements in Prudential Indicators – Total Debt and Variable Interest Exposure Year to 28th February 2022

Appendix 4





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 that 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 indictor 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).

Appendix 6

TREASURY MANAGEMENT STRATEGY 2022/23

1 Introduction

1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Capital Strategy.

1.4 Should the assumptions on which this report is based change significantly, it may be necessary to seek approval to a revised Treasury Management Strategy. Such circumstances could include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of investments made or borrowing required.

2 External Context

2.1 **Economic Background:** The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

2.2 The invasion of Ukraine by Russia could have a short and medium-term effect on the UK economy, although the increase in geo-political uncertainty will have longer and less perceptible impacts on the global economy. As major producers of cereals and energy, disruptions to exports from either country will further tighten global supplies, possibly producing more severe inflation in the UK in 2022. The Bank of England, already concerned about second-round effects of existing high inflation, may therefore consider tighter monetary policy as a response to avoid more persistent consumer inflation in the medium term. This response will have to be balanced against the sharper decline in real incomes experienced by households and the slower economic growth this will entail.

2.3 The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for quarter 4 Gross Domestic Product (GDP) growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with Consumer Price Index (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

2.4 UK CPI for November 2021 registered 5.1% year-on-year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% year-on-year from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

2.5 In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

2.6 GDP grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% quarter-on-quarter in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% quarter-on-quarter rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of quarter 3, quarter 4 growth is expected to be soft.

2.7 GDP growth in the euro zone increased by 2.2% in calendar quarter 3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% year-on-year in November, the fourth month of successive increases from July's 0.7% year-on-year. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

2.8 The US economy expanded at an annualised rate of 2.1% in quarter 3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

2.9 **Credit Outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.10 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

2.11 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

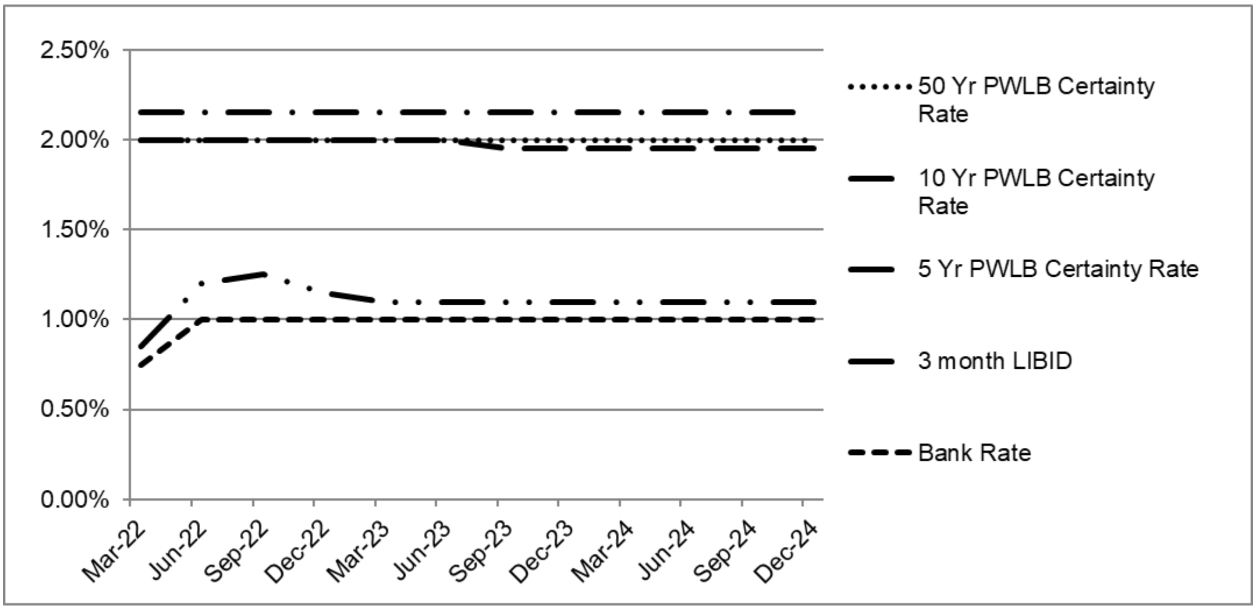
2.12 **Interest Rate Forecast:** The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in the first half of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

2.13 Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

2.14 Gilt yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 1.2%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

2.15 The Council's latest interest rate forecast, reflecting advice from Arlingclose, is shown below.

The Public Works Loan Board (PWLB) rates relate to potential long-term borrowing, and the LIBID (London Interbank Bid Rate) to short-term borrowing and investment.



For the purpose of setting the budget for 2022/23, it was assumed that:

- any new investments would be at low rates, averaging around 0.1%,
- short-term borrowing would be available at an average of around 2.0% and
- new long-term loans would be available, if required, at rates around 3.0%.

3 Local Context

3.1 At the end of January 2022 the Council held around £236.9 M of borrowing and £55.9M of treasury investments:

Table 1: Existing Debt and Investment Portfolio Position

	£m
Short-Term Debt – maturing 21/22	10.0
Short-Term Debt – maturing 22/23	10.0
Long-Term Debt	143.6
Lancashire County Council (LCC) Debt	13.2
Debt re PFI Arrangements	60.1
Gross Borrowings	**236.9**
This was offset by investments of:	55.9
Net Borrowing (gross borrowing less investments)	181.0
Net Borrowing (if LCC and PFI debt are excluded)	**107.7**

3.2 The Council's Capital Financing requirement (CFR) is the key measure of the Council's borrowing **need** in the long term. It is:

the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)

LESS the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts, to finance their debt

LESS any capital receipts applied to finance outstanding debt.

The CFR tends to increase if capital spend financed from borrowing exceeds MRP.

3.3 Forecast changes in CFR and borrowing needs are shown in the table below:

Table 2: Balance Sheet Summary and Forecast

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	298.5	293.8	341.7	341.1	342.9
Less: CFR re Other debt liabilities *1	-84.8	-84.1	-128.7	-128.3	-127.9
Loans CFR	**214.1**	**209.7**	**213.0**	**212.8**	**215.0**
Less: External borrowing *2	-145.7	-141.8	-138.2	-134.9	-124.7
Internal borrowing	**68.4**	**67.9**	**74.8**	**77.9**	**90.3**
Less: Usable reserves *3	-81.8	-81.9	-68.7	-62.0	-58.4
Plus/Minus: Working capital	32.5	-7.3	-7.6	5.6	5.1
Remaining Net borrowing NEED	**19.1**	**-21.2**	**-1.5**	**21.5**	**37.0**

Net borrowing NEED addressed by		
Short Term borrowing	**78.3**	**15.0**
Treasury Investments	**-59.2**	**-36.2**

*1 CFR regarding PFI liabilities, leases and transferred debt that form part of the Council's total debt. From 2022/23 this figure includes an estimate of £45.0 million arising from a change in accounting for leases.

*2 Only loans to which the Council is committed over the longer term

*3 Includes schools balances and grants received in advance of need

The Council's usable reserves and working capital allow less borrowing to be taken than would otherwise be required. This is sometimes termed internal borrowing.

The Council's "Loans CFR" initially increases, due to the levels of prudential borrowing under its Capital Programme plans. Thereafter, unless the level of prudential borrowing is increased beyond current plans, it will remain steady in later years, as the level of MRP being made would be broadly similar to the increase in CFR resulting from additional spend financed from borrowing.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that total debt should be lower than the highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2022/23.

4 Liability Benchmark

4.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 2 above, but that cash and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability Benchmark

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Loans CFR	214.1	209.7	213.0	212.8	215.0
Less: Balance sheet resources	-81.8	-81.9	-68.7	-62.0	-58.4
Net loans requirement	**132.3**	**127.8**	**144.3**	**150.8**	**156.6**
Plus: Liquidity allowance	42.5	2.7	2.4	15.6	15.1
Liability Benchmark	**174.8**	**130.6**	**146.7**	**166.4**	**171.7**
Actual Borrowing	**224.0**	**156.8**	**138.2**	**134.9**	**124.7**

4.2 The above table shows that the borrowings the Council has already committed to are forecast to be below the liability benchmark, and therefore the Council would be expecting to enter into new borrowings over the next 3 years. The majority of this would be replacing maturing short-term loans.

