

# Public Document Pack

## Audit & Governance Committee

Thursday, 2nd March, 2023

6.30 pm

Meeting Room A

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### AGENDA

1. **Welcome and Apologies**
2. **Minutes of the Meeting held on 29th November 2022**  
**Audit and Governance Committee November 2022** 4 - 7
3. **Declarations of Interest**  
**DECLARATIONS OF INTEREST FORM** 8
4. **Significant Partnerships Register 2022/23**  
The Business Manager, Chief Executives, will provide the Committee with a report on the Significant Partnerships Register for 2022/23.  
**Significant Partnerships Register Audit and Governance Committee March 2023 v1** 9 - 17  
**Significant Partnerships Register AG Committee v1**
5. **External Audit - Audit Committee Progress Report**  
The Council's External Auditors will provide the Committee with an update report on their work.  
**BwD Council Audit Committee Progress report - Feb 2023 JF3** 18 - 32
6. **Treasury Management Report- September 2022 to December 2022**  
The Director of Finance will provide the Committee with a report on Treasury Management activity, including the draft Treasury Management Strategy for 2023/24.  
**Treasury Mgmt Report to Audit and Governance Cttee - Dec 2022** 33 - 60  
**Treasury Mgt Strategy 23-24 - FINAL**

7. **Audit & Assurance - Progress & Outcomes to January 2023**  
  
The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance.  
  
**AA Progress Report to 31 January 2023** **61 - 65**
8. **Audit & Assurance Plan 2023/24, Two Year Strategic Plan and Internal Audit Charter**  
  
The Head of Audit & Assurance will present the 2023/24 Audit & Assurance Plan, Two Year Strategic Plan and Internal Audit Charter for approval.  
  
**A A Internal Audit Plan Charter 2023.24** **66 - 91**  
**AA Internal Plan Charter 2023.24 (Appendix 1 Strategic Stmt)**  
**AA Internal Audit Plan Charter 2023.2024 Appendix 2 Draft Audit Plan 2023.2024**  
**A A Internal Audit Plan Charter 2023.2024 Appendix 3 2 Year Strategic Audit Plan PDF**  
**A A Internal Audit Plan Charter 2022.23 Charter (Appendix 4 - Audit Charter)**
9. **Risk Management - 2022/23 Quarter 3 Review**  
  
The Head of Audit & Assurance will provide the Committee with a report on Risk Management.  
  
**Risk Management 2022.23 31 December Update** **92 - 96**
10. **Audit & Governance Committee - Effectiveness Assessment 2022/23**  
  
The Head of Audit & Assurance will report upon the result of the 2022/23 Audit & Governance Committee effectiveness assessment.  
  
**Audit Governance Committee Effectiveness Self Assesment 2022.23** **97 - 109**  
**Audit Governace Committee Effectiveness Self Assessment Appendix 1 2022 CIPFA Guidance - Assessment of BwD AG Cttee Effectiveness**  
**Audit Gov'nce Cttee Effectiveness (Appendix 2) Effectiveness Assessment 2022.23**

**PART 2: THE PRESS AND PUBLIC MAY BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS:**

Date Published: Wednesday, 22 February 2023  
Denise Park, Chief Executive

## AUDIT & GOVERNANCE COMMITTEE Tuesday 29<sup>th</sup> November 2022

**PRESENT** – Dave Harling (in the Chair) Councillors Baldwin, Fielding, Sidat, Imtiaz and Neil Slater.

**OFFICERS** – Dean Langton (Director of Finance), Chris O'Halloran, (Principal Internal Auditor), Andrew Tordoff, (Principal Internal Auditor) and Phil Llewellyn (Democratic Services),

The Councils Auditors- John Farrar and Gareth Winstanley (Grant Thornton).

### RESOLUTIONS

**16. Welcome and Apologies**

The Chair welcomed everyone to the meeting.

**17. Minutes of the meeting held on 28<sup>th</sup> June 2022**

The Minutes of the meeting held on 29<sup>th</sup> March 2022 were submitted for approval.

**RESOLVED** – That the Minutes of the meeting held on 28<sup>th</sup> June 2022 be approved as a correct record and signed by the Chair.

**18. Declarations of interest**

No Declarations of interest were made by members of the Committee.

**19. External Audit – Audit Plan 2021/22**

John Farrar presented the Grant Thornton Blackburn with Darwen Council Audit Plan for the year ending 31<sup>st</sup> March 2022.

John explained that there had been a number of delays, meaning that the audit cycle was out of kilter, and in particular highlighted a national issue relating to accounting for infrastructure assets. It was hoped that the 20/21 audit would be completed early in 2023. This meant that the 21/22 audit was behind track.

The Plan for 2021/22 highlighted key information relating to significant risks, materiality, value for money arrangements and audit logistics.

Members were advised that the Audit Fee would be higher for 2021/22 (£136,186), which was primarily down to issues with infrastructure assets and adjustments relating to the 2020/21 audit.

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

**20. Treasury Management Report - June to August 2022**

The Director of Finance presented a report which presented monitoring information for the Treasury Management function for the period 1<sup>st</sup> June 2022-30<sup>th</sup> September 2022.

The report summarised the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position, as well as position against Treasury and Prudential Indicators established by the Council.

**RESOLVED** – That the Treasury Management position for the period be noted, and that the Mid-Year Treasury Management Strategy Review also be noted.

**21. Audit & Assurance – Progress & Outcomes to October 2022**

Chris O'Halloran, Principal Internal Auditor, presented a report which informed Committee Members of the achievements and progress made by Audit & Assurance in the period from 1<sup>st</sup> June 2022 to 31<sup>st</sup> October 2022.

Members were advised that the National Fraud Initiative exercise had now concluded, with 1,641 matches processed and 1,050 errors identified which resulted in savings of £95,681. Arrangements were in place to recover this money from the individuals concerned as appropriate.

The report also gave information on the 17 audits completed and finalised since the last Committee, as well as highlighting Internal Audit performance for the latest period.

**RESOLVED** – That the outcomes achieved to October 31<sup>st</sup> 2022 against the annual audit and assurance plan 2022/23 be noted.

**22. Risk Management – 2021/22 Half Year Review**

Andrew Tordoff, Principal Internal Auditor, presented a report which detailed the risk management activity that had taken place in the period from 1<sup>st</sup> April 2022 to 30<sup>th</sup> September 2022.

As of 30<sup>th</sup> September 2022, there were 20 open risks, which were summarised in Appendix 1 of the report, with the top corporate risks being:

- 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;
- 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;

- Risk Ref 18 - Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met; and
- Risk Ref 24 - Failure to respond effectively and proportionately to develop and implement plans/adaptations, within the scope of the Council's control and influence, in pursuit of its ambition to be a Carbon Neutral Borough.

Members were reminded that as part of the Council's Risk Management process, corporate risks were reviewed and monitored on a regular basis to ensure that the Council had appropriate, properly assessed corporate risks identified going forward. The Corporate Leadership Team (CLT) reviewed 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.

The report also outlined cyber risks identified by Zurich Cyber Risk consultants and the action plan that was being developed in response, as well as advising that a review of the Council's arrangements for the control of vibration at work and manual handling had been agreed with Zurich Risk Engineering, which would take place during January 2023.

**RESOLVED -**

1. That the risk management activity during this period be noted; and
2. That Corporate Risk 24, in relation to the ambition to be a Carbon Neutral Borough, be reviewed at the next meeting in relation to assessment, control and monitoring at its next meeting.

**23. Annual Governance Statement (AGS) – Progress on 2021/22 Actions and Plan for 2022/23**

Andrew Tordoff presented a report on the progress of the actions taken to address the significant governance issues identified in the 2021/22 AGS and the planned approach and timetable for producing the 2022/23 Statement.

The report outlined the progress made to 30<sup>th</sup> August for the significant issues noted in the 2021/22 AGS, whilst also noting the level of uncertainty as to the impact of government Social Care reforms and the ongoing impact of the pandemic, the cost of living crisis and winter demand pressures on key Council services. The delivery of the 2022/23 budget was also critical to the sustainability of the Council's financial position, whilst work was ongoing to contain current overspends wherever possible.

**RESOLVED –**

1. That the progress made to address the significant actions identified in the 2021/22 AGS be noted; and
2. That the approach/timetable for producing the 2022/23 AGS be noted.

## 24. Arrangements for the Appointment of External Auditors

The Director of Finance submitted a report the purpose of which was to inform the Audit and Governance Committee of the outcome of Public Sector Audit Appointment's (PSAA) procurement process for the appointment of External Auditors to the Council for the period 2023/24 to 2027/28.

Members were reminded that in anticipation of the need to re-procure External Auditors for the 5 year period commencing with the financial year 2023/24, at the meeting of Finance Council in February 2022, Councillors resolved again to accept PSAA's invitation for the Council to opt into the sector-led option for the procurement and appointment of External Auditors to principal local government and police bodies. Almost all (99%) eligible public bodies opted in to this procurement process.

The procurement process conducted by PSAA took place during the Spring/Summer of 2022. On 3<sup>rd</sup> October, PSAA informed the Council of the outcome of the procurement process. In summary, PSAA offered contracts to six suppliers: Grant Thornton, Mazars, Ernst and Young, KPMG, Bishop Fleming and Azets Audit Services. On 17<sup>th</sup> October, PSAA subsequently informed the Council that they proposed appointing Mazars as the External Auditor for Blackburn with Darwen for 5 years from 2023/24.

The report gave information about Mazars, which was a large global audit and accounting firm. The report confirmed that the existing External Auditor, Grant Thornton, would remain in place to undertake the audit of the Council's accounts for 2022/23 and Mazars would be appointed by PSAA for the audit of the Council's accounts for the 2023/24 financial year for five years.

**RESOLVED** – That the appointment of Mazars as the Council's External Auditor with effect from 1<sup>st</sup> April 2023 for a period of 5 years be noted and endorsed.

Signed: .....

Date: .....

Chair of the meeting  
at which the minutes were confirmed

## DECLARATIONS OF INTEREST IN ITEMS ON THIS AGENDA

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

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

MEETING: **AUDIT & GOVERNANCE COMMITTEE**

DATE: **2<sup>nd</sup> MARCH 2023**

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)





**TO:** Audit & Governance Committee

**FROM:** Business Manager, Chief Executive's

**DATE:** 2<sup>nd</sup> March 2023

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

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**TITLE OF REPORT: Significant Partnerships Register 2022/23**

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**1. PURPOSE**

To provide Elected Members with an update about the Significant Partnerships Register for 2022/23. 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:

- a) Review and approve the Significant Partnerships Register (appendix 1).

**3. BACKGROUND**

An annual update is presented to the Audit & Governance Committee around the Significant Partnerships Register. This ensures we fulfil our responsibilities under the Council's Code of Corporate Governance. In addition, the Register supports the value for money key lines of enquiry within the Code of Audit Practice (revised in 2022) regarding significant partnerships.

**4. RATIONALE**

The Council's Code of Corporate Governance defines the partnerships that are included in the Register as not all partnerships are classed as '*significant*'. Following a recommendation from the BwDBC Audit and Assurance team, the Register is fully updated annually. The department also undertake a smaller mid-year review to capture any key updates. The general review takes place in quarter one and the comprehensive review takes place in quarter three. Onus remains on Chief Officers to ensure the entries are correct and up to date. Contact with Chief Officers and partnership leads is logged as per a recommendation from the BwDBC Audit and Assurance team. This year's comprehensive review has seen the Register transferred to SharePoint to streamline the process, increase accuracy and reduce administration. This transfer has proved successful and the Register will now be retained on SharePoint permanently. Corresponding partnership frameworks will also be uploaded to the SharePoint site in due course.

**5. KEY INFORMATION**

Updates to the Register in quarter three include changes in personnel and portfolios and staff will continue to update these throughout the year as required. Each department was asked to review its partnerships and the following additions and deletions were made:

Additions:

- a) A&E Delivery Board

- b) Domestic Abuse Partnership Board
- c) Funded Care Implementation Board (Lancashire)
- d) Growth Contractor and Developer
- e) Integrated Care Board Quality Sub Group
- f) Intermediate Care Board
- g) Lancashire & South Cumbria Integrated Care Partnership
- h) Reducing Reoffending Board
- i) Road Safety Partnership Board
- j) Transforming Community Mental Health teams

**Deletions:**

- k) Pennine Lancashire Night Time Noise Service  
*Removed because it is a Service Level Agreement and therefore excluded by definition*
- l) Cosy Homes in Lancashire (CHiL)  
*Removed because this is a procured service*
- m) EHL (Environmental Health Lancashire) and TSNW (Trading Standards NW):  
*Removed because these are groups of professional officers at strategic and operational level who meet for the purpose of sharing good practice, information and networking.*

A general review of the Register will be scheduled in quarter 1 and this will ensure changes are recorded within an acceptable timeframe as recommended by the BwDBC Audit and Assurance team.

**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**

Chief Officers approve each entry on the register and the information within the related framework. Entries without a Chief Officer's signature are not accepted.

|                    |   |
|--------------------|---|
| Contact Officer:   | Mohsin Mulla (ext. 5525)  |
| Date:              | 2 <sup>nd</sup> March 2023  |
| Background Papers: | Significant Partnerships Register<br>(Appendix 1 – attached separately) |

| Department      | Service area     | Name of partnership  | Purpose   | Lead officer    | Date established                      | Date reviewed |
|-----------------|------------------|--|---|-----------------|---------------------------------------|---------------|
| Adults & Health | Commissioning    | Joint Commissioning Recommendations Group  | To provide the planning, implementation and governance framework for integrated commissioning between the Council and Clinical Commissioning Group (CCG), as set out by the Health and Wellbeing Board, CCG Governing Body and the Council Executive Board.   | Katherine White | 01/05/2013                            | 22/11/2022    |
| Adults & Health | Community Safety | Pennine Lancashire Community Safety Partnership Board (including the Reducing Reoffending Board) | To comply with the requirements of the Crime and Disorder Act; providing strategic governance in relation to the prevention and detection of crime and anti-social behaviour.   | Mark Aspin      | 01 October 2016                       | 22/11/2022    |
| Adults & Health | Community Safety | Road Safety Partnership Board  | The Lancashire Road Safety Partnership is the coordinating body for Lancashire, Blackburn with Darwen and Blackpool which aims to reduce road casualties through the management of speed, enforcement, engineering, emergency response, driver education and training and through developing collaborative approaches to education, awareness, engagement and other measures.   | Mark Aspin      | 01/01/2002                            | 22/11/2022    |
| Adults & Health | Community Safety | Domestic Abuse Partnership Board   | Partnership working across public and voluntary sector agencies to review arrangements about the support for domestic abuse   | Mark Aspin      | 2006, but Statutory from January 2021 | 10/01/2023    |
| Adults & Health | Integrated Care  | Local Integrated Care Partnership  | To enable Adult Social Care, Neighbourhood Teams, Health and the Voluntary Sector to efficiently work together to achieve better health, wellbeing and quality of life outcomes for our residents. The partnership has responsibility for delivering and improving shared health and care goals and providing the overarching framework within which partnership arrangements at the district and neighbourhood levels operate. <i>NOTE - Changes being introduced 1.4.23 including name (Place Based Partnership) and remit.</i>               | Katherine White | 01/06/2018                            | 22/11/2022    |
| Adults & Health | Integrated Care  | Lancashire & South Cumbria Integrated Care Partnership   | The Integrated Care Partnership is a statutory joint committee of the Integrated Care Board and each responsible local authority (upper tier and unitary) within the Lancashire and South Cumbria area. This represents a broad alliance of organisations and stakeholders, who are concerned with improving the care, health and wellbeing of the population. The ICP must agree an Integrated Care Strategy for the areas that sets a small number of strategic priorities/ambitions to be delivered in places or through other partnerships. | Philippa Cross  | 01 September 2022                     | 07/02/2023    |
| Adults & Health | Integrated Care  | Funded Care Implementation Board   | The Funded Care Implementation Board is a Health and Social Care partnership group who come together as decision makers on all aspects of Jointly Funded Care including Continuing Health Care and Complex care. The group includes ICB partners, LA's, Commissioning Support Unit and Lived Experience representatives.  | Zoe Evans       | 02/09/2021                            | 22/11/2022    |
| Adults & Health | Integrated Care  | Transforming Community Mental Health Teams   | To support, guide and evaluate the implementation of the community mental health frameworks for Adults and Older Adults across LSC.   | Brendan Gray    | 04/01/2018                            | 22/11/2022    |
| Adults & Health | Integrated Care  | Intermediate Care Board  | The Intermediate Care Board is a partnership organisation that comes together to jointly deliver Health and Social Care Intermediate Care Services  | Paula Snow      | 2016                                  | 22/11/2022    |
| Adults & Health | Integrated Care  | A&E Delivery Board   | Monitoring A&E performance  | Paula Snow      | 2017                                  | 22/11/2022    |
| Adults & Health | Integrated Care  | Integrated Care Board Quality Sub Group  | The quality committee has been established to provide assurance to the ICB, that there is an effective system of quality governance and internal control that supports it to effectively deliver its strategic objectives and provide sustainable, high quality care.   | Mark Warren     | 01/09/2022                            | 22/11/2022    |
| Adults & Health | Prevent          | Contest Board  | To provide strategic governance and oversight of the delivery of the Contest strategy by partner agencies to ensure a consistent and coordinated approach is in place to mitigate the risk from terrorism related activity within Lancashire and the wider threat to national security  | Mark Aspin      | 24/09/2015                            | 22/11/2022    |

