

Governance Committee

Wednesday, 2nd August 2023, 2.30 pm

Committee Room 1, Town Hall, Chorley and YouTube

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

Agenda No	Item	
4	External Audit Annual Report 2021/22	(Pages 165 - 216)
	To receive and consider the report of the External Auditor, Grant Thornton.	

Chris Sinnott
Chief Executive

Electronic agendas sent to Members of the Governance Committee

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Auditor's Annual Report on Chorley Borough Council

Draft

2021-22

July 2023

Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Internal Audit identified serious issues in relation to a review of the Commercial Services Directorate which had found a number of process failures. Due to the nature of the conclusions in the Internal Audit report, we performed some further risk-based work to consider the value for money implications of the report. See the executive summary on the following page and the section titled "Risk-based work: Internal Audit review into Procurement in the Commercial Services Directorate" from page 7 onwards.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	Significant weaknesses in arrangements and key recommendations made. See - Risk-based work: Internal Audit review into Procurement in the Commercial Services Directorate
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified	Significant weaknesses in arrangements and key recommendations made. See - Risk-based work: Internal Audit review into Procurement in the Commercial Services Directorate

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary – risk based work



Introduction

Background to this review

In January 2022 an Internal Audit report was presented to Governance Committee on a restricted basis from the public under the Local Government Act 1972 due to sensitive information relating to an individual. The report set out that Internal Audit had performed a review of the Commercial Services Directorate which had found a number of process failures. Due to the nature of the conclusions in the Internal Audit report, we performed some further risk-based work to consider the value for money implications of the internal audit report. The detail of this work is set out on pages 8 to 15.

Scope of review

Following our review of the internal audit report, we determined the scope of our review relating to the Commercial Services Directorate Procurement Review. We outlined three lines of enquiry:

1. Has the nature and extent of the issues identified by Internal Audit been fully explored and understood by the Council?
2. Has effective action been taken to strengthen the weaknesses in controls and governance that contributed to the issues found in the report?
3. Were arrangements to manage the exit of the identified senior managers adequate to ensure value for money?

Contextual information: the internal audit report

In April 2022, internal audit at Chorley Council performed a routine check on the creditors system. This exercise revealed that Company A had submitted over £200,000 worth of invoices since December 2019.

Internal audit performed further checks and found that the owner of Company A had also been contracted as a consultant working for the Council, he will be known as Contractor A. Internal audit concluded an overall 'limited' assurance opinion meaning that the authority cannot place sufficient reliance on the controls present at the Council and substantive control weaknesses exist. The report concluded that there had been clear breaches of the Council's governance framework, Contract Procedure Rules and Information Security Framework (ISF). There had also been legislative breaches relating to procurement. The Council had also failed to provide appropriate role definition when contracting Contractor A as a consultant at Chorley Council and therefore exposed the organisation to risk of an unfair procurement exercise and significant reputational and financial risk. As a result of the internal audit review, Contractor A's access to the Chorley Council IT network was revoked. Two senior Chorley Council employees who had key roles in the case, were subject to a disciplinary process and supporting independent reviews. As a result of this, and in the case of the more senior officer other performance issues, both employees left the Council by mutual agreement. The Council has accepted Internal Audit's findings and has created an action plan to pursue the remedial recommendations raised.

Summary of findings

We have identified a significant weakness in the Council's arrangements to secure value for money, specifically in the areas of compliance when engaging with contractors and procurement. We have identified 4 key recommendations and 6 improvement recommendations which are outlined in pages 17 to 26.

Statutory and key recommendations



The range of recommendations that external auditors can make is explained in Appendix A.

The NAO Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.

Our work has identified significant weaknesses in arrangements and we have made key recommendations.

Appendix B outlines the Use of auditor's statutory powers. These powers include the use of written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Authority to discuss and respond publicly to the report.

Our work has not identified any pervasive weaknesses in arrangements and therefore we have not made any statutory recommendations or had to discharge any other wider powers under the Local Audit and Accountability Act 2014, for the 2021/22 audit year.



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Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix C.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas is set out on pages 8 to 24. Further detail on how we approached our work is included in Appendix B.



PART 1
Risk-based work:
Internal audit review into Procurement in
the Commercial Services Directorate

Detailed findings

The Value for Money implications

Internal Audit's findings prompted our need to consider the value for money implications of their review. The Internal Audit report focused on the internal controls and processes at the Council. Our review has turned the focus to whether any of the findings in the Internal Audit report have resulted in exposing the Council to the risk of failure to achieve value for money in its arrangements. Our review found several items of evidence that substantiate the view that the Council's actions in relation to its involvement with Contractor A and Company A exposed the Council to risk, including the risk of failure to achieve value for money in its arrangements. As a result of this, we have determined there to be a significant weakness in the Council's arrangements. The detailed findings are set out in this report.