4.3 Current borrowing levels are above the liability benchmark due to additional borrowings required for the advance of pension costs made in April 2020.

5 Borrowing Strategy

5.1 The authority currently holds £143.6M of loans (excluding PFI and transferred debt), a decrease of £80.3M on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 2 shows the authorities borrowing expectations for the next three years. The authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £384.4M.

5.2 **Objectives:** The authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.4 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.5 The Authority has previously raised much of its long-term borrowing from the PWLB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; if the Council was to undertake such activities, alternative long term funding options would need to be explored. It is likely that this would take longer to arrange, and the process would require additional resources to complete. The interest rates at which such borrowing could be obtained are uncertain but may be at rates higher than those currently available from the PWLB.

5.6 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The authority will continue to maintain a flexible approach to borrowing.

5.7 In addition, the Council may take further short-term loans to cover cash flow requirements.

5.8 **Sources of Borrowing:** The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Lancashire County Council Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other Sources of Debt Financing: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.9 **Municipal Bonds Agency:** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. Blackburn with Darwen BC was one of a number of local authorities investing in the Agency to help to establish it. It issues bonds on the capital markets and lends the proceeds to local authorities.

This is a more complicated source of finance than the PWLB for two reasons:

(a) borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and
(b) there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Any decision to borrow from the Municipal Bonds Agency will be subject to a separate report to Executive Board.

5.10 **LOBOs:** The Council holds £13M of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £8M of these LOBOs have options which may be exercised during 2022/23, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is not currently expected that the Council will take any further LOBO loans - however in order to allow for some flexibility, the Council will limit its total exposure to LOBO loans to £25M.

5.11 A review has been undertaken into the possibility of making early repayments of the Council's LOBO loans, following successful repayments and refinancing of LOBO loans by other authorities, which resulted in interest cost savings for those authorities. Following discussions with the relevant financial institutions and our advisors, Arlingclose, the high premiums offered for early repayment of the Council's debt make this an uneconomic option, early repayment and refinancing would result in additional costs for the Council.

5.12 **Short-Term and Variable Rate Loans:** Short-term and variable rate loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

5.13 **Debt Rescheduling**: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6 Treasury Investment Strategy

6.1 On a day-to-day basis the Council can hold significant invested funds representing income received in advance of expenditure requirements, in addition to balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £45 million and £85 million, reflecting in particular the profiles of capital spending, grant funding, short-term borrowing levels and long-term debt repayments. Treasury investment levels are expected to reduce over the forthcoming year.

6.2 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest 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. Where balances are expected to be invested for more than one year, the Council will try, whilst balancing the above, to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 **Negative Interest Rates:** Should the Bank of England set its Bank Rate at or below zero, this would likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into secure higher yielding asset classes during 2022/23. This is especially the case for amounts estimated to be available for longer-term investment. All of the Authority's surplus cash remains invested in short-term unsecured bank deposits and money market funds along with fixed term deposits with other local authorities and the Debt Management Office (DMO). This diversification will represent a change in strategy over the coming year, however the security of the investments will be the primary consideration in line with the measures outlined below.

6.5 In order to prioritise the security of investments, the Council sets limits on the amounts placed with different institutions and as to the duration of the investment. This is to maintain a diversified investment portfolio and to align amounts and durations of investments to the perceived risks associated with different counterparties.

6.6 **Business Models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.7 **Approved Counterparties:** The Authority may invest its surplus fund with any of the counterparty types in table 4 below, subject to the limits shown.

6.8 The counterparty limits set out below, do allow for a wider range of investment opportunities to be taken up than have been used by the Council to date. Should the circumstances arise under which this would be appropriate, this would allow an increased diversification of the overall portfolio and in some instances, increase the security of investments made. The take up of any new investment opportunities will be closely managed by Officers in the Treasury Management Group, following advice given by the Council's Treasury Management Advisers.

Table 4: Treasury Investment Counterparties and Limits

Approved Investment Counterparties	Time Limit	Cash Limit	Sector Limit
The UK Government	50 years	Unlimited	N/A
Local Authorities* & Other Government Entities	364 days	£5M each	Unlimited
** as defined in the Local Government Act 2003*			
Banks and Building Societies – Secured			
long-term credit ratings no lower than AA- (or equivalent)	364 days	£5M each	Unlimited
long-term credit ratings no lower than AA (or equivalent)	364 days	£4M each	
long-term credit ratings no lower than A- (or equivalent)	364 days	£3M each	
Banks and Building Societies – Unsecured			
long-term credit ratings no lower than AA- (or equivalent)	9 months	£5M each	Banks – Unlimited Building societies - £6M in total
long-term credit ratings no lower than AA (or equivalent)	6 months	£4M each	
long-term credit ratings no lower than A- (or equivalent)	4 months	£3M each	
The Council's **current account banker** – provided long-term credit rating no lower than BBB- (or equivalent)	next day	£3M each	
Corporates or **Registered Providers** with long-term credit ratings no lower than A- (or equivalent)	4 months	£3M each	£5M in total
Money Market Funds			
long-term credit ratings no lower than A- (or equivalent)	N/A	£5M each	Unlimited
unrated or long-term credit ratings under A- (or equivalent)	N/A	£4M each	
Strategic Pooled Funds and Real Estate Investment Trusts (incl. money market funds)			
long-term credit ratings no lower than A- (or equivalent)	N/A	£5M each	£10m in total
unrated or long-term credit ratings under A- (or equivalent)	N/A	£4M each	

Other Investment Limits	Cash Limits
Any group or organisation under the same ownership	Group or overall limit same as would be set for parent company
Foreign Countries – limited to those with sovereign credit rating of AA+ or better (from all agencies)	£5M each
UK investments will not be limited by the UK's sovereign credit rating	
Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.	

6.9 Cash flow surpluses can be considered as falling into three categories -

(a) **Short-term funds** that are required to meet cash flows occurring in the next month or so, and for which the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

(b) **Medium-term funds** that may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

(c) **Long-term funds** that are not required to meet any liquidity need and can be invested with a greater emphasis on achieving higher returns. Security remains fundamental however, as any losses from defaults will impact on the total return. Liquidity is of lesser concern, although it should still be possible to sell investments with due notice if large cash commitments arise unexpectedly. This is where a wider range of instruments, including structured deposits, certificates of deposit, gilts, corporate bonds and pooled funds in bond, equity and property funds, which could be used to diversify the portfolio.

6.10 The overall Investment Strategy will be to prioritise security of funds and maintain a mix of short-term (largely instant access) and medium-term investments to generate investment income as market conditions permit. If the Council expects to have funds available for long-term investment, the Council will consider its options for such funds, including potential investment in strategic pooled funds.

6.11 With short-term interest rates still significantly lower than long-term rates, due consideration will also be given to continuing to use surplus funds to defer making long-term borrowing or even make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk. In the context of the borrowing strategy, it is likely that most investments will continue to be in instant access and short-term deposits, to manage the Council's liquidity.

6.12 **Government:** Loans to, and bonds and bills issued or guaranteed by, national government, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.13 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.14 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.15 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.16 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

6.17 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

6.18 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.19 **Corporates:** This covers loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

6.20 **Operational Bank Accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £3 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

6.21 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled at no cost will be recalled and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.22 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch"), so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Where a credit rating agency awards a different rating to a particular class of investment instrument as opposed to the credit rating of the counter-party as a whole, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

6.23 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.24 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

6.25 **Liquidity Management:** The Council uses a cash flow model to determine the period for which funds may prudently be committed. The forecast is compiled on a prudent basis, to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Furthermore, a prudent level of funds is maintained in 'instant access' investments, to cover most likely eventualities. However to mitigate risk further, it is possible to borrow funds to cover short-term needs.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7 Treasury Management Indicators

7.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

7.2 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk - i.e. to prevent too much debt maturing at any one time, with a risk the Council will have to refinance at the rates then prevailing. The limits for up to 24 months continue to be relaxed to allow for a higher level of short-term borrowing.