|                 |               |                                 |  |             |                                       |            |
|-----------------|---------------|---------------------------------|--|-------------|---------------------------------------|------------|
| Adults & Health | Safeguarding  | Local Safeguarding Adults Board | Lead strategic group for safeguarding vulnerable adults  | Mark Warren | 01/04/2010                            | 22/11/2022 |
| Public Health   | Public Health | Health and Wellbeing Board      | Integrated partnership between the NHS, Social Care, Public Health and other local services to improve health and wellbeing in the borough.  | Abdul Razaq | February 2011<br>Statutory Board 2013 | 28/11/2022 |
| Public Health   | Public Health | Health Protection Board         | To provide assurance to Elected Members, Chief Executives and national bodies, as required on the Blackburn with Darwen Covid 19 response arrangements and also provide assurance to the LRF Strategic Commissioning Group on the functioning and arrangements of the Pan-Lancashire COVID19 response hub. | Abdul Razaq | 01/07/2020                            | 29/11/2022 |
| Public Health   | Public Health | Strategic Alliance Partnership  | Partnership between the Council, Blackburn College and Lancaster University to achieve shared economic, social and education outcomes for the borough and wider and aim to become a national exemplar for joint working between anchor institutions.   | Abdul Razaq | May 2017                              | 29/11/2022 |

| Department        | Service area        | Name of partnership         | Purpose   | Lead officer                  | Date established | Date reviewed |
|-------------------|---------------------|-----------------------------|---|-------------------------------|------------------|---------------|
| Chief Executive's | Corporate Strategy  | Lancashire Leaders          | Collaborative working across all 15 local authorities in Lancashire to develop a long term strategic plan and potential county/devolution deal for the greater Lancashire area.   | Denise Park;<br>Ben Greenwood | 2000             | 23/12/2022    |
| Chief Executive's | Civil Contingencies | Lancashire Resilience Forum | The function of Lancashire Resilience Forum (LRF) is to create a forum for organisations with a duty to co-operate under the Civil Contingencies Act 2004 to meet within a multi-agency environment to ensure the effective delivery of those duties. This includes maintaining and publishing agreed risk profiles for Lancashire through a Community Risk Register and develop a strategy to address the risks and other issues and events as they arise. | Jenna Russett-Knott           | 2004             | 15/12/2022    |
| Chief Executive's | Policy              | Northwest Evergreen Fund    | Property loan fund supported by EU funding to provide development funding in Greater Manchester, Lancashire and Cheshire  | Denise Park                   | 2013             | 23/12/2022    |

| Department           | Service area        | Name of partnership   | Purpose   | Lead officer  | Date established                  | Date reviewed  |
|----------------------|---------------------|---|---|---------------|-----------------------------------|--|
| Children & Education | SEND                | SEND Strategic Partnership Board                                      | The role of the SEND Strategic Partnership Board is to ensure that the responsibilities set out within the SEND reforms are delivered by the local area. As set out in the Children and Families Act 2014, Local Authorities and Health partners must work collaboratively and effectively to secure better outcomes for children and young people aged 0 – 25 with SEND and their families.  | Michelle Holt | 2019                              | 21/11/2022<br>governance under review currently for an independent chair |
| Children & Education | Schools             | BBCL School Improvement Board   | The BBCL School Improvement Board (BBCL SIB) was established in 2014 in order to bring together the significant stakeholders, including the RSCs, LAS, Dioceses, Teaching Schools, MATs, Teaching School Council, NCTEM, NLEs and NLGs - who will become the custodians of a self-sustaining, self-improving education system as outlined in the government's white papers in 2010 and 2015.  | Michelle Holt | 2014                              | 21/11/2022   |
| Children & Education | Safeguarding        | Childrens Safeguarding Assurance Partnership (formerly known as LSCB) | Strategic Board to co-ordinate safeguarding services and act as a strategic leadership group across the unitary authorities and county.   | Jo Siddle     | 2019                              | 21/11/2022   |
| Children & Education | Social Care         | Corporate Parenting Executive Board                                   | To provide strategic leadership across the borough to ensure that all local authority departments and key partner agencies promote and champion their responsibilities as corporate parents to improve outcomes for our cared for children and care leavers.  | Jo Siddle     | 2019                              | 21/11/2022   |
| Children & Education | Safeguarding        | MAPPAs Strategic Management Board                                     | From the beginning of the year 2004 there has been a legal "duty" for social services "to co-operate" with the local police and probation departments with MAPPA (Multi-agency Public Protection Arrangements - section 325 of the Criminal Justice Act 2003). The duty to co-operate relates to operational casework involving assessing and managing the risk posed by high-risk offenders. | Imran Akuji   | 2001                              | 21/11/2022   |
| Children & Education | Adolescent Services | Strategic Youth Alliance Partnership Board                            | To provide leadership and a strategic direction for all member youth organisations (local authority, voluntary, charitable, faith & social enterprise sectors) to work in collaboration.  | Imran Akuji   | 2019                              | 21/11/2022   |
| Children & Education | Safeguarding        | Youth Justice Service Strategic Management Board                      | Provides strategic direction to the Youth Justice Service   | Imran Akuji   | Steering Group 2000<br>Board 2008 | 21/11/2022   |

| Department               | Service area                    | Name of partnership  | Purpose  | Lead officer                          | Date established | Date reviewed |
|--------------------------|---------------------------------|--|--|---------------------------------------|------------------|---------------|
| Environment & Operations | Highways and Network Operations | Association of Directors of Environment, Economy, Planning & Transport (ADEPT) | ADEPT's primary role is to take the lead in transforming local authorities and through attendance at the Northern Highways Direct Management Group benchmarking information and good practice is shared across all member authorities.   | Martin Eden                           | 2003             | TBC           |
| Environment & Operations | Highways and Network Operations | Local Council Roads Innovation Group (LCRIG)                                   | Member Councils work in partnership to share their skills, knowledge and experience to enhance their DfT Self-Assessment scores and to learn from each other about new innovative techniques and services introduced by the supply chain.  | TBC - Officer recruitment in progress | 2013             | TBC           |
| Environment & Operations | Highways and Network Operations | Northwest Highway Authority and Utility Committee (NWHUAC)                     | North-West Highway Authorities & Utilities Committee (NWHUAC) was founded in 1993 to; serve the needs of organisations planning and co-ordinating works in the highway; interpret and facilitate over the legislation associated with such works (principally the New Road & Street Works Act 1991); and promote best practice, innovative solutions and improved communications between utilities and highway authorities.                                  | Simon Littler                         | 1993             | TBC           |
| Environment & Operations | Highways and Network Operations | Northwest Joint Authorities Group (NWJAG)                                      | NWJAG(UK) represents the best interests of every Highway and Road Authority in the Northwest of the United Kingdom. It was formed to provide highways advice and support to the government through the Highway Authorities and Utilities Committee, HAUC(UK), JAG (UK) and also through direct contact with government departments.  | Simon Littler                         | 1991             | TBC           |
| Environment & Operations | Highways and Network Operations | Lancashire Road Safety Partnership   | The Lancashire Road Safety Partnership is the coordinating body for Lancashire, Blackburn with Darwen and Blackpool which aims to reduce road casualties through the management of speed, enforcement, engineering, emergency response, driver education and training and through developing collaborative approaches to education, awareness, engagement and other measures.  | TBC - Officer recruitment in progress | 2002             | TBC           |
| Environment & Operations | Highways and Network Operations | Lancashire Flood Risk Partnership  | The Lancashire Partnership is one of five Flood & Coastal Erosion Risk Management (FCERM) Partnerships reporting to the North West RFCC alongside Cumbria, Merseyside, Cheshire Mersey and The Association of Greater Manchester Authorities (AGMA). All the FCERM Partnerships in the North West bring together the key agencies/authorities and other organisations/stakeholders to deliver an integrated and collaborative approach to manage flood risk. | Imran Munshi                          | 2010             | 08/02/2023    |

| Department           | Service area     | Name of partnership                               | Purpose   | Lead officer | Date established | Date reviewed   |
|----------------------|------------------|---|---|--------------|------------------|---|
| Growth & Development | Growth PMO       | Barnfield Blackburn Ltd.                          | The company was set up for the purposes of acquiring the Milking Lane site, preparing the site for development and disposing of land parcels to 3rd parties for development.  | Simon Jones  | 2019             | 11/10/2022  |
| Growth & Development | Growth PMO       | Blackburn with Darwen Employment and Skills Board | The Employment and Skills Board brings together the public, private and voluntary sector. The Board has agreed an Employment and Skills Strategy which align with national policy and the Lancashire LEP Skills and Employment Strategic Framework. The Board meets four times per year and has three sub groups to take actions forward. | Martin Kelly | December 2017    | 11/10/2022  |
| Growth & Development | Growth PMO       | Growth Contractor & Developer Framework           | The framework was procured to allow the Council to accelerate bringing forward employment, housing and town centre development opportunities. And to provide access a pre-procured framework of construction partners to deliver construction and civil engineering capital projects.   | Simon Jones  | 2018             | 11/10/2022  |
| Growth & Development | Growth PMO       | Hive Ambassadors Network                          | Hive is a business network made up of over 330 local businesses with the aim to drive business growth in Blackburn and Darwen as well as promoting the borough as an excellent place to live, work and visit. The board consists of key senior staff from a variety of local businesses and organisations.                                | Martin Kelly | 2012             | 24/11/2022  |
| Growth & Development | Property         | Lancashire Property Board                         | To support the Lancashire Council's policy ambition of Public Services Working Together – where Lancashire delivers integrated public services at the heart of local communities, giving everyone the opportunity for a healthier and safer life.   | Zoe Eglin    | January 2017     | 09/02/2023  |
| Growth & Development | Growth PMO       | Maple Grove Blackburn Ltd                         | The company was set up for the purposes of acquiring the Thwaites site, and preparing the site for development and disposal for town centre uses.   | Simon Jones  | 2021             | 11/10/2022  |
| Growth & Development | Building Control | Pennine Lancashire Building Control               | Joint partnership between BwD and Burnley to deliver building control services to Blackburn and Burnley.  | Nick Bargh   | 03/09/2009       | 9/11/2022<br>Partnership will be formally dissolved 31/03/2023. |



|                                 |                    |                                   |   |                    |  |            |
|---------------------------------|--------------------|-----------------------------------|---|--------------------|--|------------|
| <b>Growth &amp; Development</b> | Corporate Strategy | Lancashire Enterprise Partnership | Collaboration of Leaders from business, universities and local councils who direct economic growth and drive job creation. BwD Deputy Leader is a LEP Director /Board member  | Jacques McCaughran | Steering Group 2000 Board 2008               | TBC        |
| <b>Growth &amp; Development</b> | Policy             | Growth Lancashire                 | Collaborative working arrangements across the public and private sector in BwD and the wider Lancashire area, focussed on growing productivity, prosperity and places. BwD is one of its founding members, is the company's employing body and Deputy Chair of the Board. | Janet Doolan       | (Regenerate 2005) and Growth Lancashire 2016 | 11/10/2022 |

# Blackburn with Darwen Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

February 2023

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

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# Introduction

## Your key Grant Thornton team members are:

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Manager

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In-charge

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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 Council; 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 February 2023

## Financial Statements Audit 2020/21

Our audit work on your 2020/21 financial statements is nearing completion with only a few final outstanding areas to be finalised, including challenging the Council's accounting for its interest in Blackburn Shopping Centre, obtaining management's letter of representation and performing our final review of the accounts to ensure all agreed amendments have been correctly made. We are in regular on-going discussion with the Council's finance team and anticipate being in a position to issue our audit report ahead of the June Audit and Governance Committee.

## Financial Statements Audit 2021/22

We undertook our initial planning for the 2021/22 audit in July 2022 and in September we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements.

We received your draft financial statements in September 2022 and our work on these statements is currently ongoing, having started in December 2022.

Our audit work on the 2021/22 financial statements is progressing well and we continue to provide regular updates to the Council's finance team on progress. There are no significant matters arising from the 2021/22 audit to draw to members attention at this stage.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

Our Auditor's Annual Report for 2020/21 has been previously issued in draft and will be finalised at the same time as issuing our opinion on your 2020/21 financial statements. Work is currently on-going on the 2021/22 Auditor's Annual Report.

# Progress at February 2023 (cont.)

## 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). DWP extended the deadline for reporting the findings of this work to 31 January 2023. We completed our work on your Housing Benefits Subsidy claim on 30<sup>th</sup> January 2023 and issued our report to the DWP ahead of the deadline. The claim was amended for one minor issue but had no impact on the overall subsidy received by the Council.

### Meetings

We met with Finance Officers on a regular bases and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our 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.

Your officers also attended our Accounts Workshops for 2022/23, which were held in February 2023.

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.

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

# Audit Deliverables

| 2021/22 Deliverables   | Planned Date   | Status    |
|--|----------------|-----------|
| <b>Audit Plan</b><br>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report | September 2022 | Completed |
| <b>Audit Findings Report</b><br>The Audit Findings Report summarising the findings and conclusions from the 2021/22 audit.   | Tbc            | Tbc       |
| <b>Auditors Report</b><br>This includes the opinion on your financial statements.  | Tbc            | Tbc       |
| <b>Auditor's Annual Report</b><br>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.   | Tbc            | Tbc       |

| 2021/22 Audit-related Deliverables   | Planned Date | Status    |
|--|--------------|-----------|
| <b>Housing Benefit Subsidy – certification</b><br>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. | January 2023 | Completed |

# 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



# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

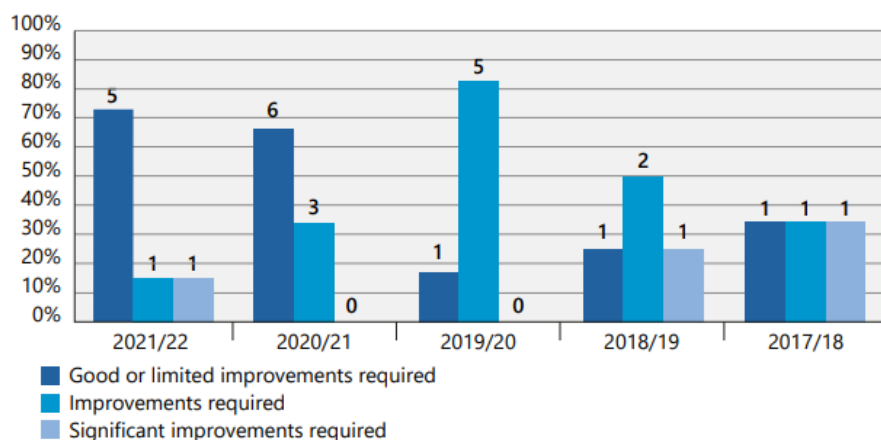
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

**Our assessment of the quality of financial statement audits reviewed**



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 99 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



# Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

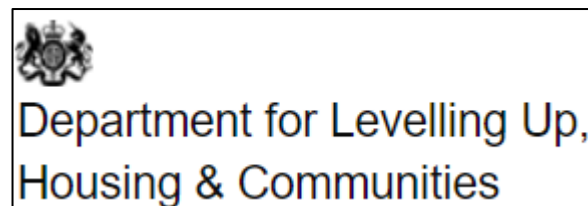
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

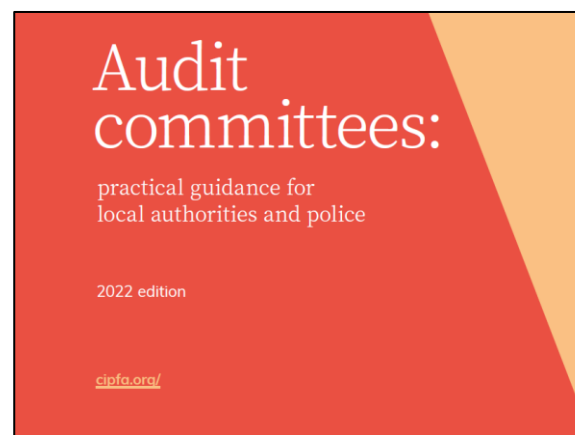
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)





# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)







## BRIEFING PAPER

**REPORT to :** Audit and Governance Committee

**LEAD OFFICER:** Director of Finance

**DATE:** 2<sup>nd</sup> March 2023

**WARD/S AFFECTED:** All

### TREASURY MANAGEMENT REPORT – 2022/23

Based on monitoring information for the period 1<sup>st</sup> October 2022 – 31<sup>st</sup> December 2022

#### 1. PURPOSE

To allow scrutiny of the Treasury Management function.

#### 2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee:

- 2.1. Notes the Treasury Management position for the period
- 2.2. Notes the Treasury Management Strategy for 2023/24 which is due to be presented to Executive Board for approval on 9<sup>th</sup> March 2023

#### 3. BACKGROUND

- 3.1 The Treasury Management Strategy for 2022/23, approved at Executive Board in March 2022, 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 An update to the Treasury Management indicators was approved at Executive Board in September 2022 and Council in October 2022.

- 3.3 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.

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

## 4. KEY ISSUES

### 4.1. Bank of England Bank Rate

4.1.1. The Bank of England Bank Rate was increased twice during the period. The Bank Rate at the start of the period was 2.25%, rising firstly to 3.0% on 3<sup>rd</sup> November 2022 and increasing further to 3.5% on 15<sup>th</sup> December 2022.

### 4.2. Investments Made and Interest Earned

4.2.1. 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 £52M and £71M. Investment balances continued to be unusually high during this period, largely due to funds received from central government and grants received in advance of spend being incurred, including Darwen Town Deal funding of £8.15M. It is expected that investment balances will ultimately reduce in future to between £10M and £20M.

4.2.2. 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 continued to rise over the period, following the Bank Rate increases, averaging around 2.64% throughout the period. Bank deposit account rates have also increased during the period, rising to 0.80% by the end of December 2022.

4.2.3. For limited periods, funds were also placed with the Government’s Debt Management Account Deposit Facility (at 1.80 – 3.50%). The other fixed term investments made were:

| Start Date | End Date  | Counterparty                | Amount £   | Rate  |
|------------|-----------|-----------------------------|------------|-------|
| 20-Sep-22  | 18-Sep-23 | Moray Council               | £5,000,000 | 2.00% |
| 12-Aug-22  | 14-Nov-22 | Cornwall Council            | £5,000,000 | 1.68% |
| 14-Nov-22  | 14-Feb-23 | Cornwall Council            | £5,000,000 | 2.95% |
| 22-Aug-22  | 21-Aug-23 | West Dunbartonshire Council | £5,000,000 | 2.10% |

4.2.4. At 30<sup>th</sup> December, the Council had approximately £63.1M invested, compared to £57.9M 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 2.45%. For comparison, the Sterling Over Night Rate (SONIA) increased over the period, averaging 2.75%.

### 4.3. Borrowing Rates

4.3.1. The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government’s own borrowing costs.

4.3.2. The cost of short-term borrowing, based on loans from other councils, has risen during the period, following the Bank Rate rises. Interest rates on loans from 3 months out to a year were priced at rates between 3.44% and 4.35% by the end of the period.

4.3.3. The Council has not needed to replace short term borrowing and has therefore repaid those loans as they have matured, resulting in balances falling over the period. Short term borrowing rates have remained below those of long term borrowings, therefore 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

4.4.1. 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.

4.4.2. 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.

4.4.3. Up to the end of December 2022, there was a decrease in short-term borrowing of £5M, as loans of £5M were repaid and no new loans were taken.

#### 4.5. Current Debt Outstanding

|  | 30 <sup>th</sup> September 2022<br>£'000 | 31 <sup>st</sup> December 2022<br>£'000 | 31 <sup>st</sup> December 2022<br>£'000 | 31 <sup>st</sup> December 2022<br>£'000 |
|--|--|---|---|---|
| TEMPORARY DEBT                               |  |   |   |   |
| Less than 3 months                           | 5,000                                    |   | 5,000                                   |   |
| Greater than 3 months (full duration)        | 5,000                                    |   | -                                       |   |
|  |  | 10,000                                  |   | 5,000                                   |
| LONGER TERM DEBT                             |  |   |   |   |
| Bonds  | 18,000                                   |   | 18,000                                  |   |
| PWLB   | 121,754                                  |   | 121,754                                 |   |
| Stock & Other Minor Loans                    | 22                                       |   | 22                                      |   |
|  |  | 139,776                                 |   | 139,776                                 |
| Lancashire Council County – Transferred Debt |  | 12,768                                  |   | 12,631                                  |
| Recognition of Debt re PFI Arrangements      |  | 58,635                                  |   | 58,081                                  |
| <b>TOTAL DEBT</b>                            |  | <b>221,179</b>                          |   | <b>215,488</b>                          |
| LESS: TEMPORARY LENDING                      |  |   |   |   |
| Fixed Term                                   |  | (39,300)                                |   | (38,750)                                |
| Instant Access                               |  | (18,636)                                |   | (24,302)                                |
| <b>NET DEBT</b>                              |  | <b>163,243</b>                          |   | <b>152,436</b>                          |

4.5.1. 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. LOBO loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%. Given recent movements in interest rates, the likelihood of options being exercised on these loans is increasing. The Council holds £8M of LOBO loans with option dates within the next 6 months. The Council continues to review these loans and the opportunities available, should the options be exercised.
- (b) £121.8M 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 3.35%.
- (c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2.20%.
- (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**

- 4.6.1. Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.
- 4.6.2. With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 31<sup>st</sup> December 2022 was £215.5M, which is below both our revised Operational Boundary (£319.4M) and our revised Authorised Borrowing Limit (£329.4M) for 2022/23.
- 4.6.3. 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.
- 4.6.4. 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.
- 4.6.5. 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 cheaper 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**

- 4.6.6. Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at -£45.1M, against the revised **limit** set for this year of £100.5M.
- 4.6.7. 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 account of:
- (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).
- 4.6.8. Our **Fixed Interest Rate Exposure** was around £126.8M, against the revised **limit** of £228.3M. 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.
- 4.6.9. This limit was set to allow for the possibility of much higher levels of new long-term, fixed rate borrowing.

### **4.7. Codes of Practice and MRP – Consultation and Proposed Changes**

- 4.7.1. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20<sup>th</sup> December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
- 4.7.2. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has taken advantage of the option to defer introducing the revised reporting requirements until the 2023/24 year.
- 4.7.3. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
- 4.7.4. Borrowing is permitted for cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.
- 4.7.5. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Authority will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.
- 4.7.6. 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

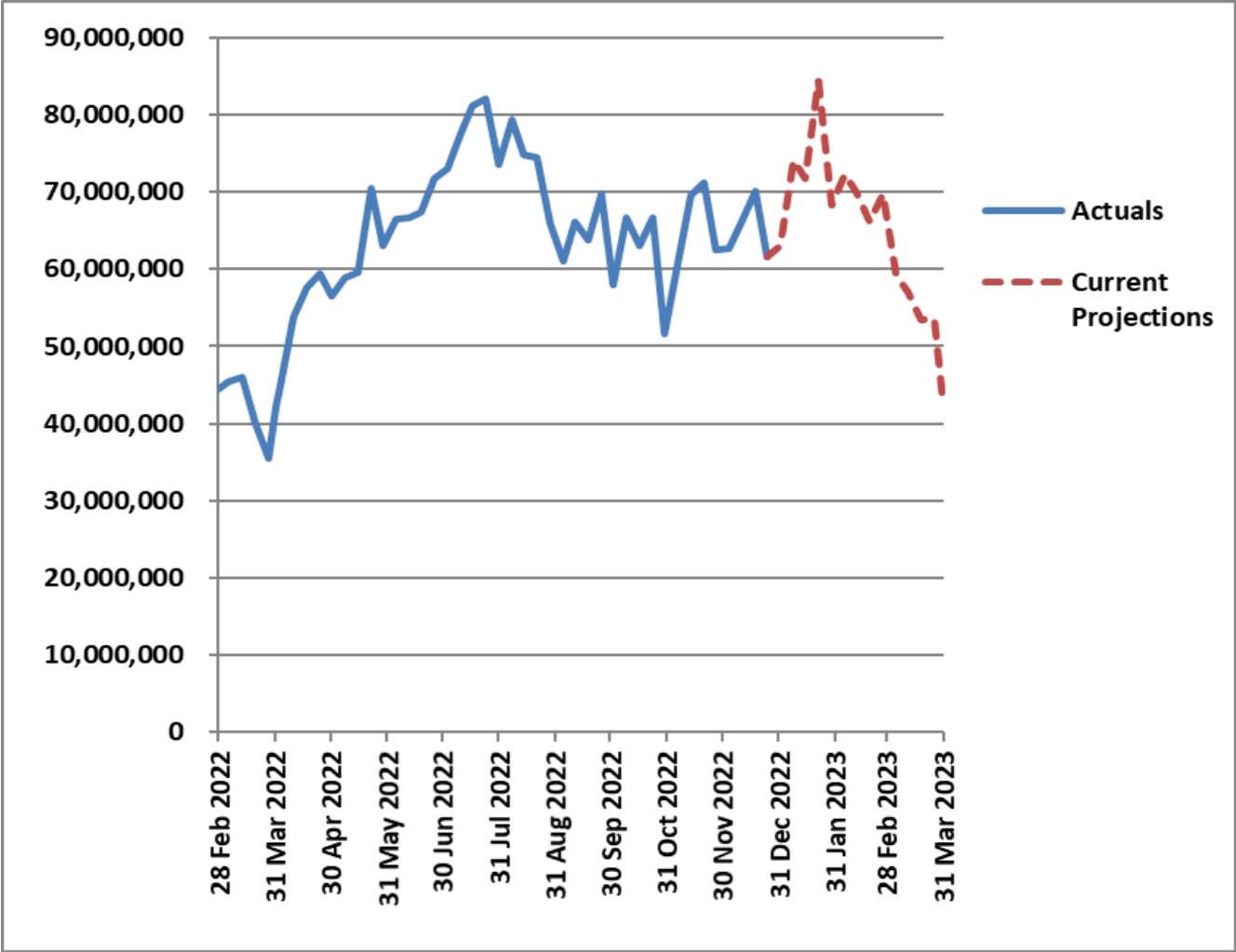
## 10. STATEMENT OF COMPLIANCE

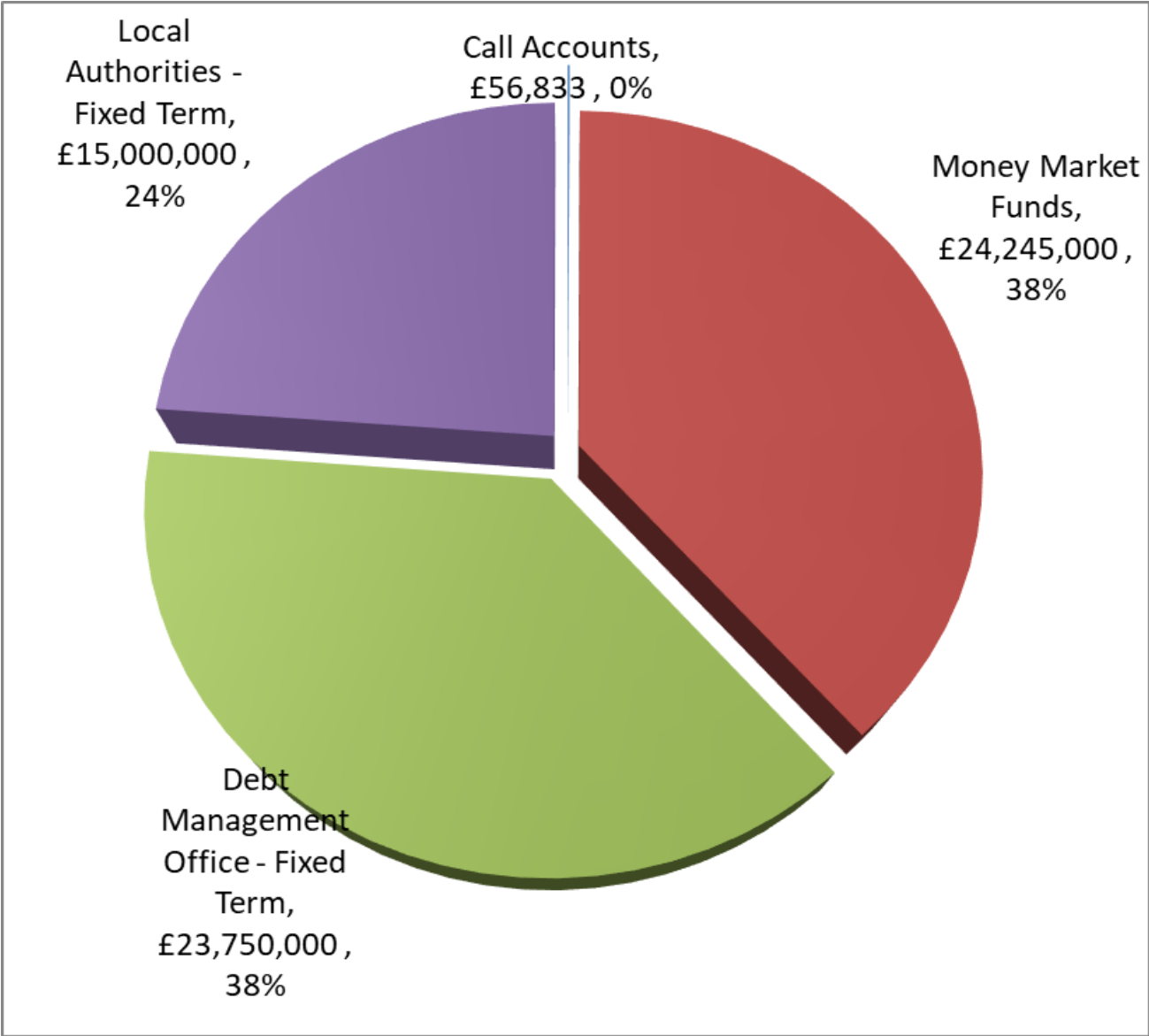
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect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

|                 |             |
|-----------------|-------------|
| <b>VERSION:</b> | <b>0.01</b> |
|-----------------|-------------|

|                           |  |             |
|---------------------------|--|-------------|
| <b>CONTACT OFFICER:</b>   | Jenny Bradley – Finance Manager  | extn 267681 |
|                           | Dean Langton – Director of Finance   | extn 666703 |
| <b>DATE:</b>              | February 2023  |             |
| <b>BACKGROUND PAPERS:</b> | CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy for 2022/23 approved by Executive Board 10 <sup>th</sup> March 2022 – Review of the Policy for Minimum Revenue Provision and Prudential and Treasury Management Indicators approved by Executive Board 8 <sup>th</sup> September 2022 and Council on 6 <sup>th</sup> October 2022 – Treasury Management Strategy for 2023/24 to be presented for approval to Executive Board on the 9 <sup>th</sup> March 2023 |             |

2022/23 (Feb 22 to Mar 23)