The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	95%	20%

This indicator applies to the financial years 2021/22, 2022/23, and 2023/24, from the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Where there is a prospect that a LOBO may be called, this has been reflected in setting these limits.

7.3 **Principal Sums Invested for Periods Longer than a Year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2022/23 £M	2023/24 £M	2024/25 £M
Limit on principal invested beyond year end	7.0	5.0	3.0

The Indicators above are "standard" Treasury Management Indicators that are generally adopted by local authorities, in line with individual circumstances. These indicators have not directly addressed the key treasury priorities of Security and Liquidity, though these issues are already closely tracked throughout the year. However, working in conjunction with the Council's Treasury Advisers, options for the formal monitoring of performance in regard to these priorities remain under consideration.

7.4 **Interest Rate Risk:** CIPFA has withdrawn the previous recommendation for standard indicators for Upper Limits on Fixed and Variable Interest Rate Risk. Nonetheless, this Council recognises that it must have regard to the risk that fluctuations in interest rates could create an unexpected burden on its finances, and will therefore continue to monitor its exposure to Fixed and Variable Interest Rate Risk. In addition, without setting a formal limit, this Council will also monitor, on an ongoing basis, the potential impact of a 1% change in interest rates on its current borrowing and investment portfolio.

The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2022/23 £M	2023/24 £M	2024/25 £M
Upper limit on Fixed Interest rate exposures	280.6	268.2	270.4
Upper limit on Variable Interest rate exposures	125.3	119.4	120.5

8 Related Matters

8.1 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

8.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

8.4 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.5 **Markets in Financial Instruments Directive (MiFID):** The Authority has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

9 Financial Implications

9.1 Excluding PFI costs (which are offset by Government grant funding) and costs arising from the change to accounting for leases, the budget for debt interest payable in 2022/23 is £6.9 million (including the interest element of payments to LCC for debt managed on our behalf), reflecting:

(a) £5.8 million interest payable, at an average interest rate of around 3.7%, on the long-term debt portfolio (forecast to average £153 million over the year),

(b) up to £1.1 million for short-term borrowing, at interest rates averaging 1.8%.

Projected investment income in 2022/23 is around £25,000, based on an average investment portfolio of circa £20 million, and interest rates averaging 0.1%.

If actual levels of investments and borrowing and/or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10 Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted with the Executive Member for Finance and Governance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	29 March 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 28 February 2022**

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1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 December 2021 to 28 February 2022.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 28 February 2022 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 identified by the internal audit team 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 28 February 2022:

Counter Fraud Activity

National Fraud Initiative (NFI)

A total of 5,835 data matches were received from the Cabinet Office in January 2021 as part of the 2020/21 National Fraud Initiative exercise (NFI 2020/21), across various Council datasets. To date, 664 matches have been processed and a further 13 follow-ups are ongoing. Seventy four errors have been identified to date, resulting in total savings of £72,257, and arrangements are in place to recover this money from the individuals concerned where applicable. The table below sets out the areas of activity and the savings that have been identified so far.

Summary of Results

Area	No. of Errors	Value (£)
Benefits (Housing/Council Tax Support)*	23	£43,507
Resident Parking Permits**	1	£0
Blue Badge Parking Permits***	50	£28,750
TOTAL	**74**	**£72,257**

***** Includes Cabinet Office 'forward estimate savings' figures

** 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.

Internal Audit

A summary of the 10 audits completed and finalised since the last report to Committee are detailed below:

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Partnership Arrangements	Substantial	Adequate	3
Highways Maintenance – Procurement & Contract Management Arrangements	Adequate	Adequate	6
Creditors Ordering/Invoice payment	Adequate	Adequate	5

Main Accounting System	Substantial	Substantial	2
Income Recording & Collection Debtors	Adequate	Adequate	10
Covid Restart Grant Arrangements	Substantial	Substantial	0
St Joseph's RC Primary School	Adequate	Limited	23
Meadowhead Infant School	Adequate	Adequate	21
IT Device Management	Substantial	Adequate	9
Commercial Property Management & Rent Collection	Substantial	Adequate	6

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

St Joseph's RC Primary 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 23 recommendations to strengthen arrangements in place across the nine areas covered during the visit. This included nine 'must' level recommendations.

In addition to the above audit reviews, Audit & Assurance staff have:

- carried out a brief a review of the process for developing and finalising the Darwen Town Deal Investment Plan at the request of the Chief Executive. This review confirmed that the process followed was consistent with Government guidance, and decision making was transparent and fair.
- responded to requests for advice and support from departments and schools in respect of systems processes and controls.

Current internal audit reviews

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

- Personalised Budgets/Direct payments;
- Highways Inspection – Walls & Structures;
- Section 17 Payments/Financial Support for Families;
- Appointment & Payment of Legal Counsel;
- Retail Hospitality & Leisure and Small Business Rate Covid Grants;
- Off Payroll Engagement;
- Agency Staff Contract Procurement & Management;
- Governance Arrangements;
- Asset Management Arrangements;

- Departmental Governance;
- Protect & Vaccinate Grant Assurance
- Planning Enforcement; and
- Sport England Grant Management Arrangements.

Audit staff are also continuing to provide on-going advice and support to the Project team implementing the replacement HR and Payroll system including testing of the migration to the new system.

Internal Audit Performance

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

Performance Measure	**Target**	**Q3 2021/22**	**Q2 2021/22**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	**36%**	**60%**
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	100%
5. Recommendations Implemented	90%	**86%**	88**%**
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

Seven of the eleven audits completed during the period required additional time due to the following factors:

- the remote working arrangements that the Council had in place during the period;
- extra time for familiarisation and training on the areas covered in the audits for a new member of staff;
- additional time required to complete a review following the departure of a member of staff; and
- additional sample testing to ensure appropriate coverage for Covid grant assurance requirements.

5. Recommendations implemented

Thirty six of the 42 recommendations due for implementation on or before 28 February 2022 (86%) had been fully or partly implemented. Progress of the outstanding recommendations was been delayed due a variety of reasons including:

- Staffing restructuring and changes in responsibility;
- Delays in the receipt of the updated local authority model Standards for

Financial management by the school; and

- Delays in the finalisation of the update of policies

None of the outstanding recommendations were graded as ‘must’.

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: 18 March 2022
Background Papers: Audit & Assurance Plan 2021/22, approved by the Audit & Governance Committee on 30 March 2021.

BLACKBURN with DARWEN BOROUGH COUNCIL

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**29 March 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT **Audit & Assurance Plan 2022/23 and Internal Audit Charter**

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1. PURPOSE

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

2. RECOMMENDATIONS

The Committee is asked to:

- approve the 2022/23 Annual Audit & Assurance Plan and draft three year Strategic Audit Plan (as set out in Appendices 1,2 and 3);
- approve the Internal Audit Charter (as set out in Appendix 4)
- note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- note that Plan changes will be reported during the year.

3. BACKGROUND

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

The PSIAS also require an internal audit charter to be in place. The charter should set out the purpose, authority and responsibility of internal audit. They require the Head of Audit & Assurance to review the charter periodically. However the final approval resides with the Audit & Governance Committee. The Charter has been reviewed and no changes have been identified as being required since the Charter was last approved in March 2021.

4. RATIONALE

The Plan and Charter define the scope and the rationale of the approach being followed. They allow Audit & Assurance, independently, to provide assurance to managers, the Chief Executive, the Section 151 Officer and other stakeholders about the effectiveness of controls and the management of risk. They also enable Audit and Assurance to assist this Committee with its responsibility to oversee the effectiveness of governance arrangements in the Council and in its partnerships through the reporting arrangements in place.

5. KEY ISSUES

The Plan:

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

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

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

Consultations:

The Plan, as a whole, is also a product of consultations with Strategic Directors, Directors and their Management Teams, and the Corporate Leadership Team, which were undertaken in January-March. Later in 2022/23 further consultations will be held to ensure that the Plan continues to meets the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.