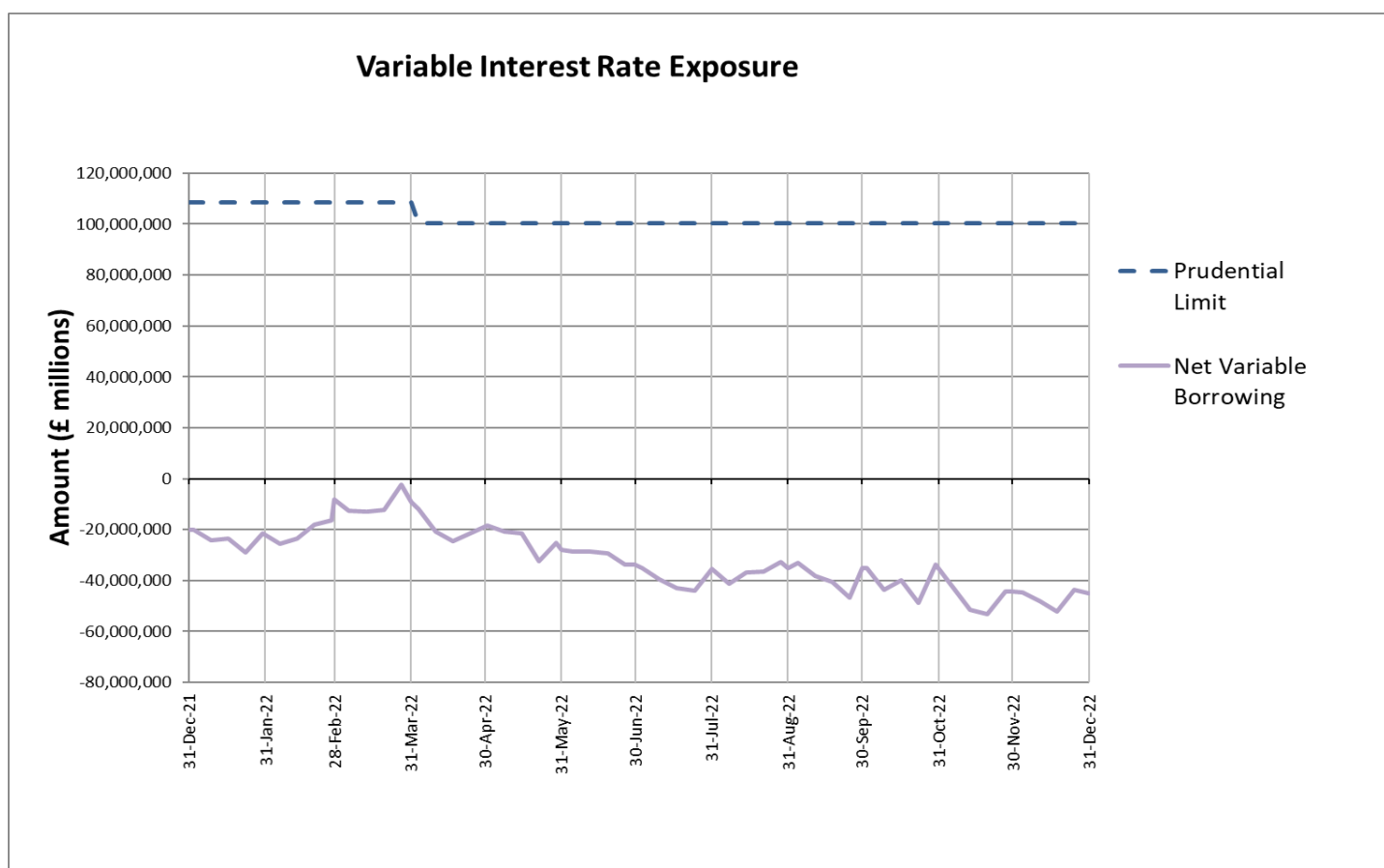
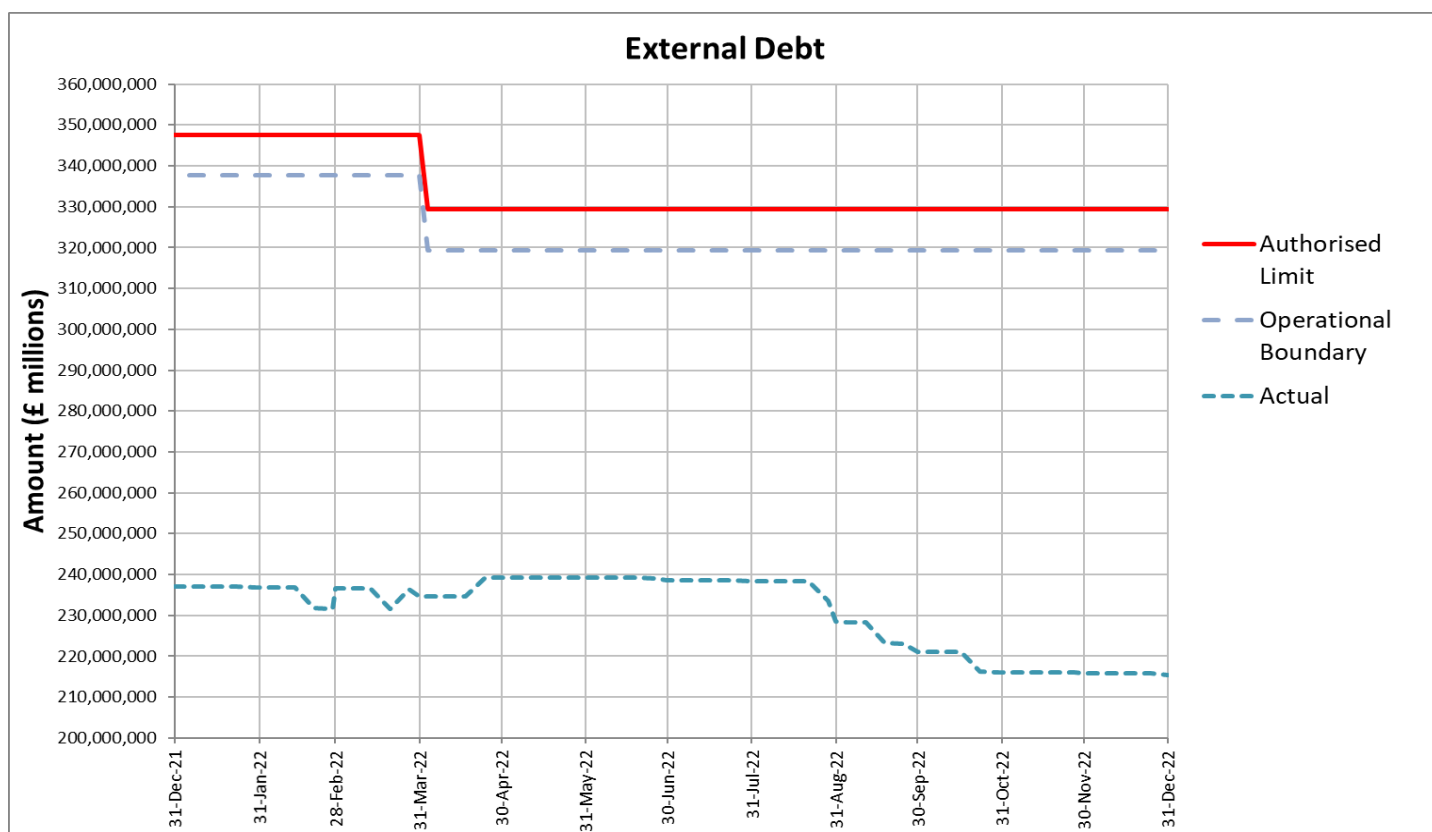






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|  | Indicator 2022/23  | As Approved Mar 22  |             |                | Current Monitoring   |       |       | Commentary  |
|--|--|---|-------------|----------------|--|-------|-------|---|
|  | Estimated Capital Expenditure                                | £35.7M  |             |                | £28.6M   |       |       |   |
|  | Estimated Total Capital Financing Requirement at End of Year | £296.7M<br>(incl projections re LCC debt £14.8M and PFI debt £68.9M)                |             |                | These indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year. |       |       |   |
|  | Estimated Ratio of Financing Costs to Net Revenue Stream     | 12.6%   |             |                |  |       |       |   |
|  | Outturn External Debt Prudential Indicators                  | LCC Debt  |             | 15.0M          | Borrowing to Date  |       | £M    | The Council has chosen to delay changes to accounting for leases therefore lease borrowings will now not be included until 1 April 2024<br><br>Operational boundary and authorised borrowing limit have not been breached during the year |
|  |  | PFI Elements (no lease)   |             | 69.2M          | LCC Debt   |       | 12.6  |   |
|  |  | Remaining Elements  |             | 235.2M         | PFI Elements   |       | 58.1  |   |
|  |  | Operational Boundary  |             | 319.4M         | BwD  |       | 144.8 |   |
|  |  | Authorised Borrowing Limit  |             | 329.4M         | Total  |       | 215.5 |   |
|  |  | These are the revised limits presented to Executive Board in September 2022         |             |                |  |       |       |   |
|  | Variable Interest Rate Exposure                              | £100.5M<br>This is the revised limit presented to Executive Board in September 2022 |             |                | Exposure to Date -£45.1M   |       |       | Limit not breached during the year  |
|  | Fixed Interest Rate Exposure                                 | £228.3M<br>This is the revised limit presented to Executive Board in September 2022 |             |                | Exposure to Date £126.8M   |       |       | Limit not breached during the year  |
|  | Prudential Limits for Maturity Structure of Borrowing        |   |             |                | Actual Maturity Structure to Date  |       |       |   |
|  |  | Lower Limit   | Upper Limit | Period (Years) | Period (Years)   | £M    | %     |   |
|  |  | 0%  | 50%         | <1             | <1   | 16.6  | 11%   |   |
|  |  | 0%  | 30%         | 1-2            | 1-2  | 13.2  | 9%    |   |
|  |  | 0%  | 30%         | 2-5            | 2-5  | 19.6  | 14%   |   |
|  |  | 0%  | 30%         | 5-10           | 5-10   | 21.6  | 15%   |   |
|  |  | 25%   | 95%         | >10            | >10  | 73.8  | 51%   |   |
|  |  |   |             |                | Total  | 144.8 | 100%  |   |
|  | Total Investments for Longer than 364 Days                   | £7M   |             |                | No Long Term Investments Made  |       |       |   |



**Investment Rates**

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

**Borrowing Rates**

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

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

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

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

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

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

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

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

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

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

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

### **Prudential Indicators**

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

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

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

### **Money Market Fund**

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

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

## **TREASURY MANAGEMENT STRATEGY 2023/24**

### **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 2021 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**

#### **Economic Background:**

- 2.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.
- 2.2 The Bank of England (BoE) increased Bank Rate by 0.5% to 4.0% in February 2023. This followed a 0.5% rise in December and a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The February decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3.5%.
- 2.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.
- 2.4 The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

- 2.5 CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.
- 2.6 The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.
- 2.7 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.
- 2.8 Inflation has risen consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

### **Credit Outlook:**

- 2.9 Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.
- 2.10 CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.
- 2.11 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.
- 2.12 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- 2.13 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

## Interest Rate Forecast (December 2022):

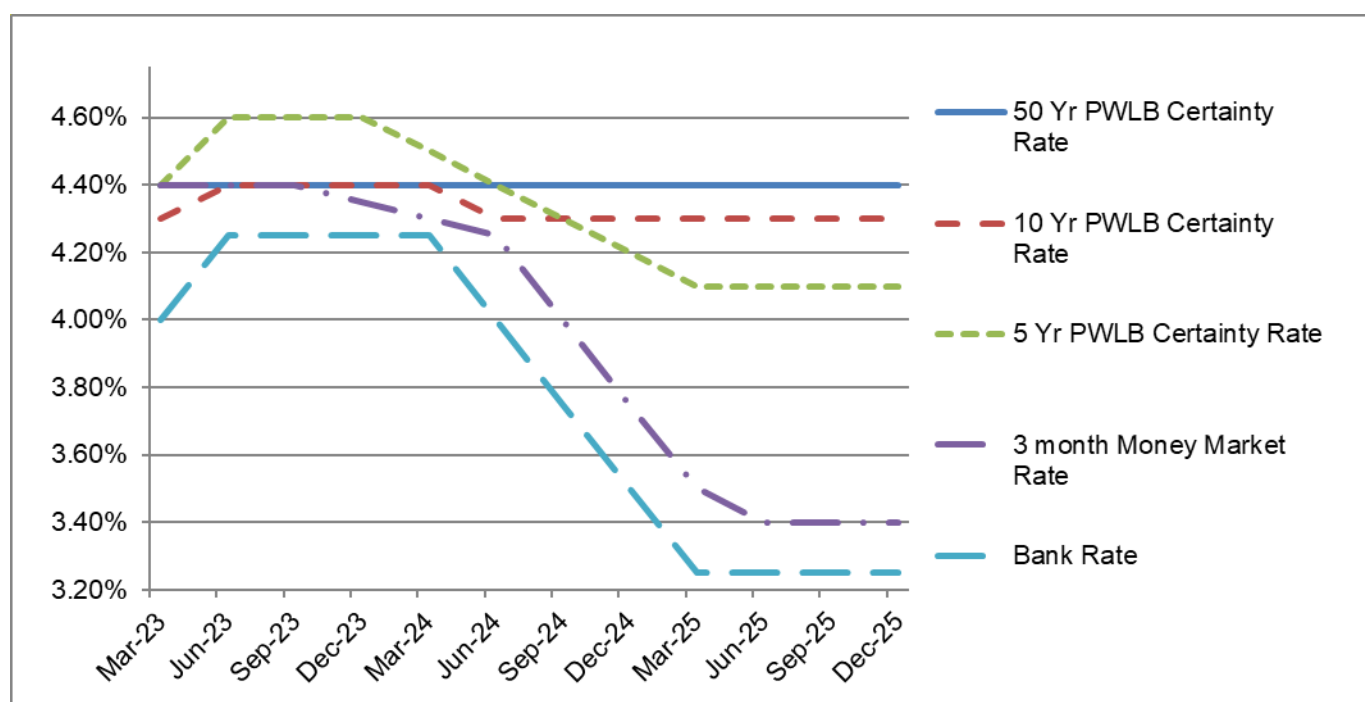
2.14 The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

2.15 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

2.16 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.17 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 Money Market rate to short-term borrowing and investment.



For the purpose of setting the budget for 2023/24, it was assumed that:

- any new investments would be at an average rate of 4.00%, and
- new borrowing would be available, if required, at rates around 5.5%.

### 3 Local Context

At the end of January 2023 the Council held around £215.3M of borrowing and £71.9M of treasury investments:

*Table 1: Existing Debt and Investment Portfolio Position*

|  | £m           |
|--|--------------|
| Short-Term Debt – maturing 22/23                 | 5.0          |
| Short-Term Debt – maturing 23/24                 | 0.0          |
| Long-Term Debt                                   | 139.8        |
| Lancashire County Council (LCC) Debt             | 12.6         |
| Debt re PFI Arrangements                         | 57.9         |
| <b>Gross Borrowings</b>                          | <b>215.3</b> |
| This was offset by investments of:               | 71.9         |
| Net Borrowing (gross borrowing less investments) | 143.4        |
| Net Borrowing (if LCC and PFI debt are excluded) | <b>72.9</b>  |

3.1 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.

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

*Table 2: Balance Sheet Summary and Forecast*

|  | 31.3.22<br>Actual<br>£m | 31.3.23<br>Estimate<br>£m | 31.3.24<br>Forecast<br>£m | 31.3.25<br>Forecast<br>£m | 31.3.26<br>Forecast<br>£m |
|--|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| General Fund CFR                       | 289.6                   | 284.3                     | 291.8                     | 296.2                     | 298.4                     |
| Less: CFR re Other debt liabilities *1 | -84.0                   | -83.6                     | -83.2                     | -82.8                     | -82.3                     |
| <b>Loans CFR</b>                       | <b>205.6</b>            | <b>200.7</b>              | <b>208.6</b>              | <b>213.4</b>              | <b>216.1</b>              |
| Less: External borrowing *2            | -141.8                  | -138.0                    | -134.6                    | -124.5                    | -116.3                    |
| <b>Internal Borrowing</b>              | <b>63.8</b>             | <b>62.7</b>               | <b>74.0</b>               | <b>88.9</b>               | <b>99.8</b>               |
| Less: Usable reserves *3               | -90.4                   | -82.1                     | -74.0                     | -74.0                     | -74.0                     |
| Plus/Minus: Working capital            | 4.4                     | -23.3                     | -2.4                      | -2.9                      | -3.3                      |
| <b>Remaining Net Borrowing Need</b>    | <b>-22.2</b>            | <b>-42.7</b>              | <b>-2.4</b>               | <b>12.0</b>               | <b>22.5</b>               |



| Net Borrowing Need addressed by |       |       |
|---------------------------------|-------|-------|
| Short Term Borrowing            | 20.0  | 0.0   |
| Treasury Investments            | -42.2 | -42.7 |

\*1 CFR regarding PFI liabilities and transferred debt that form part of the Council's total debt

\*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 underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing below their underlying levels, sometimes known as internal borrowing.

The Council's "Loans CFR" remains relatively steady in the medium-term because, based on current Capital Programme plans, the level of MRP being made is broadly similar to the increase in CFR resulting from additional spend financed from borrowing.

- 3.3 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. Table 2 shows that the Council expects to comply with this recommendation during 2023/24.

## 4 Liability Benchmark

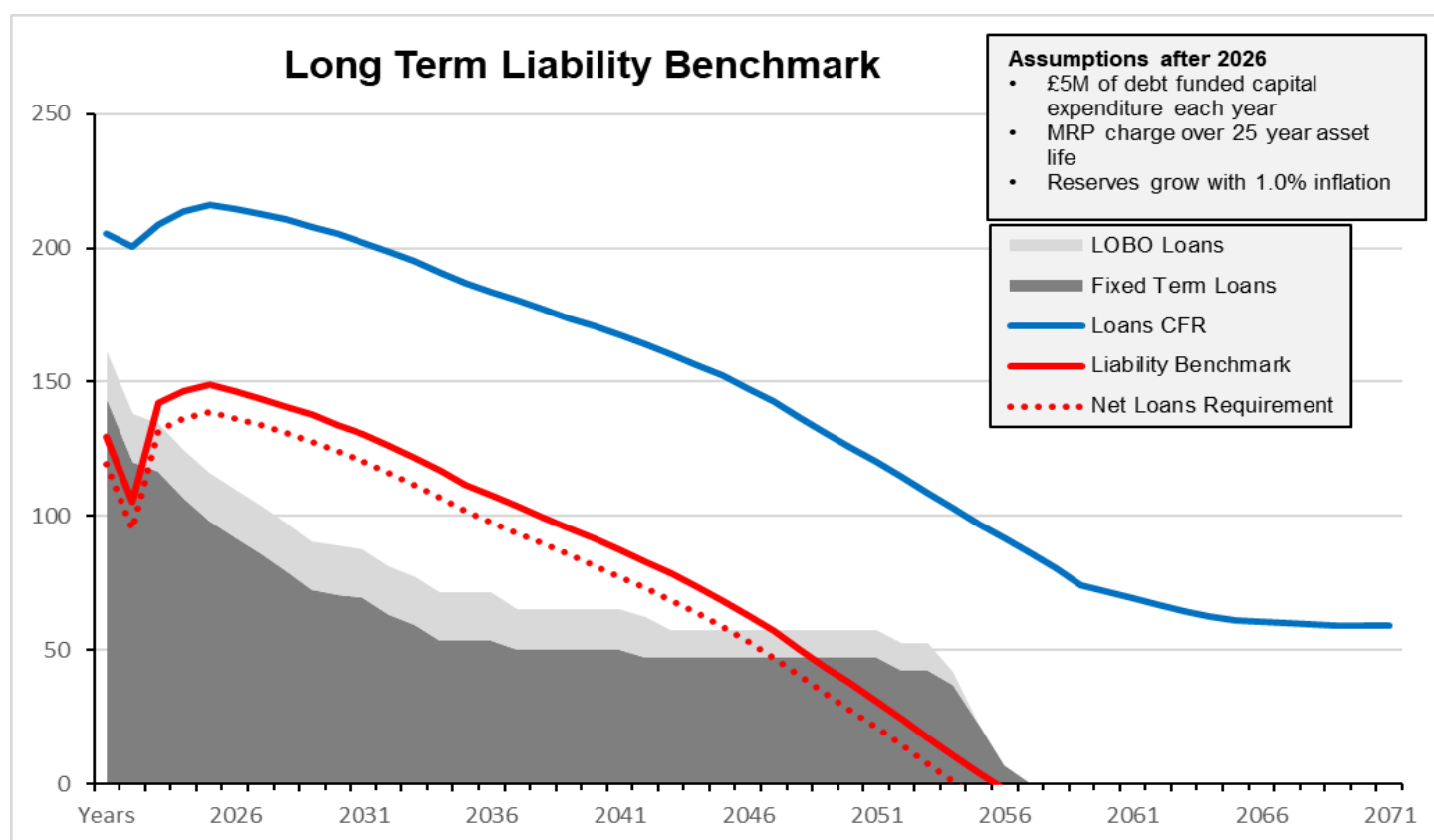
- 4.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but minimise credit risk.
- 4.2 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

*Table 3: Liability Benchmark*

|                               | 31.3.22<br>Actual<br>£m | 31.3.23<br>Estimate<br>£m | 31.3.24<br>Forecast<br>£m | 31.3.25<br>Forecast<br>£m | 31.3.26<br>Forecast<br>£m |
|-------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Loans CFR                     | 205.6                   | 200.7                     | 208.6                     | 213.4                     | 216.1                     |
| Less: Balance sheet resources | -90.4                   | -82.1                     | -74.0                     | -74.0                     | -74.0                     |
| <b>Net loans requirement</b>  | <b>115.2</b>            | <b>118.6</b>              | <b>134.6</b>              | <b>139.4</b>              | <b>142.1</b>              |
| Plus: Liquidity allowance     | 14.4                    | -13.3                     | 7.6                       | 7.1                       | 6.7                       |
| <b>Liability Benchmark</b>    | <b>129.6</b>            | <b>105.3</b>              | <b>142.2</b>              | <b>146.5</b>              | <b>148.8</b>              |
| <b>Actual Borrowing</b>       | <b>161.8</b>            | <b>138.0</b>              | <b>134.6</b>              | <b>124.5</b>              | <b>116.3</b>              |

- 4.3 The above table shows that the borrowings the Council has already committed to are forecast to be below the liability benchmark in the future, 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.

- 4.4 Current borrowing levels are above the liability benchmark for the following reasons:
- additional borrowings required for the advance of pension costs made in April 2020
  - low levels of capital expenditure during 2022/23 offset by high value capital receipts, reducing the borrowing requirement
  - high cash balances at the end of 2022/23, partly as a result of grant funding received but not spent during the year
- 4.5 Following on from the medium-term forecasts shown in Table 3 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £5m a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 1.0% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



## 5 Borrowing Strategy

- 5.1 The authority currently holds £139.8M of loans (excluding PFI and transferred debt), a decrease of £3.8M on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 2 shows the authority's 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 £329.4M. However, given the current high level of interest rates, this is unlikely to be a strategy adopted in 2023/24.
- 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 both short and long-term interest rates currently at high levels, it is likely to be more cost effective in the short-term to maximise the use of internal resources. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4 Long-term borrowing rates, already high, are forecast to rise modestly in 2023/24 before dropping in 2024/25 and beyond. The benefits of deferring long-term borrowing for as long as possible will be monitored regularly against the costs of internal and short-term borrowing. Arlingclose will assist the Authority with this analysis.
- 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.
- 5.7 In addition, the Council may take further short-term loans to cover cash flow requirements.
- 5.8 The authority will continue to maintain a flexible approach to borrowing.
- 5.9 **Sources of Borrowing:** The approved sources of long-term and short-term borrowing will be:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - 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 (apart from the Lancashire County Council Pension 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

**5.10 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 the Executive Board.

**5.11 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 2023/24, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority may take the option to repay LOBO loans to reduce refinancing risk in later years. 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.

**5.12 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## **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 £35M and £83M, 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 based on forecast capital expenditure plans, and the spending of grants in 2023/24 that have been received in the current 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. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 6.3 **Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower, but is likely to use internal resources to defer borrowing for as long as possible in the expectation of interest rate reductions by the end of 2023/24. This will inevitably diminish the funds available for investment, but there will be opportunities in the first half of the year to take advantage of current yields, albeit the focus will remain on relatively short-term, low risk opportunities. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income, and the Authority will work with its brokers to investigate other, appropriate lending opportunities.
- 6.4 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.
- 6.5 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 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  | 25 years   | £5M each   | Unlimited                         |
| <i>* as defined in the Local Government Act 2003</i>  |            |            |                                   |
| <b>Banks and Building Societies - Secured</b>   |            |            |                                   |
| long-term credit ratings no lower than AA- (or equivalent)  | 25 years   | £5M each   | Unlimited                         |
| long-term credit ratings no lower than AA (or equivalent)   | 25 years   | £4M each   |                                   |
| long-term credit ratings no lower than A- (or equivalent)   | 25 years   | £3M each   |                                   |
| <b>Banks and Building Societies - Unsecured</b>   |            |            |                                   |
| long-term credit ratings no lower than AA- (or equivalent)  | 13 months  | £5M each   | Banks - Unlimited                 |
| long-term credit ratings no lower than AA (or equivalent)   | 13 months  | £4M each   |                                   |
| long-term credit ratings no lower than A- (or equivalent)   | 13 months  | £3M each   | Building societies - £6M in total |
| The Council's <b>current account banker</b> - provided long-term credit rating no lower than BBB- (or equivalent) | next day   | £3M each   |                                   |
| <b>Corporates or Registered Providers</b> with long-term credit ratings no lower than A- (or equivalent)          | 5 years    | £3M each   | £5M in total                      |
| <b>Money Market Funds</b>   |            |            |                                   |
| 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   |                                   |
| <b>Strategic Pooled Funds and Real Estate Investment Trusts</b> (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. However, long-term investment is unlikely in 2023/24 give the aspiration to defer borrowing.

6.11 **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.

6.12 **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.

6.13 **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.

6.14 **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.

- 6.15 **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.
- 6.16 **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.
- 6.17 **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.
- 6.18 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
- 6.19 **Operational Bank Accounts:** The Authority may incur operational exposures, for example through 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.
- 6.20 **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.
- 6.21 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.



**6.22 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.

**6.23** 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. The Authority will continue to seek information and advice from Arlingclose when assessing the creditworthiness of potential counterparties.

**6.24 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 Prudential 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 2023/24 and 2024/25, 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 **Long term treasury management investments:** 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 total principal sum invested to final maturities beyond the period end will be:

|   | 2023/24<br>£M | 2024/25<br>£M | 2025/26<br>£M |
|---|---------------|---------------|---------------|
| Limit on principal invested beyond year end | 7.0           | 5.0           | 3.0           |

So a maximum of £7M can be invested for a period of greater than one year, a maximum of £5M for a period of greater than two years and a maximum of £3M for a period of greater than three years.

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

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:

|   | 2023/24<br>£M | 2024/25<br>£M | 2025/26<br>£M |
|---|---------------|---------------|---------------|
| Upper limit on Fixed Interest rate exposures    | 212.1         | 216.6         | 219.3         |
| Upper limit on Variable Interest rate exposures | 92.8          | 95.0          | 96.2          |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

## 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), the budget for debt interest payable in 2023/24 is £7.0M (including the interest element of payments to LCC for debt managed on our behalf), reflecting:
- (a) £5.9 million interest payable, at an average interest rate of around 3.8%, on the long-term debt portfolio (forecast to average £149 million over the year),
  - (b) up to £1.1 million for short-term borrowing, at interest rates averaging 5.5%. This is a prudent estimate given that, as described elsewhere in this strategy, internal resources will be used to defer borrowing for as long as possible.

Projected investment income in 2023/24 is around £1.3M, based on an average investment portfolio of circa £32.5M, and interest rates averaging 4.00%.

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:** 2 March 2023

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

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**TITLE OF REPORT:** Audit & Assurance - Progress and Outcomes to 31 January 2023

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**1. PURPOSE**

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 November 2022 to 31 January 2023.

**2. RECOMMENDATIONS**

The Committee is asked to:

- discuss, review and challenge the internal audit outcomes achieved to 31 January 2023 against the annual Audit & Assurance Plan 2022/23, as approved by the Committee on 29 March 2022.

**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 31 January 2023:**

### **Counter Fraud Activity**

#### **National Fraud Initiative (NFI)**

The Council takes part in a bi-annual data matching exercise which is administered by the Cabinet Office. Having submitted all the required datasets on time the Council has recently received the output from these reports.

In total, 5,911 data matches have been received and include queries in the following areas:

- Housing Benefit;
- Payroll;
- Blue Badge parking permits;
- Creditors payments; and
- Procurement.

Appropriate action will now be taken to review and progress these data matches, in liaison with colleagues in relevant departments.

Committee Members will be provided with progress updates in due course.

### **Internal Audit**

A summary of the 14 audits completed and finalised since the last report to Committee are detailed below:

| <b>Risk, Control &amp; Governance Reviews</b>      | <b>Assurance Opinion</b> |                   | <b>Recommendations Agreed</b> |
|--|--------------------------|-------------------|-------------------------------|
|  | <b>Environment</b>       | <b>Compliance</b> |                               |
| Children's Centres                                 | Adequate                 | Adequate          | 4                             |
| Children's Services Protocol ICS System            | Adequate                 | Adequate          | 7                             |
| Disabled Facilities Grant - Children's Services    | Adequate                 | Adequate          | 7                             |
| Business rates/NNDR                                | Substantial              | Substantial       | 1                             |
| iTrent Implementation Testing                      | Adequate                 | Limited           | 3                             |
| Main Accounting System Reconciliation Processes Q2 | N/A                      | N/A               | 2                             |
| New CIPFA Financial Management Code                | Substantial              | Substantial       | 1                             |
| Legal Case Management                              | Adequate                 | Adequate          | 7                             |
| Planning Enforcement                               | Substantial              | Substantial       | 1                             |
| Lower Darwen Primary School                        | Limited                  | Limited           | 22                            |

|                                |          |          |    |
|--------------------------------|----------|----------|----|
| St Gabriel's CE Primary School | Adequate | Adequate | 17 |
| Longshaw Infants School        | Adequate | Adequate | 21 |
| St Edwards RC Primary School   | Limited  | Adequate | 24 |
| Audley Infants School          | Adequate | Adequate | 19 |

Brief commentaries on the audit assignments where we have provided a limited assurance opinion are set out below for consideration.

**iTrent Implementation Testing** - The final report provided an **adequate** opinion for the control environment in place and **limited** assurance regarding compliance with the controls and procedures in place for the migration of data.

The review recognised that there was an appropriate governance structure in place to manage the project. The findings leading to the limited compliance opinion related to the formal documentation and retention of evidence relating to project decision making, and testing and reports relating to the system implementation and migration.

**Lower Darwen Primary School** - The final report provided a **limited assurance** opinion in respect of both the control environment in place within the school and compliance with the controls identified in respect of the eleven areas covered during the visit. We made 22 recommendations across these areas, including nine graded as 'must'. These recommendations relate to strengthening the existing control framework in place and ensuring compliance with those controls identified.

**St Edwards RC Primary School** - The final report provided a **limited assurance** opinion in respect of the control environment in place within the school and adequate assurance in respect of compliance with those controls we identified as being in place. We made 24 recommendations across the eleven areas covered by the audit, including ten graded as 'must'. These recommendations relate to strengthening the existing control framework in place, particularly in respect of school policies, expenditure controls and recording and checking of school assets.

Internal Audit staff have also continued to provide advice and support to departments and schools during the period. These have include queries from schools relating to BACS payments and the use of debit cards.