Ongoing consultations will take place with Strategic Directors, Directors and Heads of Service during 2022/23 to ensure that specific Terms of Reference are prepared for each planned audit to reflect the detailed key risks relevant to each area.

Resources:

Audit & Assurance has had to make adjustments to its staffing establishment to meet the demands currently placed upon the Council. The audit resources currently available are considered sufficient to deliver an effective Audit Plan. The planned resources for the internal audit function for this year are 734 work-days. In addition, there are 721 work-days for Risk Management (48 days), Counter Fraud (47 days), Insurance and Financial Support/Other (482 days).

Internal Audit Charter:

The Internal Audit Charter is requirement of the PSIAS, which became mandatory from 1 April 2013. The Charter was last re-approved at the Audit &

Governance Committee meeting in March 2021. The Charter has been reviewed and no changes are deemed necessary for 2022/23.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

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

10. EQUALITY & HEALTH IMPLICATIONS

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

11. CONSULTATIONS

Corporate Leadership Team

Contact Officer:	Colin Ferguson, Head of Audit & Assurance - Ext: 5326
Date:	18 March 2022
Background Papers:	Audit & Assurance Planning papers; Risk Registers; 2021/22 Audit & Assurance Plan, Strategic Statement and Internal Audit Charter.

Appendix 1

Strategic Statement Supporting the 2022/23 Audit & Assurance Plan

1. Introduction & Purpose

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

1.2 The PSIAS define Internal Auditing as:

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

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

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

2. Scope and Independence

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

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

3. Standards and Ethics

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

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

4. Internal Audit Planning Strategy

4.1 This strategy recognises that it is management's responsibility to establish and maintain a sound system of internal control and ensure that risks are properly managed. The overall aim of internal audit work is to establish areas requiring improvement and recommend solutions that will enable the Council to achieve its objectives.

4.2 The audit strategy and planning process reflects that the audit environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in built flexibility to consider:

- Greatest risks to achievement of the Council' s objectives
- New areas of activity;
- Issues of local significance and importance;
- Changing issues and priorities;
- Changes to models for service delivery and partnership working; and
- The impact of changes on existing control structures.

4.3 The key principles of Audit & Assurance’s approach to audit planning are:

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

5. Internal Audit Planning Methodology

5.1 The approach to audit planning for 2022/23 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate and Departmental Risk Registers, the Departmental Management Accountability Framework Director Dashboard Reports, and from a review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

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

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

- Priority 1 (highest): A corporate risk, strategic governance or fundamental control review, not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months; or a grant claim certification, which must be endorsed by internal audit to comply with the funding requirements of central government departments. (Red).
- Priority 2: A significant departmental risk, governance, control or improvement issue identified by Directors and/or their departmental management teams not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Amber)
- Priority 3: A significant departmental risk, governance or control issue identified from a review of corporate/departmental risk registers, MAF returns or Council minutes not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Yellow)
- Priority 4: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 2 years. (Green)
- Priority 5: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 3 years. (Mauve)
- Priority 6 (lowest): Departmental risk, governance or control issue removed, no longer applicable or not auditable. (White).

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

5.4 Only the priority 1, 2, and 3 reviews identified are able to be delivered in the 2022/23 Internal Audit Plan, along with support for two key projects key A* projects identified during the planning meetings, due to the limited Audit & Assurance staff resources available. Provision has also been included for value for money work to be carried out during the year, at the request of the Director of Finance.

5.5 It is important that there is ability to flex and adapt the annual plan during the course of the year. The plan priorities will be reviewed with Directors during the course of the coming year to assess the impact of any changes to risk profiles, identify new or emerging issues and agree any changes to priorities.

6. Key Challenges & Opportunities

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

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

Welfare Reform and the Impact of Covid:

6.3 The impact of Welfare Reform is expected to continue through 2022/23. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries, leading to increased demand for services from residents. The Audit Plan includes time for proactive and reactive counter fraud initiatives and counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy through the review of fraud risk registers. The Audit Plan also provides for a review of arrangements in place relating to supported living arrangements and Housing Needs.

Local Government Finance

6.4 Under the Localism Act 2011, proposals for local business rate retention came into effect from April 2013. Since then the Government has been reporting its intention to fundamental change the way councils are funded. . A commitment to implement a new Business Rates Retention (BRR) model has been given for several years. The November 2021 Spending did not include an infraction on the Fair funding review. However the written statement issued alongside the Provisional Local Government Finance Settlement indicated that the Review. Further consultation on this area is expected in this area as the new financial year progresses. Provision has been included in the plan to provide assurance on the system and controls in place to calculate and collect business rate income.

Health Reform

6.5 In December 2021 the Government published its long awaited White Paper on Adult Social Care reforms ‘People at the Heart of Care’. The Government has widely acknowledged that the increase in demand in this area is unsustainable and that greater integration between health and social care is essential to addressing this. The Covid-19 crisis has only served to lay bare the magnitude of the problem and it remains one of the most pressing issues for Government to address over the coming year. The Council has not been able to assess the financial implications of the proposed changes at this stage

6.6 Internal audit reviews are included in the plan to cover the transitional arrangements for children moving to adult social care, adult social care assessments and case management, adults commissioning and contract management and the identification and collection of Health contributions for children’s social care.

Education Reform

6.7 There have been changes in national legislation over recent years, which have given schools increased freedoms, which will potentially impact on the business model for the existing educational support services offered by the Council. Since 2018-19, a new National Funding Formula (NFF) has been used to determine how much mainstream schools attract in core revenue funding. There are separate formulas for sixth form, high needs, and early years funding. Pupil Premium (additional money to support disadvantaged children) is also paid via a separate grant.

6.8 Currently, the NFF is only being used to work out notional allocations for individual schools. These are then aggregated, adjusted, and passed to local authorities, who then draw up local funding formulas for onward distribution. This is known as a soft NFF. The government has said it remains committed to introducing a hard NFF, i.e., one with a reduced role for local authorities in deciding allocations. In July 2021, it consulted on completing the NFF reforms, proposing a gradual move toward a hard NFF, but with no deadline for doing so. A further consultation is expected to follow. Reviews of the Council’s maintained schools will continue to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

6.9 The Council remains committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough’s future be secured and sustained. The audit work for 2019/20 included a review of the LSP Growth Programme forecasting and governance framework. An adequate opinion was provided for both the control environment and compliance with the controls identified. The 2022/23 plan includes provision to provide assurance regarding the governance arrangements in place to monitor and deliver the Darwen Town Deal.

7. Categories of Internal Audit Work

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

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

management's general responsibility for the integrity of the Council's activities. Most cases of fraud and corruption exploit the same weaknesses in systems that, in other circumstances, might have led to nothing more than a mistake. Internal audit will assist management by:

- verifying management's arrangements for ensuring systems are secure against fraud and corruption and report on any weaknesses;
- investigate, using the fraud response plan, cases where there is evidence of fraud and irregularity;
- when requested, undertake investigations into suspected or alleged fraud or corruption. These will be conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff;
- review weaknesses revealed by instances of proven fraud or corruption, including review of National Fraud Initiative (NFI) data matches to ensure that appropriate action is taken to strengthen internal control arrangements;
- verify that the risk of fraud and corruption is specifically considered in the Council's overall risk management process; and
- develop counter fraud awareness and understanding of fraud risk.

• ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.

• Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These services apply the professional skills of Audit & Assurance through a systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.

• Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.

• Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.

• Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

8. <u>Reporting Arrangements</u>

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

8.2 Recommendations included in the report are classified as follows:

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

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

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

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

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

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

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

- The Director responsible for the area reviewed;
- The Director of Finance (Section 151 Officer);
- The Chief Executive (Limited and No Assurance Reports only); and

- Grant Thornton (the Council's external auditor) (Limited and No Assurance Reports only).

9. Monitoring Arrangements.

9.1 The Audit & Assurance Plan will be monitored via weekly progress meetings of the Audit & Assurance management team, regular meetings with the Director of Finance and external audit. Individual reports will be issued to relevant senior managers and the Director of Finance.

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

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

9.4 Where we issue a *limited* or *no* assurance report we will undertake "standard" follow-ups after 3 months. For all other assurance reports, we will undertake a "standard" follow up after 6 months. Where we have particular concerns about the implementation of recommendations we will undertake further "physical" follow up exercises where documentation will be reviewed and further testing undertaken.

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

9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit & Governance Committee through the progress & outcomes report. The defined targets are:

Achievement:

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

Quality:

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

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

10. Audit & Assurance Resources

10.1 As at 1 April 2022 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.1 full-time equivalent (FTE) posts:

- 1 Head of Audit & Assurance (0.60 FTE)
- 2 Principal Internal Auditors (1.8 FTE)
- 2 Internal Auditors (2.0 FTE)
- 1 Apprentice (0.7 FTE)

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

Name	**Qualifications**	**Experience**	**Specialism**
Colin Ferguson Head of A & A	ACCA	38 years	Strategic Risk & Governance Audit
Chris O' Halloran Principal Internal Auditor	PIIA	12 years	Counter Fraud Contract Audit
Andrew Tordoff Principal Internal Auditor	HND in Accounting Foundation Diploma in Business Analysis	22 years	IT Audit Risk & Governance Audit
Catherine Bibby Internal Auditor	Honours Degree/ IAP/AAT Part Qualified	8 years	Risk & Governance Audit
Muhammad Saleh Ahmed	AAT, CA Part Qualified	1 year	Risk & Governance Audit
Matthew Ramsden	A levels	7 months	Risk & Governance Audit

ACCA - Association of Chartered Certified Accountants
PIIA - Practitioner of the Institute of Internal Auditors
IAP - Internal Audit Practitioner (Institute of Institute Auditors)
CA – Institute of Chartered Accountants (Pakistan)
AAT - Association of Accounting Technicians
HND - Higher National Diploma (equivalent to 2 years at University)

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

10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2022/23. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan that is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & Customer Services Department's training plan is as follows:

Name	**Professional Training**	**2022/23 Commitment**
Colin Ferguson	Certified Professional Development via CIPFA and IIA seminars	4 days
Chris O'Halloran	Strengths Based Leadership Programme	10 days
Matthew Ramsden	AAT	50 days

10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below, with 2020/21 figures for comparison.

Category	**2022/23**	**2021/22**
Total available days	1867	2,086
Deduct: annual leave, sickness & bank holidays.	(311)	(329)
Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.)	(265)	(325)
Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)	(557)	(721)
Days available for Audit & Assurance reviews	**734**	**711**

10.6 The days available for Audit & Assurance reviews have been allocated to the priority 1, 2, and 3 and consultancy audit planning levels (see section 5.2, and 5.3 above) for the following corporate and departmental areas (See Appendix 2).

Appendix 2

Audit & Assurance - Draft Audit Proposals 2022/23	Classification	Priority	22/23 Days
Adult & Prevention			
Safeguarding the most vulnerable	Control	2	10
Adults Contracts and Commissioning incl Private Care Home Contract Payments	Control	2	15
Transitional Arrangements : Children to Adult Care	Control/Risk	2	5
Client case management systems including Access Controls	Risk	2	10
CCTV Provision	Control	2	10
Reablement Service	Control	3	10
Sub total			**60**
Children's Services & Education			
Local Authority Improvement Plan	Risk	1	10
Transitional Arrangements : Children to Adult Care	Control	2	5
Demand for specialist placements	Risk	2	10
Protocol ICS System	Control	2	10
Safeguarding/ Serious incident/death of a child known to Children's Social Care. Safeguarding Board	Risk	2	10
Commissioning Panel Arrangements - Identification and collection of Health contributions	Control	2	10
Failure to meet the requirements of the Children & Families Act in relation to SEND	Risk	2	10
Youth Justice Mgmt Board	Governance	2	10
Children's Centres	Control	3	10
Audits of Schools Finance systems	Control	3	60
Sub total			**145**
Public Health & Wellbeing			
Internal Public Health Spend/Social Determinants of Health Fund - Governance	Governance	2	10
Contract Monitoring (PH Contracts commissioned via CAPS), Failure to manage procurement & commissioning activity related to PH	Control	2	10
Failure to mobilise 0-19 Healthy Child Programme Services	Consultancy	A	4
Sub total			**24**
Digital & Business Change			
Implemenation of MIAA Audit Findings	Control	1	10
Failure to prevent data loss (Information Governance)/ Compliance with GDPR	Risk	2	10
Software licencing	Control	2	10
Business Continuity/Disaster Recovery	Risk	2	10
Digital Customer Portal.	Risk	2	10
Performance Indicators/Data Quality	Control/Governance	3	10
Sub total			**60**
Growth & Development			
Environment Strategy/ Climate Change Strategy/Failure to reduce Carbon Emissions/Carbon Management/Renewable Energy	Risk	2	10
Town Fund (Darwen £25m plus BwD and others) and Other Grant Funding Projects	Governance	2	10
Asset Management System - Corporate and Commercial Portfolio Landlord /tenants Responsibilities	Control	2	10
Sub total			**30**
Environment & Operations			
Local Transport Capital Funding/LTP Grant Certification Requirement	Control	1	5
Bus Subsidy Grant	Control	1	5
Failure to adequately inspect and maintain highways. Deterioration of the highways network in particular road surfaces. Failure to repair highways defects and street lighting faults on time	Risk	2	10
Poor standard of privately run Homes of Muliple Occupancy	Risk	2	15
Fleet Management	Risk	3	10
Fleet Procurement	Control	3	10
Property Services - Services to Schools	Control	3	10
Property Services - Use of Design Consultants	Control	3	10
Museums Collections Recording System	Control	3	10
Sub total			**85**
HR & Engagement			

Audit & Assurance - Draft Audit Proposals 2022/23	Classification	Priority	22/23 Days
Payroll - Core system	Control	1	15
iTrent Implementation	Control	1	5
Health & Safety - Failure to comply with H&S legislation & Council standards	Risk	2	10
Service to schools	Control	2	10
Sub total			**40**
Legal & Governance			
RIPA processes	Control	2	10
Information Sharing Protocols and arrangements with Police	Risk	2	10
Members Allowances and Induction	Control	3	10
Legal Case Management	Control	3	10
Sub total			**40**
Finance & Customer Services			
Budgetary Setting and MTFS	Control	1	10
Main Accounting System - including account reconciliation's Control and suspense account reconciliation processes	Control	1	6
Council Tax/ C Tax Support Scheme/shortfall in C Tax income	Control	2	15
Council Tax Rebate - Support with energy costs	Control	2	10
NNDR	Control	2	15
Housing Benefits	Control	2	15
New CIPFA Financial Mgmt Code and VFM Assessments	Risk	2	10
Capital Programme/Budget - Monitoring and Reporting	Control	2	10
Treasury/Cash flow management/Major loss incurred regarding investment and/or borrowing.	Control	3	10
Civica Asset management module	Control	3	10
Use/management, monitoring and reporting of Covid 19 Grant Funding received	Control	1	15
Value for money audit	Consultancy	A*	20
Sub total			**146**
Other Audit Work			
Review of Financial Regulations, SFIs, etc	Governance	2	3
2021/22 Work in progress	Governance	1	40
Follow up work	Governance	1	10
Audit Committee	Governance	1	10
Liaison with external audit	Other	1	2
Audit Committee Annual Report/Evaluation	Governance	1	4
HoIA Annual Report	Governance	1	4
A & A Client liaison/Queries	Other	2	10
A & A Client liaison/DMT attendance	Other	2	2
A & A Client liaison/Project Groups	Other	2	4
Contingency		2	15
Sub total			**104**
Other Risk & Governance Work			
Annual Gov Statement	Governance	1	10
MAF and MAF Challenges	Governance	1	10
Risk Management Support	Risk	1	5
Road Risk Mgmt Group	Risk	1	4
Review/Monitor Corporate Risks	Risk	1	5
Review Monitor Departmental Risks	Risk	1	8
Business Continuity Champions Meetings	Risk	1	2
Risk Annual Plan/Report	Governance	2	4
Sub total			**48**
Other Fraud Work			
National Fraud Initiative (NFI)	Control	1	10
Review of Counter Fraud Strategy	Control	1	3
Counter Fraud Annual Plan/Report	Control	1	3
Proactive Fraud Testing	Governance	2	10
Reactive investigations	Governance	2	15
Review/Monitor Fraud Risk Register	Control	2	4
Fraud awareness and whistle blowing initiatives	Control	2	2
Sub total			**47**
Total Planned Audit Days 2022/23			**829**