### **Current internal audit reviews**

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

- Budget Setting and Monitoring;
- Fostering Recruitment and Payments to Foster Carers;
- Public Health Contracts & Commissioning ;
- Performance Indicators/Data Quality;
- Value for Money Audit;
- Regulation of Investigatory Powers Act (RIPA) Processes and Procedures;
- Inspections of Homes of Multiple Occupancy;
- Housing Benefits;
- Payroll Core System;

- Adults Client Case Management Processes; and
- Sport England Grant Management Arrangements;

### **Internal Audit Performance**

The Audit & Assurance team have seven performance targets which we monitor relating to our strategic aims. The target and actual performance for the current and previous periods for each measure are as follows:

| <b>Performance Measure</b>                | <b>Target</b> | <b>Q3<br/>2022/23</b> | <b>Q2<br/>2022/23</b> |
|---|---------------|-----------------------|-----------------------|
| 1. Delivery of Priority 1 Audits (Annual) | 100%          | N/A                   | N/A%                  |
| 2. Planned Audits Completed Within Budget | 90%           | <b>43%</b>            | <b>76%</b>            |
| 3. Final Reports Issued Within Deadline   | 90%           | 100%                  | 100%                  |
| 4. Follow Ups Undertaken Within Deadline  | 90%           | 100%                  | 100%                  |
| 5. Recommendations Implemented            | 90%           | 96%                   | 92%                   |
| 6. Client Satisfaction                    | 75%           | 100%                  | 100%                  |
| 7. Compliance with PSIAS (Annual)         | 95%           | 100%                  | 100%                  |

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**

Eight of the 14 audits completed during the period required additional time due to the following:

- remote working arrangements that the Council had in place during the period (5 schools);
- additional time for planning, preparation and testing for new audit areas Protocol and Planning Enforcement); and
- additional time carrying out audit testing and liaising with the department to finalise the report (iTrent).

## **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: 21 February 2023

Background Papers: Audit & Assurance Plan 2022/23, approved by the Audit & Governance Committee on 29 March 2022.



**TO: Audit & Governance Committee**

**FROM: Head of Audit & Assurance**

**DATE: 2 March 2023**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

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|                        |  |
|------------------------|--|
| <b>TITLE OF REPORT</b> | <b>Audit &amp; Assurance Plan 2023/24 and Internal Audit Charter</b> |
|------------------------|--|

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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 2023/24 Annual Audit & Assurance Plan and supporting Statement and draft two 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 PSIASS 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 2022.

**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 2023/24 Plan is Year One of the Three Year Strategic Audit Plan approved by Committee in March 2022. It will be subject to a review and refresh during March and April in consultation with Corporate Leadership Team members and the Statutory Governance Officers Group. Later in 2023/24 further consultations will be held with Directors to ensure that the Plan continues to meet the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.

Ongoing consultations will take place with Strategic Directors, Directors and Heads of Service during 2023/24 to ensure that specific Terms of Reference are prepared for each planned audit that 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 738 work-days. In addition, there are 721 work-days for Risk Management (62 days), Counter Fraud (46 days), Insurance and Financial Support/Other (580 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 2022. The Charter has been reviewed and no changes are deemed necessary for 2023/24.

**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:              | 21 February 2023   |
| Background Papers: | Audit & Assurance Planning papers; Risk Registers;<br>2022/23 Audit & Assurance Plan, Strategic Statement<br>and Internal Audit Charter. |

**Strategic Statement Supporting the 2023/24 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 2023/24 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 2023/24 Internal Audit Plan 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.

## 7. Categories of Internal Audit Work

- 7.1 The overall opinion on the Council's control framework is derived from a range of Audit & Assurance work over a number of areas. The work of the service is broadly categorised as follows:
- Planning – a risk based internal audit plan will be created on an annual basis, which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy.
  - Risk-based system audits – one of the main ways that Audit & Assurance will form a view on the overall control system is by carrying out reviews of the component systems and processes (e.g. using process maps that identify risks and controls; drafting system notes) established within respective business entities. These are commonly known as risk-based system audits and will allow Audit & Assurance to assess the effectiveness of internal controls within each system in managing business risks, enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in an efficient way, whilst maximising the benefit that can be derived from it.
  - Compliance / regularity / establishment / school audits – these audits are intended to assess if systems are operating properly in practice.



They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems (not necessarily just financial systems). This will also provide information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.

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

- ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.
- Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These services apply the professional skills of Audit & Assurance through a systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.
- Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.
- Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
- Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

## 8. Reporting Arrangements

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

8.2 Recommendations included in the report are classified as follows:

- Must** Critical in that failure to address the issue or progress the work will lead to one of the following occurring: loss, fraud, impropriety, poor value for money or failure to achieve against organisational objectives. Examples include failure to comply with legislation or organisational policy or procedures. *Remedial action must be taken immediately.*
- Should** Not critical but failure to address the issue or progress the work could impact on operational objectives and should be a concern to senior management. *Prompt specific action should be taken.*
- Consider** Areas that individually have no major impact on achieving objectives or on the work programme, but where combined with others could have an effect at the process level which could give cause for concern. *Specific remedial action is desirable.*

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

| Assurance Level | Control Environment                   | Compliance                                |
|-----------------|---------------------------------------|---|
| Substantial     | There are minimal control weaknesses, | The control environment has substantially |

|          |  |  |
|----------|--|--|
|          | which present very low risk to the control environment.  | 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 Statutory Governance officers Group (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 2023 Audit & Assurance will have 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:

| <b>Name</b>                                     | <b>Qualifications</b>                                     | <b>Experience</b> | <b>Specialism</b>                 |
|---|---|-------------------|-----------------------------------|
| Colin Ferguson<br>Head of A & A                 | ACCA  | 39 years          | Strategic Risk & Governance Audit |
| Chris O' Halloran<br>Principal Internal Auditor | PIIA  | 13 years          | Counter Fraud Contract Audit      |
| Andrew Tordoff<br>Principal Internal Auditor    | HND in Accounting Foundation Diploma in Business Analysis | 23 years          | IT Audit Risk & Governance Audit  |
| Catherine Bibby<br>Internal Auditor             | Honours Degree/ IAP/AAT Part Qualified                    | 9 years           | Risk & Governance Audit           |
| Muhammad Saleh Ahmed                            | AAT, CA Part Qualified                                    | 2 year            | Risk & Governance Audit           |
| Matthew Ramsden                                 | A levels  | 18 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 2023/24. 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:

| <b>Name</b>      | <b>Professional Training</b>                                  | <b>2023/24 Commitment</b> |
|------------------|---|---------------------------|
| Colin Ferguson   | Certified Professional Development via CIPFA and IIA seminars | 4 days                    |
| Chris O'Halloran | Certified Professional  | 4 days                    |

|                 |  |         |
|-----------------|--|---------|
|                 | Development via CIPFA and IIA seminars |         |
| 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 2022/23 figures for comparison.

| <b>Category</b>  | <b>2023/24</b> | <b>2022/23</b> |
|--|----------------|----------------|
| Total available days   | 2034           | 1867           |
| Deduct: annual leave, sickness & bank holidays.  | (330)          | (311)          |
| Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.) | (278)          | (265)          |
| Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)   | (688)          | (557)          |
| <b>Days available for Audit &amp; Assurance reviews</b>  | <b>738</b>     | <b>734</b>     |

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          |
|---|-----------------------|-----------------|---------------------|
|   |                       |                 |                     |
| <u>Audit &amp; Assurance - Draft Audit Proposals 2023/24</u>  | <u>Classification</u> | <u>Priority</u> | <u>2023/24 Days</u> |
|   |                       |                 |                     |
| <b>Adult &amp; Prevention</b>   |                       |                 |                     |
| Client case management systems including Access Controls  | Control               | 2               | 10                  |
| Homelessness/Housing Needs  | Control               | 3               | 10                  |
| Social care charging and recovery   | Control               | 2               | 15                  |
| Use of volunteers   | Risk                  | 3               | 10                  |
| Disabled Facilities Grant   | Control               | 2               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>55</b>           |
|   |                       |                 |                     |
| <b>Children's Services &amp; Education</b>  |                       |                 |                     |
| Protocol ICS System   | Control               | 1               | 10                  |
| Quality Assurance Arrangements  | Control               | 1               | 10                  |
| Adoptions   | Control               | 2               | 10                  |
| Commissioning Panel Arrangements - Identification and collection of Health contributions  | Control               | 2               | 10                  |
| Demand for specialist placements  | Control               | 2               | 10                  |
| Audits of Schools Finance systems   | Control               | 3               | 80                  |
| <b>Sub total</b>  |                       |                 | <b>130</b>          |
|   |                       |                 |                     |
| <b>Public Health &amp; Wellbeing</b>  |                       |                 |                     |
| Internal Public Health Spend/Social Determinants of Health Fund - Governance  | Governance            | 2               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>10</b>           |
|   |                       |                 |                     |
|   |                       |                 |                     |
| <b>Growth &amp; Development</b>   |                       |                 |                     |
| Town Fund (Darwen £25m plus BwD and others) and Other Grant Funding Projects  | Governance            | 2               | 10                  |
| Other Grant Funding   | Governance            | 2               | 10                  |
| S106 Arrangements   | Control               | 2               | 10                  |
| Building Control  | Control               | 3               | 10                  |
| Asset Management System - Corporate and Commercial Portfolio Landlord /tenants Responsibilities   | Control               | 2               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>50</b>           |
|   |                       |                 |                     |
| <b>Environment &amp; Operations</b>   |                       |                 |                     |
| Local Transport Capital Funding/LTP Grant Certification Requirement   | Control               | 1               | 5                   |
| Bus Subsidy Grant   | Control               | 1               | 5                   |
| Failure to adequately inspect and maintain highways.<br>Deterioration of the highways network in particular road surfaces.<br>Failure to repair highways defects and street lighting faults on time | Risk                  | 2               | 15                  |
| Leisure Centres   | Risk                  | 3               | 15                  |
| Selective Licensing   | Control               | 3               | 10                  |
| Contract management   | Control               | 2               | 15                  |
| Museum collection management arrangements   | Control               | 3               | 10                  |
| Waste Services  | Control               | 2               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>85</b>           |
|   |                       |                 |                     |
| <b>Chief Executives</b>   |                       |                 |                     |
| Payroll - Core system   | Control               | 1               | 15                  |
| Partnership arrangements  | Control               | 2               | 10                  |
| Sickness absence management   | Control               | 3               | 10                  |
| Mileage & expenses  | Control               | 3               | 15                  |
| Overtime /Additional Hours  | Control               | 2               | 15                  |
| Equality Act  | Control               | 2               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>75</b>           |
|   |                       |                 |                     |
| <b>Legal &amp; Governance</b>   |                       |                 |                     |
| Failure to prevent data loss (Information Governance)/ Compliance with GDPR   | Risk                  | 2               | 10                  |
| Information Sharing Protocols and arrangements with Police  | Risk                  | 2               | 10                  |
| Departmental Governance   | Risk/Control          | 2               | 10                  |
| Elections   | Control               | 3               | 10                  |
| <b>Sub total</b>  |                       |                 | <b>40</b>           |
|   |                       |                 |                     |
| <b>Finance</b>  |                       |                 |                     |
| Main Accounting System - including account reconciliation's Control and suspense account reconciliation processes   | Control               | 1               | 8                   |
| Council Tax/ C Tax Support Scheme/shortfall in C Tax income   | Control               | 2               | 15                  |
| Creditors   | Control               | 2               | 10                  |
| Procurement/Contract management   | Control               | 2               | 15                  |
| Sundry Debtors/Income collection  | Control               | 2               | 10                  |
| NNDR  | Control               | 2               | 15                  |
| Housing Benefits  | Control               | 2               | 15                  |

| <u>Audit &amp; Assurance - Draft Audit Proposals 2023/24</u>                             | <u>Classification</u> | <u>Priority</u> | <u>2023/24 Days</u> |
|--|-----------------------|-----------------|---------------------|
| 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 of consultants   | Control               | 2               | 15                  |
| Value for money audit  | Consultancy           | A*              | 20                  |
| Implementation of MIAA Audit Findings  | Control               | 1               | 10                  |
| Cyber Security   | Risk                  | 1               | 10                  |
| Change Control   | Control               | 2               | 10                  |
| <b>Sub total</b>   |                       |                 | <b>183</b>          |
|  |                       |                 |                     |
| <b><u>Other Audit Work</u></b>   |                       |                 |                     |
| Review of Financial Regulations, SFIs, etc   | Governance            | 2               | 3                   |
| 2022/23 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                   |
| HolA 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               | 10                  |
| Contingency  |                       | 2               | 15                  |
| <b>Sub total</b>   |                       |                 | <b>110</b>          |
|  |                       |                 |                     |
| <b><u>Other Risk &amp; Governance Work</u></b>   |                       |                 |                     |
| Annual Gov Statement   | Governance            | 1               | 12                  |
| MAF and MAF Challenges   | Governance            | 1               | 12                  |
| Risk Management Development  | Risk                  | 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                   |
| <b>Sub total</b>   |                       |                 | <b>62</b>           |
|  |                       |                 |                     |
| <b><u>Other Fraud Work</u></b>   |                       |                 |                     |
| National Fraud Initiative (NFI)  | Control               | 1               | 15                  |
| 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               | 3                   |
| <b>Sub total</b>   |                       |                 | <b>46</b>           |
|  |                       |                 |                     |
| <b>Total Planned Audit Days 2023/24</b>  |                       |                 | <b>846</b>          |



| <u>Audit &amp; Assurance - Draft Two Year Strategic Plan</u>   | <u>Priority</u> |
|--|-----------------|
|  |                 |
| <b><u>Adult &amp; Prevention</u></b>   |                 |
| Safeguarding the most vulnerable   | 2               |
| Adults Contracts and Commissioning incl Private Care Home Contract Payments  | 2               |
| Transitional Arrangements : Children to Adult Care   | 2               |
| Client case management systems including Access Controls   | 2               |
| Homelessness/Housing Neds  | 3               |
| Direct Payments  | 2               |
| Prevent/Community cohesion   | 3               |
| CCTV Provision   | 2               |
| Corporate appointee/Guardianship arrangements  | 3               |
| Socuial care charging and recovery   | 0               |
| Health & safety/Lone working   | 2               |
| Provision of equipment to service users  | 3               |
| Community assets   | 3               |
| Reablement Service   | 3               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Children's Services &amp; Education</u></b>  |                 |
| Transitional Arrangements : Children to Adult Care   | 2               |
| Demand for specialist placements   | 2               |
| Protocol ICS System  | 2               |
| Quality Assurance Arrangements   | 0               |
| Inspection Readiness   | 1               |
| Pupil Transport  | 3               |
| Fostering/Adoptions  | 3               |
| Commissioning and contract monitoring  | 2               |
| Financial Support to families  | 3               |
| Safeguarding/ Serious incident/death of a child known to Children's Social Care  |                 |
| Safeguarding Board   | 2               |
| Commissioning Panel Arrangements - Identification and collection of Health contributions                                       | 2               |
| Failure to meet the requirements of the Children & Families Act in relation to SEND  | 2               |
| Youth Justice Mgmt Board   | 2               |
| Educational Trips & Visits   | 2               |
| Children's Centres   | 3               |
| Audits of Schools Finance systems  | 3               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Public Health &amp; Wellbeing</u></b>  |                 |
| Internal Public Health Spend/Social Determinants of Health Fund - Governance   | 2               |
| Contract Monitoring (PH Contracts commissioned via CAPS), Failure to manage procurement & commissioning activity related to PH | 2               |
| <b>Sub total</b>   |                 |
|  |                 |
|  |                 |
| <b><u>Growth &amp; Development</u></b>   |                 |
| Environment Strategy/ Climate Change Strategy/Failure to reduce Carbon Emissions/Carbon Management/Renewable Energy            | 2               |
| Town Fund (Darwen £25m plus BwD and others) and Other Grant Funding Projects   | 2               |
| S106 Arrangements  | 3               |
| Planning fees  | 3               |
| Land Charges   | 3               |
| Local Housing Company  | 2               |
| Building Control   | 3               |
| Growth Programme   | 2               |
| Asset Management System - Corporate and Commercial Portfolio Landlord /tenants Responsibilities                                | 2               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Environment &amp; Operations</u></b>   |                 |
| Local Transport Capital Funding/LTP Grant Certification Requirement  | 1               |