Audit & Assurance - Draft Three Year Strategic Plan	Priority	22/23 Days	23/24 Days	24/25 Days
Adult & Prevention				
Safeguarding the most vulnerable	2	10	0	0
Adults Contracts and Commissioning incl Private Care Home Contract Payments	2	15	0	15
Transitional Arrangements : Children to Adult Care	2	5	0	0
Client case management systems including Access Controls	2	10	10	10
Homelessness/Housing Neds	3	0	10	0
Direct Payments	2	0	0	10
Prevent/Community cohesion	3	0	0	10
CCTV Provision	2	10	0	0
Corporate appointee/Guardianship arrangements	3	0	0	10
Socuial care charging and recovery	0	0	15	10
Use of voluteers	3	0	15	0
Health & safety/Lone working	2	0	0	10
Provision of equipment to service users	3	0	0	10
Community assets	3	0	0	10
Reablement Service	3	10	0	0
Disabled Facilities Grant	3	0	10	0
Sub total		**60**	**60**	**95**
Children's Services & Education				
Local Authority Improvement Plan	1	10	0	0
Transitional Arrangements : Children to Adult Care	2	5	0	0
Demand for specialist placements	2	10	0	0
Protocol ICS System	2	10	10	0
Quaklity Assurance Arranements	0	0	10	0
Inspection Readiness	1	0	15	0
Pupli Transport	3	0	0	10
Fostering/Adoptions	3	0	10	10
Comissioning and contract mionitoring	2	0	15	10
Financial Support to families	3	0	0	10
Safeguarding/ Serious incident/death of a child known to Children's Social Care Safeguarding Board	2	10	0	0
Commissioning Panel Arrangements - Identification and collection of Health contributions	2	10	0	0
Failure to meet the requirements of the Children & Families Act in relation to SEND	2	10	0	10
Youth Justice Mgmt Board	2	10	0	0
Resiential Venues	2	0	10	0
Educational Trips & Visits	2	0	0	10
Children's Centres	3	10	0	10
Audits of Schools Finance systems	3	60	80	80
Sub total		**145**	**150**	**150**
Public Health & Wellbeing				
Internal Public Health Spend/Social Determinants of Health Fund - Governance	2	10	0	10
Contract Monitoring (PH Contracts commissioned via CAPS), Failure to manage procurement & commissioning activity related to PH	2	10	15	0
Failure to mobilise 0-19 Healthy Child Programme Services	A	4	0	0
Sub total		**24**	**15**	**10**
Digital & Business Change				
Implemenation of MIAA Audit Findings	1	10	0	0
Failure to prevent data loss (Information Governance)/ Compliance with GDPR	2	10	0	0
Internet controls	2	0	0	10
Software licencing	2	10	0	0
Data sharing arrangements	3	0	0	10
Device management	3	0	0	10
Business Continuity/Disaster Recovery	2	10	0	0
Cyber Security	2	0	10	0
IT Procurement	2	0	10	0

Audit & Assurance - Draft Three Year Strategic Plan	Priority	22/23 Days	23/24 Days	24/25 Days
Third Party Vendor Management	2	0	10	0
Change Control	2	0	10	0
Management of FOIs	3	0	0	10
Digital Customer Portal.	2	10	0	0
Partnership arrangements	2	0	10	0
Performance Indicators/Data Quality	3	10	0	10
Sub total		**60**	**50**	**50**
Growth & Development				
Environment Strategy/ Climate Change Strategy/Failure to reduce Carbon Emissions/Carbon Management/Renewable Energy	2	10	0	10
Town Fund (Darwen £25m plus BwD and others) and Other Grant Funding Projects	2	10	10	0
S106 Arrangements	3	0	10	0
Planning fees	3	0	0	10
Land Charges	3	0	0	10
Local Housing Company	2	0	10	0
Building Control	3	0	10	0
Growth Programme	2	0	0	10
Asset Management System - Corporate and Commercial Portfolio Landlord /tenants Responsibilities	2	10	10	10
Sub total		**30**	**50**	**50**
Environment & Operations				
Local Transport Capital Funding/LTP Grant Certification Requirement	1	5	5	5
Bus Subsidy Grant	1	5	5	5
Failure to adequately inspect and maintain highways. Failure to repair highways defects and street lighting faults on time	2	10	15	10
Poor standard of privately run HMOs	2	15	10	0
Fleet Management	3	10	0	0
Parking enforcement	3	0	0	10
Transport Procurement/Fleet Management	3	10	0	0
Busienss Centres	3	0	0	10
Leisure Centres	3	0	15	0
Licensing	3	0	0	10
Selective Licensing	3	0	10	0
Contract management	2	0	15	10
Cemetries	3	0	0	10
Markets	3	0	0	10
Davyfeild Depot	3	0	15	0
Public Protection	2	0	10	10
Waste Services	3	0	10	0
Property Services	3	20	0	15
King Georges Hall	3	0	0	10
Museums Collections Recording System	3	10	0	0
Libraries	3	0	0	10
Sub total		**85**	**110**	**125**
HR & Engagement				
Payroll - Core system/Failure of HR & payroll system incl staff & Mgr. self service.	1	15	15	15
iTrent Implementation	1	5	0	0
Health & Safety - Failure to comply with H&S legislation & Council standards	2	10	0	10
Staff Induction and Exit	2	0	10	0
Mileage & expenses	3	0	15	0
Service to schools	2	10	0	0
Overtime /Additional Hours	2	0	15	0
Equality Act	2	0	10	0
Organisational Development	3	0	0	15
Sub total		**40**	**65**	**40**
Legal & Governance				
RIPA processes	2	10	0	0
Information Sharing Protocols and arrangements with Police	2	10	0	0
Members Allowances and Induction	3	10	0	0
Governance & Decsion Making	2	0	10	15

Audit & Assurance - Draft Three Year Strategic Plan	**Priority**	**22/23 Days**	**23/24 Days**	**24/25 Days**
Management of compliants	3	0	10	0
Elections	2	0	15	0
Legal Case Management - high numbers of Children' and Adults cases creating risk for safe mgmt. of cases.	3	10	0	10
Sub total		**40**	**35**	**25**
Finance & Customer Services				
Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS	1	10	10	10
Main Accounting System - including account reconciliation's Control and suspense account reconciliation processes	1	6	15	15
Council Tax/ C Tax Support Scheme/shortfall in C Tax income	2	15	15	15
Council Tax Rebate - Support with energy costs	2	10	0	0
Creditors	2	0	10	10
Insuarnec arrangements	3	0	0	10
Procurement/Contract management	2	0	15	10
Sundrty Debtors/Income collection	2	0	10	10
Risk management	2	0	0	10
NNDR	2	15	15	15
Housing Benefits	2	15	15	15
New CIPFA Financial Mgmt Code and VFM Assessments	2	10	0	0
Capital Programme/Budget - Monitoring and Reporting	2	10	0	0
Treasury/Cash flow management/Major loss incurred regarding investment and/or borrowing.	3	10	10	0
Civica Asset management module	3	10	0	0
Use/management, monitoring and reporting of Covid 19 Grant Funding received	1	15	0	0
Value for money audit	A*	20	20	20
Sub total		**146**	**135**	**140**
Other Audit Work				
Review of Financial Regulations, SFIs, etc	2	3	3	3
2021/22 Work in progress	1	40	40	40
Follow up work	1	10	10	10
Audit Committee	1	10	10	10
Liaison with external audit	1	2	2	2
Audit Committee Annual Report/Evaluation	1	4	4	4
HoIA Annual Report	1	4	4	4
A & A Client liaison/Queries	2	10	10	10
A & A Client liaison/DMT attendance	2	2	2	2
A & A Client liaison/Project Groups	2	4	4	4
Contingency	2	15	15	15
Sub total		**104**	**104**	**104**
Other Risk & Governance Work				
Annual Gov Statement	1	10	10	10
MAF and MAF Challenges	1	10	10	10
Risk Management Development	1	0	10	0
Risk Management Support	1	5	5	5
Road Risk Mgmt Group	1	4	4	4
Review/Monitor Corporate Risks	1	5	5	5
Review Monitor Departmental Risks	1	8	8	8
Business Continuity Champions Meetings	1	2	2	2
Risk Annual Plan/Report	2	4	4	4
Sub total		**48**	**58**	**48**
Other Fraud Work				
National Fraud Initiative (NFI)	1	10	15	10
Review of Counter Fraud Strategy	1	3	0	0
Counter Fraud Annual Plan/Report	1	3	3	3
Proactive Fraud Testing	2	10	10	10
Reactive investigations	2	15	15	15
Review/Monitor Fraud Risk Register	2	4	4	4
Fraud awareness and whistle blowing initiatives	2	2	2	2

Audit & Assurance - Draft Three Year Strategic Plan	Priority	22/23 Days	23/24 Days	24/25 Days
Sub total		**47**	**49**	**44**
Total Estimated Planned Audit Days		**829**	**881**	**881**

<u>Blackburn with Darwen Borough Council</u>

Internal Audit Charter

Audit & Assurance
Finance Department

Latest Approval: Audit Committee 30 March 2021

Background

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

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

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

The Internal Audit Mission

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

Definition

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

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

Core Principles for the Professional Practice of Internal Auditing

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

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

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

Standards

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

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

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

Responsibilities and Objectives of Internal Audit

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

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

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

Responsibilities of the Council

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

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

Independence and Objectivity of Internal Audit

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

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

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

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

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

Head of Audit & Assurance

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

Relationships

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

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

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

Scope of Internal Audit

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

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

Opinion Work

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

Governance

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

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation; and,
- co-ordinating the activities of and communicating information among the Audit & Governance Committee, external and internal auditors and management.

Risk Management

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

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

Internal Control

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

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

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

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

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

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

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

Non-Opinion Work

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

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

Fraud

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

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

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

Reporting

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

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

The Head of Audit & Assurance will present a formal report annually to the Chief Executive, Director of Finance and the Audit & Governance Committee giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control. The report will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit & Governance Committee. The annual report will state any areas of non-conformance with PSIAS and will be timed to support the production of the Council's Annual Governance Statement. Reports of progress against the planned work will be presented to the Audit & Governance Committee on a regular basis during the year.

Internal Audit Access Rights

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

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

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

Internal Audit Resources

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

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

Review

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

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**29 March 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2021/22 Quarter 3 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 October 2021 to 31 December 2021.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of Quarter 3 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 16 open risks at 31 December 2021.
A summary of the corporate risk details is set out in Appendix 1 of this report.

The following changes have been made to the risk register during the period:

- Corporate Risk Number 9 (Failure to improve health outcomes within Blackburn with Darwen could result in the communities health and wellbeing position or conditions deteriorating), has been closed. This risk was framed in terms of maintaining a gradual, incremental improvement in the health of the population (and reduction in inequalities) and the risks associated with failure to do this. The Covid-19 pandemic is likely to have caused an unprecedented fall in life expectancy and an increase in health inequalities, both within the Borough and when comparing the Borough to the country as a whole. As such it will require a different approach, along the lines of ‘build back better and fairer’.
- The Public Health elements of the Council’s response to the Covid-19 pandemic that were included in Risk 21 have been removed as this is primarily related to the Council’s business continuity response to the pandemic.
- A separate risk specific to the Public Health recovery from CV-19 has been opened (Corporate risk 23). This has incorporated the measures to reduce health inequalities and improve health outcomes previously included in Risk 9.
- A new risk relating to the impact on the Council of failing to recruit, adequately develop and retain staff has been opened (Corporate risk 22) This recognises the increasing challenges the Council is experiencing in this area.

As at 31 December 2021 the Council’s top corporate risks were:

- Risk Ref 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 Ref 14 - A high profile serious or critical safeguarding case that is known to the Council services, in light of Covid-19 working arrangements.

As part of the Council’s Risk Management process corporate risks are reviewed and monitored on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. The Corporate Leadership Team (CLT) 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.

A corporate Risk Management Policy Statement and updated Risk Management Framework and Strategy were approved by the Executive Member for Finance and Governance in February 2022. The Policy Statement sets out the Council’s intent with the management of risks and includes an assessment of the Council’s appetite for risk across a range of key strategic risk categories. The Policy and updated Strategy and Framework have been published on the intranet.

Arrangements have been made for colleagues from Zurich Municipal to provide a tailored package of risk management training to the Members and senior officers during the first quarter of 2022/23.

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.

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:	18 March 2022
Background Papers:	Corporate Risk Management Strategy 2021/2026, 2020/21 Annual Risk Management Report (including Quarter 4 Review)

Appendix 1

Summary Risk Register

Update Create Insert

Directorate:
Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 3 - 2021/22
Date: 31-Dec-21
Date of last review: 30-Sep-21
Date of next review: 31-Mar-22

Risk No	Risk Description	Date Raised	Strength of Existing Controls	Inherent			Residual			Target			Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	Previous Residual			Change in Score
				L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating					L	I	Risk Rating	
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Governement 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	13.01.2022	1	5	LOW	-
7b	Ensure delivery of statutory Civil Contingencies function - Business Continuity Management arrangements in place,planning, training testing & validating & execising 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	Paul Fleming, Corinne McMillan, Rachel Hutchinson, Sarah Riley	Open	13.01.2022	2	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesipn, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Sayyed Osman	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	20-Oct-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/Corinne Mcmillan (Resilience & Emergency Planning Service)	Richard Brown / Rachel Hutchinson	Open	21-Jul-21	4	3	MEDIUM	-
22	Failure to recruitment, adequately develop and retain an adequately experienced and appropriately qualified workforce may lead to the Council failing deliver its corporate plan priorities and to fully meet the needs of services users, the community and other stakeholders.	27-Jan-22	Fair	3	5	HIGH	2	5	MEDIUM	2	2	LOW	Corinne McMillan/Mandy Singh	Corinne McMillan/Fiona Eastwood	Open	28-Jan-22				-
23	Failure to have an inclusive public health Covid-19 recovery plan that focusses on those most impacted by the pandemic	12.01.22	Fair	4	5	HIGH	3	4	MEDIUM	2	3	LOW	Dominic Harrison	Gifford Kerr, Laura Wharton	Open	12.01.22				-

The following risks are currently closed:

Risk 3: IT Infrastructure (Resilience) – Old Town Hall.
Risk 6: Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget.
Risk 8: Failure to contribute effectively to economic growth within Blackburn with Darwen.
Risk 9: Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.
Risk 12: The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax.
Risk 16: Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services.
Risk 19: EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements.
Risk 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.

BLACKBURN with DARWEN BOROUGH COUNCIL

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**29 March 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Governance Committee – Effectiveness Self - Assessment**

1. PURPOSE

1.1 This report summarizes the results of the annual assessment of compliance of the Audit & Governance Committee current arrangements against recognised best practise guidance for Audit Committees issued by CIPFA . The results of the various assessments are set out in appendices 1, and 2 to this report.

2. RECOMMENDATIONS

2.1 Committee members are requested to consider if the results of the attached assessments are appropriate evidence to confirm the Committee's effectiveness and that is it is operating in accordance with best practice and consider if any actions are required to increase the effectiveness of this Committee:

- the Audit & Governance Committee's position when compared to the CIPFA good practice checklist (Appendix 1); and
- the Evaluation of Effectiveness of the Audit & Governance Committee, produced by the Head of Audit & Assurance on behalf of the Chair of the Committee (Appendix 2).