| <u>2024/25 Days</u> | <u>2025/26 Days</u> |
|---------------------|---------------------|
|                     |                     |
|                     |                     |
| 0                   | 10                  |
| 15                  | 15                  |
| 0                   | 5                   |
| 10                  | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 0                   | 15                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 0                   | 10                  |
| <b>95</b>           | <b>75</b>           |
|                     |                     |
|                     |                     |
| 0                   | 10                  |
| 0                   | 10                  |
| 0                   | 10                  |
| 0                   | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
|                     |                     |
| 0                   | 10                  |
| 0                   | 10                  |
| 10                  | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 10                  |
| 80                  | 60                  |
| <b>150</b>          | <b>160</b>          |
|                     |                     |
|                     |                     |
|                     |                     |
| 10                  | 10                  |
|                     | 10                  |
| 0                   |                     |
| <b>10</b>           | <b>20</b>           |
|                     |                     |
|                     |                     |
|                     |                     |
| 10                  | 10                  |
| 0                   | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 0                   | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 10                  |
| <b>50</b>           | <b>60</b>           |
|                     |                     |
|                     |                     |
|                     |                     |
| 5                   | 5                   |

| <u>Audit &amp; Assurance - Draft Two Year Strategic Plan</u>  | <u>Priority</u> |
|---|-----------------|
| Bus Subsidy Grant   | 1               |
| Failure to adequately inspect and maintain highways.  |                 |
| Failure to repair highways defects and street lighting faults on time                                     | 2               |
| Poor standard of privately run HMOs   | 2               |
| Fleet Management  | 3               |
| Parking enforcement   | 3               |
| Transport Procurement/Fleet Management  | 3               |
| Business Centres  | 3               |
| Leisure Centres   | 3               |
| Licensing   | 3               |
| Contract management   | 2               |
| Cemeteries  | 3               |
| Markets   | 3               |
| Public Protection   | 2               |
| Waste Services  | 3               |
| Property Services   | 3               |
| King Georges Hall   | 3               |
| Museums Collections Recording System  | 3               |
| Libraries   | 3               |
| <b>Sub total</b>  |                 |
|   |                 |
| <b><u>Chief Executives</u></b>  |                 |
| Payroll - Core system/Failure of HR & payroll system incl staff & Mgr. self service.                      | 1               |
| Health & Safety - Failure to comply with H&S legislation & Council standards                              | 2               |
| Staff Induction and Exit  | 2               |
| Service to schools  | 2               |
| Organisational Development  | 3               |
| <b>Sub total</b>  |                 |
|   |                 |
| <b><u>Legal &amp; Governance</u></b>  |                 |
| RIPA processes  | 2               |
| Information Sharing Protocols and arrangements with Police  | 2               |
| Members Allowances and Induction  | 3               |
| Governance & Decision Making  | 2               |
| Management of FOIs  | 3               |
| Failure to prevent data loss (Information Governance)/ Compliance with GDPR                               | 2               |
| Legal Case Management - high numbers of Children' and Adults cases creating risk for safe mgmt. of cases. | 3               |
| <b>Sub total</b>  |                 |
|   |                 |
| <b><u>Finance</u></b>   |                 |
| Budgetary Setting and Control / Failure to deliver a balanced budget and MTFS                             | 1               |
| Main Accounting System - including account reconciliation's   |                 |
| Control and suspense account reconciliation processes   | 1               |
| Council Tax/ C Tax Support Scheme/shortfall in C Tax income   | 2               |
| Council Tax Rebate - Support with energy costs  | 2               |
| Creditors   | 2               |
| Insurance arrangements  | 3               |
| Procurement/Contract management   | 2               |
| Sundry Debtors/Income collection  | 2               |
| Risk management   | 2               |
| NNDR  | 2               |
| Housing Benefits  | 2               |
| Capital Programme/Budget - Monitoring and Reporting   | 2               |
| Treasury/Cash flow management/Major loss incurred regarding investment and/or borrowing.                  | 3               |
| Civica Asset management module  | 3               |
| Internet controls   | 2               |
| Software licencing  | 2               |
| Data sharing arrangements   | 3               |
| Device management   | 3               |
| Business Continuity/Disaster Recovery   | 2               |
| Digital Customer Portal.  | 2               |

| <u>2024/25 Days</u> | <u>2025/26 Days</u> |
|---------------------|---------------------|
| 5                   | 5                   |
|                     |                     |
| 10                  | 15                  |
| 0                   | 15                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 0                   | 10                  |
| 10                  | 0                   |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 0                   | 15                  |
| 15                  | 20                  |
| 10                  | 0                   |
| 0                   | 10                  |
| 10                  | 0                   |
| <b>125</b>          | <b>115</b>          |
|                     |                     |
|                     |                     |
|                     |                     |
| 15                  | 15                  |
|                     |                     |
| 10                  | 10                  |
| 0                   | 5                   |
| 0                   | 10                  |
| 15                  | 0                   |
| <b>40</b>           | <b>40</b>           |
|                     |                     |
|                     |                     |
| 0                   | 10                  |
| 0                   | 10                  |
| 0                   | 10                  |
| 15                  | 0                   |
| 10                  | 0                   |
|                     |                     |
| 0                   | 10                  |
| 10                  | 10                  |
| <b>35</b>           | <b>50</b>           |
|                     |                     |
|                     |                     |
|                     |                     |
| 10                  | 10                  |
|                     |                     |
| 15                  | 6                   |
| 15                  | 15                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 10                  | 0                   |
| 15                  | 15                  |
| 15                  | 15                  |
| 0                   | 10                  |
|                     |                     |
| 0                   | 10                  |
| 0                   | 10                  |
| 10                  | 0                   |
| 0                   | 10                  |
| 10                  | 0                   |
| 10                  | 0                   |
| 0                   | 10                  |
| 0                   | 10                  |

| <u>Audit &amp; Assurance - Draft Two Year Strategic Plan</u> | <u>Priority</u> |
|--|-----------------|
| Performance Indicators/Data Quality                          | 3               |
| Value for money audit  | A*              |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Other Audit Work</u></b>                               |                 |
| Review of Financial Regulations, SFIs, etc                   | 2               |
| Work in progress   | 1               |
| Follow up work   | 1               |
| Audit Committee  | 1               |
| Liaison with external audit                                  | 1               |
| Audit Committee Annual Report/Evaluation                     | 1               |
| HolA Annual Report   | 1               |
| A & A Client liaison/Queries                                 | 2               |
| A & A Client liaison/DMT attendance                          | 2               |
| A & A Client liaison/Project Groups                          | 2               |
| Contingency  | 2               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Other Risk &amp; Governance Work</u></b>               |                 |
| Annual Gov Statement   | 1               |
| MAF and MAF Challenges                                       | 1               |
| Risk Management Development                                  | 1               |
| Risk Management Support                                      | 1               |
| Road Risk Mgmt Group   | 1               |
| Review/Monitor Corporate Risks                               | 1               |
| Review Monitor Departmental Risks                            | 1               |
| Business Continuity Champions Meetings                       | 1               |
| Risk Annual Plan/Report                                      | 2               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b><u>Other Fraud Work</u></b>                               |                 |
| National Fraud Initiative (NFI)                              | 1               |
| Review of Counter Fraud Strategy                             | 1               |
| Counter Fraud Annual Plan/Report                             | 1               |
| Proactive Fraud Testing                                      | 2               |
| Reactive investigations                                      | 2               |
| Review/Monitor Fraud Risk Register                           | 2               |
| Fraud awareness and whistle blowing initiatives              | 2               |
| <b>Sub total</b>   |                 |
|  |                 |
| <b>Total Estimated Planned Audit Days</b>                    |                 |

| <u>2024/25 Days</u> | <u>2025/26 Days</u> |
|---------------------|---------------------|
| 10                  | 10                  |
| 20                  | 20                  |
| <b>180</b>          | <b>161</b>          |
|                     |                     |
|                     |                     |
|                     |                     |
| 3                   | 3                   |
| 40                  | 40                  |
| 10                  | 10                  |
| 10                  | 10                  |
| 2                   | 2                   |
| 4                   | 4                   |
| 4                   | 4                   |
| 10                  | 10                  |
| 2                   | 2                   |
| 4                   | 4                   |
| 15                  | 15                  |
| <b>104</b>          | <b>104</b>          |
|                     |                     |
|                     |                     |
| 12                  | 12                  |
| 10                  | 10                  |
| 5                   | 5                   |
| 5                   | 5                   |
| 4                   | 4                   |
| 5                   | 5                   |
| 8                   | 8                   |
| 2                   | 2                   |
| 4                   | 4                   |
| <b>55</b>           | <b>55</b>           |
|                     |                     |
|                     |                     |
| 10                  | 10                  |
| 0                   | 3                   |
| 3                   | 3                   |
| 10                  | 10                  |
| 15                  | 15                  |
| 4                   | 4                   |
| 2                   | 2                   |
| <b>44</b>           | <b>47</b>           |
|                     |                     |
| <b>888</b>          | <b>887</b>          |

## **Blackburn with Darwen Borough Council**



### **Internal Audit Charter**

**Audit & Assurance  
Finance Department**

**Latest Approval: Audit Committee 29 March 2022**

## **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: 2 March 2023**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

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**TITLE OF REPORT: Risk Management – Quarter 3 Review**

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**1. PURPOSE**

To provide the Committee with details of the risk management activity that has taken place in the period from 1 October 2022 to 31 December 2022.

**2. RECOMMENDATIONS**

The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of December 2022;
- 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 September meeting.

**3. BACKGROUND**

The Council recognises that risk management is not simply a compliance issue, 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 20 open risks at 31 December 2022.

A summary of the corporate risk details is set out in Appendix 1 of this report. As at 31 December 2022 the Council's top six 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;
- 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;
- Risk Ref 17 - Cyber security failures leading to financial, data loss or disruption to services from compromise of the IT network or systems.
- Risk Ref 18 - Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met; and
- Risk Ref 24 - Failure to respond effectively and proportionately to develop and implement plans/adaptations, within the scope of the Council's control and influence, in pursuit of its ambition to be a Carbon Neutral borough.
- Risk Ref 28 – The risk to the delivery of public services as a result of on-going industrial unrest and strike action in the NHS and other key partners and sectors.

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

- The residual risk score for Risk 17 (Cyber) has been increased. This change takes account of the increased risk of attacks by Russia and other nation states, groups and individual cyber threat actors that have been targeted at Government and other public bodies and a detailed analysis of BwD preparedness and ability to recover from an attack quickly.
- The residual score for Risk 22 (Failure to recruit, adequately develop and retain an adequately experienced and appropriately qualified workforce ...) has increased in the period. The likelihood of this risk has been re-assessed from unlikely to possible. This takes account of recent recruitment experience across the Council and the difficulties some Departments have had recruiting staff recently where this is a higher risk.
- A new risk has been added (Risk 28) relating to the impact that the ongoing on-going industrial unrest and strike action in the NHS and affecting other key partners and sectors may have on public services.

As part of the Council's Risk Management process the 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.

During the period colleagues from Zurich Risk Engineering have completed the delivery of a tailored package of risk management training and awareness sessions to senior officers and members, with the member training event on 7 December. This follows the implementation of the Corporate Risk Management Policy Statement and updated Risk Management Strategy & Framework earlier in the year.

A review of the Council's arrangements for the control of vibration at work and manual handling is being finalised. The review has been carried out by colleagues from Zurich Risk Engineering. It considered policies, training,

risk assessments and other arrangements in place to manage/monitor Hand Arm Vibration (HAVS) and the arrangements for undertaking manual handling assessments, staff training and occupational health support relating to these areas/activities. The review focussed on key activities within Highways and Environmental Services which have a higher level of risk relating to these risks. The findings will be reported to Committee in due course.

The re-procurement of the Council's insurance has been progressed during the period, as the current long term insurance agreement ends on 31 March 2023. The process has been supported by colleagues from the Corporate Contracting and Procurement Team and the Council's insurance brokers Aon UK Limited. The tender results will be reported to Executive Board on 9 March for consideration.

We have also continued to liaise with departments and our underwriter to respond to policy related queries relating to a variety of topics, 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**

**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:              | 21 February 2023   |
| Background Papers: | Corporate Risk Management Strategy 2021/2026,<br>2021/22 Annual Risk Management Report (including<br>Quarter 4 Review) |



# Summary Risk Register

Directorate: \_\_\_\_\_

Department: Corporate Risk Register

Service: \_\_\_\_\_

Quarter and Year: Quarter 3 - 2022/23

Date of last review: 30-Sep-22

Date: 31-Dec-22

Date of next review: 31-Mar-23

Update

Create

Insert

| Risk N | Risk Description  | Date Raised | Strength of Existing Controls | Inherent |   |             | Residual |   |             | Target |   |             | Risk Owner(s)                        | Key Contact(s)   | Risk Status | Last Risk Review Date | Previous Residual |   |             | Change in Score |
|--------|---|-------------|-------------------------------|----------|---|-------------|----------|---|-------------|--------|---|-------------|--------------------------------------|--|-------------|-----------------------|-------------------|---|-------------|-----------------|
|        |   |             |                               | L        | I | Risk Rating | L        | I | Risk Rating | L      | I | Risk Rating |                                      |  |             |                       | L                 | I | Risk Rating |                 |
| 1      | Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Government-appointed Commission taking control of the Council   | 26-Jan-15   | Fair                          | 5        | 5 | HIGH        | 3        | 5 | HIGH        | 1      | 3 | LOW         | Dean Langton                         | Simon Ross   | Open        | 28-Oct-22             | 3                 | 5 | HIGH        | -               |
| 2      | Failure of the Council's 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, Michael Hardman                        | Open        | 20-Apr-22             | 2                 | 4 | MEDIUM      | -               |
| 4      | The Council is not able to 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                          | Mohsin Mulla / Katherine White                                   | Open        | 28-Oct-22             | 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        | 27-Jul-22             | 2                 | 2 | LOW         | -               |
| 7      | Ensure BwD delivers its CCA statutory functions of risk assess, emergency planning, response, recovery, 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, Jenna Russett-Knott, Sarah Riley               | Open        | 19-Oct-22             | 1                 | 5 | LOW         | -               |
| 7b     | Ensure the delivery of the CCA Business Continuity Management (BCM) and Business Continuity Promotion (BCP) arrangements are in place. Encorporating preparedness, validating training/exercising of procedures and plans in order to protect BwD and enhance community resilience. 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, Jenna Russett-Knott, Sarah Riley | Open        | 19-Oct-22             | 2                 | 4 | MEDIUM      | -               |
| 10     | Due to the breakdown of community relations or a deterioration of community cohesion, greater risk of hate crime, extremism, radicalisation or polarisation of communities.   | 07-Feb-12   | Good                          | 4        | 5 | HIGH        | 2        | 3 | LOW         | 1      | 3 | LOW         | Denise Park                          | Katherine White /Mark Aspin                                      | Open        | 18-Nov-22             | 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         | Jo Siddle                            | Jo Siddle  | Open        | 03-Oct-22             | 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        | 24-Jun-22             | 3                 | 3 | MEDIUM      | -               |
| 14     | High profile serious/critical safeguarding incident/case that is known to Council services  | 20-Aug-13   | Fair                          | 4        | 5 | HIGH        | 3        | 5 | HIGH        | 2      | 5 | MEDIUM      | Mark Warren (DASS) / Jo Siddle (DCS) | Katherine White/Lynn Fields                                      | Open        | 04-Oct-22             | 3                 | 5 | HIGH        | -               |
| 15     | Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users.  | 01-Apr-20   | Fair                          | 4        | 4 | HIGH        | 3        | 3 | MEDIUM      | 2      | 3 | LOW         | Corinne McMillan                     | Jenna Russett-Knott  | Open        | 19-Oct-22             | 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        | 5 | HIGH        | 3      | 3 | MEDIUM      | Paul Fleming                         | Michael Ahern  | Open        | 28-Nov-22             | 3                 | 4 | MEDIUM      | Up              |
| 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        | 5 | HIGH        | 3      | 4 | MEDIUM      | Martin Kelly                         | Simon Jones  | Open        | 27-Jul-22             | 3                 | 5 | HIGH        | -               |

| Risk N   | 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 |                 |
| 22   | Failure to recruit, 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        | 4 | MEDIUM      | 3        | 3 | MEDIUM      | 2      | 2 | LOW         | Corinne McMillan/Mandy Singh/Jill Readfern | Mandy Singh/Jill Readfern        | Open        | 17-Jan-23             | 2                 | 3 | LOW         | Up              |
| 23   | Failure to have an inclusive public health Covid-19 recovery plan that focusses on those most impacted by the pandemic and plan effectively for COVID and influenza.   | 12-Jan-22   | Fair                          | 4        | 5 | HIGH        | 3        | 4 | MEDIUM      | 2      | 3 | LOW         | Abdul Razaq                                | Laura Wharton / Catherine Taylor | Open        | 02-Feb-23             | 3                 | 4 | MEDIUM      | -               |
| 24   | Failure to respond effectively and proportionately to develop and implement plans/adaptations, within the scope of the Council's control and influence, in pursuit of its ambition to be a Carbon Neutral borough.   | 07-Apr-22   | Good                          | 5        | 5 | HIGH        | 4        | 4 | HIGH        | 3      | 3 | MEDIUM      | Martin Eden                                | Gwen Kinloch                     | Open        | 17-Oct-22             | 4                 | 4 | HIGH        | -               |
| 25   | The impact that the cost of living crisis may have on local businesses and the residents and the implications that this may have on Council staff, services and budgets.   | 05-Apr-22   | Fair                          | 5        | 5 | HIGH        | 3        | 4 | MEDIUM      | 2      | 3 | LOW         | Mark Warren                                | Richard Brown, Andy Ormerod      | Open        | 04-Jan-23             | 3                 | 4 | MEDIUM      | -               |
| 26   | Failure to implement the Government's planned Adult Social reforms including : charging, care cap, cost of care and regulatory reforms as required by the Health and Care Act 2022 will result in the Councils statutory requirements not being fulfilled.                   | 17-Aug-22   | Fair                          | 5        | 5 | HIGH        | 3        | 3 | MEDIUM      | 3      | 3 | MEDIUM      | Mark Warren                                | Katherine White / Zoe Evans      | Open        | 14-Nov-22             | 3                 | 3 | MEDIUM      | -               |
| 27   | BWDBC response to the LGA (Inquiry core participant) with the necessary evidence in relation to the Covid-19 Public Inquiry.   | 02-Nov-22   | Good                          | 4        | 4 | HIGH        | 2        | 2 | LOW         | 2      | 2 | LOW         | Corinne McMillan                           | Mohsin Mulla                     | Open        | 13-Jan-23             | 2                 | 2 | LOW         | -               |
| 28   | On-going industrial unrest and associated strike action in the NHS and other key partners and sectors could result in disruption to public services.   | 21-Dec-22   | Good                          | 5        | 4 | HIGH        | 5        | 3 | HIGH        | 3      | 3 | MEDIUM      | Denise Park                                | Mark Warren / Corinne McMillan   | Open        | 03-Feb-23             |                   |   |             | -               |
| <p>The following risks are currently closed:</p> <p>Risk 3: IT Infrastructure (Resilience) – Old Town Hall.</p> <p>Risk 6: Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget.</p> <p>Risk 8: Failure to contribute effectively to economic growth within Blackburn with Darwen.</p> <p>Risk 9: Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.</p> <p>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.</p> <p>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.</p> <p>Risk 19: EU Exit - Risk of inadequate planning/preparedness at a national &amp; local level for a "no deal" exit from the EU arrangements.</p> <p>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.</p> <p>Risk 21: The Council is unable to recover its critical functions, core services and income generation during the transition and recovery phases of a CV-19 outbreak.</p> |  |             |                               |          |   |             |          |   |             |        |   |             |  |                                  |             |                       |                   |   |             |                 |





**TO: Audit & Governance Committee**

**FROM: Head of Audit & Assurance**

**DATE: 2 March 2023**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

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

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**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 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 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 is responsible for discharging this sound financial management requirement.
- 3.2 In 2022 CIPFA published its Position Statement: Audit Committees in Local Authorities and Police 2022 ('the Position Statement') document. It replaces the previous 2018 Position Statement and includes all principal local authorities in the UK. This sets out the functions, operations, roles and responsibilities of audit committees in local authorities and represents best practice.

- 3.3 The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt and has been prepared in consultation with sector representatives. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit. The results of the assessment of the current arrangements in place for the Audit & Governance Committee against the principles and practices set out in the new Statement are detailed in Appendix 1.
- 3.4 The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. The 2022 Position Statement sets out the purpose, model, core functions and membership of an audit committee. The Statement defines the purpose of Audit Committees as follows:
- Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
  - In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council.
  - The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.
- 3.5 The Position Statement notes that the core functions of an audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained. Specific responsibilities identified include:
- Maintenance of governance, risk and control arrangements.
  - Financial and governance reporting.
  - Establishing appropriate and effective arrangements for audit and assurance.
- 3.6 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 at least two independent member where not already required to do so by legislation to provide appropriate technical expertise;

- 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).
- 3.6 The Position Statement notes the role of the Chief Financial Officer 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 this role. This Officer 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).
- 3.7 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 areas where full compliance cannot be provided are:
- Question 6: The Committee membership Includes at least two co-opted independent members to provide appropriate technical expertise; and
  - Question 19: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.
- 5.2 The Constitution has recently been updated to allow the Committee to appoint two non-voting co-opted independent members to its

membership. Arrangements to appoint these members will be progressed during 2023.

- 5.3 It is noted that 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.
- 5.4 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 28 June 2022.
- 5.5 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: 21 February 2023

Background Papers: CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022

**Audit & Governance Committee Self-Assessment against CIPFA Position Statement in Local Authorities and Police 2022 Good Practice Checklist**

| REF   | CIPFA RECOMMENDED AUDIT COMMITTEE GOOD PRACTICE AND PRINCIPLES   | YES | PARTIAL | NO | ACTION REQUIRED   |
|---|--|-----|---------|----|---|
| <b><i>Independent and effective model</i></b> |  |     |         |    |   |
| <i>The Audit Committee should:</i>            |  |     |         |    |   |
| 1   | Be directly accountable to full council.   | √   |         |    |   |
| 2   | Be independent of both the executive and the scrutiny functions.   | √   |         |    |   |
| 3   | Have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.  | √   |         |    |   |
| 4   | Have rights to request reports and seek assurances from relevant officers.   | √   |         |    |   |
| 5   | Be of an appropriate size to operate as a cadre of experienced, trained committee members.   | √   |         |    |   |
| 6   | Include at least two co-opted independent members to provide appropriate technical expertise.  |     | √       |    | In the 2022 update of the Constitution the Committee membership has been amended to include 2 independent (non voting) members appointed by the Committee along with the 6 members appoint by Full Council. Arrangements can be made to appoint the co-opted independent members during 2023. |
| <b><i>Core functions</i></b>                  |  |     |         |    |   |
| <i>Specific responsibilities include:</i>     |  |     |         |    |   |
| 7   | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? <ul style="list-style-type: none"> <li>• Maintenance of governance, risk and control arrangements.</li> <li>• Financial and governance reporting,</li> <li>• Establishing appropriate and effective arrangements for audit and assurance.</li> </ul> | √   |         |    |   |

| REF   | CIPFA RECOMMENDED AUDIT COMMITTEE GOOD PRACTICE AND PRINCIPLES  | YES | PARTIAL | NO | ACTION REQUIRED  |
|---|---|-----|---------|----|--|
| <b><i>Audit committee membership</i></b>                                    |   |     |         |    |  |
| 8   | Members are trained to fulfil their role so that they are objective, have an inquiring and independent approach, and are knowledgeable.                 | √   |         |    |  |
| 9   | The membership promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives. | √   |         |    |  |
| 10  | The chair is strong, independently minded, and displays a depth of knowledge, skills, and interest.   | √   |         |    |  |
| 11  | The members demonstrate a willingness to operate in an apolitical manner.   | √   |         |    |  |
| 12  | Members have unbiased attitudes – treating auditors, the executive and management fairly.   | √   |         |    |  |
| 13  | The members are able to challenge the executive and senior managers when required.  | √   |         |    |  |
| <b><i>Engagement and outputs</i></b>  |   |     |         |    |  |
| <i>To discharge its responsibilities effectively, the committee should:</i> |   |     |         |    |  |
| 14  | Meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.    | √   |         |    |  |
| 15  | Be able to meet privately and separately with the external auditor and with the head of internal audit  | √   |         |    |  |
| 16  | Include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor.        | √   |         |    |  |
| 17  | Have the right to call on any other officers of the authority as required.  | √   |         |    |  |
| 18  | Support transparency, reporting regularly on its work to those charged with governance.   |     | √       |    | The Committee minutes are included as appendices to the Annual Report, which is presented to Full Council. Consider presenting these to full Council more regularly. |

| REF | CIPFA RECOMMENDED AUDIT COMMITTEE GOOD PRACTICE AND PRINCIPLES  | YES | PARTIAL | NO | ACTION REQUIRED |
|-----|---|-----|---------|----|-----------------|
| 19  | Report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public. | √   |         |    |                 |

## **CIPFA'S AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES**

## **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**

| <b>Areas where the audit committee can add value by supporting improvement</b>        | <b>Examples of how the audit committee can add value and provide evidence of effectiveness</b>   | <b>Self-evaluation, examples, areas of strength and weakness</b>   | <b>Overall assessment:<br/>5 – 1 See key above</b> |
|---|--|--|--|
| Promoting the principles of good governance and their application to decision making. | <p>Supporting the development of a local code of corporate governance.</p> <p>Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it.</p> <p>Working with key members to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews/audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships.</p> | <p>The Committee reviews the draft AGS prior to approving it and monitors progress of actions to address the significant issues identified in the previous year's AGS. It also receives regular internal audit and risk management progress reports. The Committee considers the Risk Management Annual Report and the annual opinions from Internal Audit (IA) and External Audit, which support the AGS.</p> <p>The Committee approves the IA annual audit plan, which classifies audit reviews by assurance area to ensure adequate coverage of risk, governance and control frameworks. It receives a summary of key findings and opinions from individual IA reviews supporting the overall opinion.</p> <p>The Committee's terms of reference includes the review of the governance and assurance arrangements for</p> | 4  |



| Areas where the audit committee can add value by supporting improvement   | Examples of how the audit committee can add value and provide evidence of effectiveness   | Self-evaluation, examples, areas of strength and weakness  | Overall assessment:<br>5 – 1 See key above |
|---|---|--|--|
|   |   | significant partnerships or collaborations. The Committee also receives an annual report on the Council's Significant Partnerships Register.   |  |
| Contributing to the development of an effective control environment.  | <p>Actively monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Raising significant concerns over controls with appropriate senior managers.</p> | <p>Regular IA Progress Reports are presented to the Committee. These include performance indicators relating to the percentage of recommendations implemented and commentary re outstanding 'must' level recommendations.</p> <p>Senior officers attend the Committee meetings on request to update on the progress of actions from key reports as and provide explanations and updates on progress to address significant audit concerns.</p> <p>The Committee reviews the summary of Management Accountability Framework (MAF) red priority areas of concern.</p> <p>The Committee is also authorised by the Council to investigate any activity within its terms of reference and to seek any information it requires from any employee, including those of partner organisations, and all employees are directed to co-operate with any request made by the Committee.</p> | 5  |
| Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks. | <p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</p> <p>Monitoring improvements.</p> <p>Holding risk owners to account for major/strategic risks.</p>  | <p>The Committee receives the annual risk management report, which includes key events and achievements for the previous year and key developments for the next 12 months.</p> <p>The corporate risk register summary identifies risk owners at Director/senior officer level and tracks changes to residual risk scores. Regular reports are presented to</p>   | 5  |

| Areas where the audit committee can add value by supporting improvement  | Examples of how the audit committee can add value and provide evidence of effectiveness  | Self-evaluation, examples, areas of strength and weakness  | Overall assessment:<br>5 – 1 See key above |
|--|--|--|--|
|  |  | <p>Committee setting out the summary corporate risk register and risk management support activity that has taken place during the year. This includes the details of the risk management support provided by Zurich Municipal.</p> <p>The Committee carries out a 'deep dive' review of one or more corporate risks with the relevant risk owner or key contact as part of its work programme during the year.</p>   |  |
| Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively. | <p>Specifying its assurance needs, identifying gaps or overlaps in assurance.</p> <p>Seeking to streamline assurance gathering and reporting.</p> <p>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.</p>                   | 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.           | <p>Reviewing the internal audit charter and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements providing constructive challenge and supporting improvements.</p> <p>Actively supporting the quality assurance and improvement.</p> | <p>The Head of Audit &amp; Assurance has right of access to and regular briefings for the Chair of the Audit &amp; Governance Committee.</p> <p>The Committee receives and approves the IA Charter and annual strategic statement, including reporting and monitoring arrangements, supporting the IA annual plan. The External Auditors Audit Findings Report includes commentary on Internal Audit as part of their assessment of financial control arrangements.</p> <p>The Committee reviews the Internal Audit Quality Assurance Improvement Plan. The annual Head of Audit Opinion Report includes an assessment of IA performance and quality assurance. The Committee approved a Peer review approach for the external</p> | 5  |

| Areas where the audit committee can add value by supporting improvement   | Examples of how the audit committee can add value and provide evidence of effectiveness   | Self-evaluation, examples, areas of strength and weakness  | Overall assessment:<br>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.   |  |
| <p>Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.</p> | <p>Reviewing how the governance arrangements support the achievement of sustainable outcomes</p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p> | <p>Work on this area is included in Internal and External Audit plans on a risk assessment basis. IA reviews are classified under one of the three headings in the plan and the annual report. Plans include reviews of key capital and revenue projects. Additional ad hoc work is carried out during the year on request from Directors.</p> <p>Internal audit progress reports include a summary of MAF red priority areas of concern.</p> <p>Performance management is not specifically identified in the Committee Terms of Reference. There are other processes in place within the Council's governance structure, which provide scrutiny and challenge for this area, as part of the Corporate Plan Scorecard monitoring arrangements, to hold Chief Officers and managers to account on a regular basis, such as Management Board and the PAM reporting process as well as Members through PDS, SPT and Executive Board reporting.</p> <p>Internal audit consider performance arrangements as part of any relevant audit and would report on them as part of our progress reporting arrangements.</p> <p>The IA plan also considers specific Key Performance Indicator audits as part of the annual audit planning process.</p> | 4  |

| Areas where the audit committee can add value by supporting improvement   | Examples of how the audit committee can add value and provide evidence of effectiveness   | Self-evaluation, examples, areas of strength and weakness   | Overall assessment:<br>5 – 1 See key above |
|---|---|---|--|
| Supporting the development of robust arrangements for ensuring value for money.   | <p>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</p> <p>Considering how performance in value for money is evaluated as part of the AGS.</p>  | <p>Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract &amp; 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.</p>  | 4  |
| Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks. | <p>Reviewing arrangements against the standards set out in Code of Practice on managing the Risk of Fraud (CIPFA 2014).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and members.</p> | <p>A Counter Fraud Policy and Strategy is in place supported by the Counter Fraud Policy Framework which includes a Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees' Codes of Conduct.</p> <p>The Internal Audit progress reports include oversight of counter fraud activity and results.</p> <p>The Committee consider and approve the annual fraud risk assessment as part of the External Auditor's enquiries of those charged with governance.</p> <p>The Committee receives the Counter Annual Report as part of the suite of annual reports which is considered prior to approval of the Annual Governance Statement:</p> | 5  |

| Areas where the audit committee can add value by supporting improvement   | Examples of how the audit committee can add value and provide evidence of effectiveness   | Self-evaluation, examples, areas of strength and weakness   | Overall assessment:<br>5 – 1 See key above |
|---|---|---|--|
| Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability. | <p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p> <p>Publishing and annual report from the committee.</p> | <p>Audit &amp; Governance Committee meetings are held in public with minimal Part 2 items. Agendas and reports are published on Council internet website.</p> <p>An Annual Audit Committee report is prepared and considered by full Council.</p> <p>Council Committee agendas, reports and minutes are also available on the internet via the Council website along with Executive Members' and Officer decisions.</p> | 4  |