3. BACKGROUND

3.1 Audit committees in local authorities are necessary to satisfy the wider requirements for sound financial management, which are set out in the Local Government Act 1972 and the Accounts & Audit Regulations 2015. The Chief Financial Officer (CFO) is responsible for discharging this sound financial management requirement.

3.2 In 2018 CIPFA published its document, 'Audit Committees: Practical Guidance for Local Authorities and Police 2018. This sets out the functions, operations, roles and responsibilities of audit committees in local authorities and represents best practice.

3.3 The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It notes the purpose of audit committees as follows:

- Audit committees are a key component of an Authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management; and
- The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

3.4 The Position Statement sets out the core functions of an audit committee along with possible wider functions that a committee can undertake. It notes that organisations should adopt a model that establishes the committee as independent and effective and advises that the Committee should:

- act as the principal non-executive, advisory function supporting those charged with governance;
- in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation;
- have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups; and
- be directly accountable to the Authority's governing body (Full Council).

3.5 The Position Statement notes the role of the CFO and that officer's overarching responsibility for discharging the requirement for sound financial management. The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) emphasises the importance of having an effective audit committee to support the CFO. The CFO in a local authority must lead the promotion and delivery by the whole Authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. The Position Statement also notes that an essential role for the audit committee is to oversee Internal Audit, helping to ensure that it is adequate and effective. Both these elements are also set out in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note (LGAN).

3.6 A key aspect of the guidance is evaluating and developing the Committee's effectiveness. The guidance states that "the committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Evidence of effectiveness will usually be characterised as influence, persuasion and support. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness."

4. RATIONALE

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

5. KEY ISSUES AND RISKS

5.1 CIPFA's guidance sets out its view of Audit Committees in relation to governance, risk management and internal control. CIPFA's Good Practice Checklist for audit committees is appended to the Guidance. The Head of Audit & Assurance has completed this on behalf of the Committee. This shows that the Council's Audit & Governance Committee arrangements are largely compliant with the recommended guidance. The only area where full compliance cannot be provided is:

- Question 19: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.

However, the Committee's Annual Report is presented to Full Council for consideration, along with the minutes from the previous year's meetings. This presents an opportunity to obtain feedback on the Committee's performance from Councillor colleagues at least annually.

5.2 The evaluation of effectiveness document (Appendix 2) has been completed by the Head of Audit & Assurance. The previous version was appended to the Audit & Governance Committee's annual report considered by this Committee on 29 July 2021..

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

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

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

(i) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(ii) ensures that the financial and operational management of the authority is effective; and

(iii) includes effective arrangements for the management of risk. The Audit & Governance Committee has been designated as the committee charged with ensuring the on-going effectiveness of the Council's overall governance arrangements.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality implications arising from this report.

11. CONSULTATIONS

Contact Officer:	Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date:	18 March 2022
Background Papers:	Audit Committees: Practical Guidance for Local Authorities and Police 2018 - CIPFA

<u>**Audit Committee Self-Assessment of Good Practice**</u> **APPENDIX 1**

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
Audit Committee purpose and governance					
1	Does the Authority have a dedicated audit committee?	√			
2	Does the audit committee report directly to full council?	√			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	√			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	√			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	√			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	√			
Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? ▪ good governance. ▪ assurance framework. including partnerships and collaboration arrangements, ▪ internal audit. ▪ external audit. ▪ financial reporting. ▪ risk management. ▪ value for money or best value. ▪ counter-fraud and corruption. ▪ supporting the ethical framework	√			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	√			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	√			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	√			
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: ▪ separation from the executive. ▪ an appropriate mix of knowledge and skills among the membership. ▪ a size of committee that is not unwieldy. ▪ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	√			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the Full council or as appropriate for the organisation?			√	This is not a mandatory requirement at present.
14	Does the chair of the committee have appropriate knowledge and skills?	√			
15	Are arrangements in place to support the committee with briefings and training?	√			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	√			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	√			
18	Is adequate secretariat and administrative support to the committee provided?	√			
Effectiveness of the committee					
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			√	No formal feedback but Committee members may receive feedback from member colleagues at Group meetings or on other occasions. The Committee's Annual Report and minutes from meetings are presented to Full Council.

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
20	Are meetings effective with a good level of discussion and engagement from all the members?	√			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	√			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	√			
23	Has the committee evaluated whether and how it is adding value to the organisation?	√			
24	Does the committee have an action plan to improve any areas of weakness?	√			
25	Does the committee publish an annual report to account for its performance and explain its work?	√			

CIPFA'S AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES (2018 EDITION) **APPENDIX 2**

Evaluating the Effectiveness of the Audit & Governance Committee

Assessment key

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

Blackburn with Darwen Borough Council Audit & Governance Committee Effectiveness Assessment

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making.	Supporting the development of a local code of corporate governance. Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	The Committee reviews the draft AGS prior to approving it and monitors progress of actions to address the significant issues identified in the previous year's AGS. It also reviews the Risk Management Annual Report and the annual opinions from Internal Audit (IA) and External Audit, which support the AGS. The Committee approves the IA annual audit plan, which classifies audit reviews by assurance area to ensure adequate coverage of risk, governance and control frameworks. It receives a summary of key findings and opinions from individual IA reviews supporting the overall opinion. The Committee's terms of reference includes the review of the governance and assurance arrangements for significant partnerships or collaborations. The Committee also receives an annual report on the Council's	4

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

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

Areas where the audit committee can add value by supporting improvement	**Examples of how the audit committee can add value and provide evidence of effectiveness**	**Self-evaluation, examples, areas of strength and weakness**	**Overall assessment: 5 – 1 See key above**
		assessment of IA compliance with Public Service Internal Audit Standards which was carried out during the year. The overall judgement confirmed that the IA team conformed with the requirements of the PSIAS across all areas of focus.	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	Reviewing how the governance arrangements support the achievement of sustainable outcomes Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Work on this area is included in Internal and External Audit plans on a risk assessment basis. IA reviews are classified under one of the three headings in the plan and the annual report. Plans include reviews of key capital and revenue projects. Additional ad hoc work is carried out during the year on request from Directors. Internal audit progress reports include a summary of MAF red priority areas of concern. Performance management is not specifically identified in the Committee Terms of Reference. There are other processes in place within the Council's governance structure, which provide scrutiny and challenge for this area, as part of the Corporate Plan Scorecard monitoring arrangements, to hold Chief Officers and managers to account on a regular basis, such as Management Board and the PAM reporting process as well as Members through PDS, SPT and Executive Board reporting. Internal audit consider performance arrangements as part of any relevant audit and would report on them as part of our progress reporting arrangements. The IA plan also considers specific Key Performance Indicator audits as part of the annual audit planning process.	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract & Procurement Procedure Rules are in place as part of the control framework to ensure that value for money is considered in procurement activity. Regular Creditors audits consider on compliance with these requirements. The Committee receives the External Auditor’s Audit Findings Report. This includes a section on value for money and an overall conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in Code of Practice on managing the Risk of Fraud (CIPFA 2014). Reviewing fraud risks and the effectiveness of the organisation’s strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and members.	A Counter Fraud Policy and Strategy is in place supported by the Counter Fraud Policy Framework which includes a Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees’ Codes of Conduct. The Internal Audit progress reports include oversight of counter fraud activity and results. The Committee consider and approve the annual fraud risk assessment as part of the External Auditor’s enquiries of those charged with governance. The Committee receives the Counter Annual Report as part of the suite of annual reports which is considered prior to approval of the Annual Governance Statement:	5

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency. Publishing and annual report from the committee.	Audit & Governance Committee meetings are held in public with minimal Part 2 items. Agendas and reports are published on Council internet website. An Annual Audit Committee report is prepared and considered by full Council. Council Committee agendas, reports and minutes are also available on the internet via the Council website along with Executive Members' and Officer decisions.	4