ICT/digital safeguards

Contractor A first became known to the Council when he was an employee at his previous employer which was contracted to perform some works for the Council in 2018. Contractor A's own company, Company A, was incorporated in August 2019. In November 2019, Company A submitted a fee proposal to perform various works at the Council totalling a value of £9,587.50. The nature of the work necessitated access to the Council's network to facilitate, for example, the management of tender process including any queries from contractors, site visits and tender evaluation, and preparation of Executive Member Decision reports.

Contractor A signed Chorley Borough Council's IT Security Framework (ISF) and was set up as a contractor with a contract termination date of 28 February 2020. This included limited access to the Council's network and folders in order to access projects managed by the Commercial Services Directorate.

Contractor A was provided with a Chorley Council email address. During the internal audit review, Contractor A's email account was reviewed and it was found that in the period November 2019 to April 2022, Contractor A had emailed a substantial number of emails with a large volume of attachments (including one email with 43 attachments) from his Chorley email account to his business email address. The Information Security Framework states that 'you must not e-mail business documents to your personal web-based accounts.' Contractor A therefore breached the IT Security Framework in this regard.

The Council has not at any point interviewed Contractor A or asked him for justification for the described action. It appears that in transferring the documents, Contractor A was technically in breach of the ISF which he signed when onboarded.

However, it is also clear that the Council did not appropriately risk manage when onboarding Contractor A. IT and the Commercial directorate did not ensure appropriate limits were applied to Contractor A's access to the Chorley data. The Council therefore failed to properly risk assess and risk manage this process. There is no evidence of Contractor A being provided with a formal induction into the Council as a contractor.

The Council's failure to apply appropriate limits on the data Contractor A had access to and failure to properly induct him exposed the Council to the risk of a data breach. The lack of data restrictions also exposed the Council to the risk of granting Contractor A an unfair advantage in a future procurement exercise as Contractor A had access to commercially sensitive information.

As noted below, it appears that he was able to gain a potentially unfair advantage in one specific case although this did not lead to a successful bid. There is no evidence of any discussions relating to defining the appropriate level of IT access for Contractor A on his onboarding. There is also no evidence that Contractor A's access was reviewed at any point following his onboarding.

Procurement processes

Internal audit found several breaches of the Contract Procedure Rules during their review. Several of these breaches relate to an inability to evidence that due process was followed:

- There is no evidence of an activation of a formal extension to Contractor A's role as a consultant following his end date in February 2020, though he continued to work for the Council in this role.

Detailed findings

- There is evidence that Contractor A was involved in projects not listed on the initial fee proposal prior to the end of February 2020 (as he invoiced the Council for the works) but no further fee proposals were either requested or received from Contractor A for the various works
- For several projects that Contractor A invoiced the Council for, Internal Audit were unable to evidence how the services or the projects were awarded or procured
- The Council failed to comply with the 2015 Public Contracts Regulations by ensuring award notices were published on Contracts Finder for all awards above £25,000
- The Council failed to comply with the requirements of the Transparency Code by not ensuring the details for all contracts in excess of £5,000 are published on the Council's Transparency Register

In relation to the lack of IT/digital safeguards, the lack of controls exposed the Council to additional risk relating to procurement processes. By failing to appropriately restrict Contractor A's data access, Contractor A was able to send himself commercially sensitive information relating to tender processes from earlier procurement exercises. It is clear that Contractor A had access to information that other bidders did not have access to, therefore exposing the Council to the risk that the procurement process would not be equitable. We note that Contractor A secured an unfair advantage in one explicit incidence where he emailed himself the quality criteria for a particular invitation to quote/tender that he intended to bid for five days before it was published publicly on the Council's procurement system. Contractor A, therefore, due to his access to the Chorley network as a result of his work as a contractor with the Council, the lack of IT restrictions implemented by the Council and his breach of the IT security framework, was able to potentially obtain an unfair advantage in

a tender against other bidders who were not privy to the same information. In this instance, this did not yield results as Contractor A did not succeed in this particular bid and the contract was awarded to another supplier.

There is no evidence that any limits were put in place to ensure Contractor A was not privy to conversations/meetings/phone calls relating to upcoming tenders. Contractor A had access to a Council office, a job title and a Council email address so looks to have been embedded at the Council. There is no evidence to support that any action was taken to ensure Contractor A was not privy to internally sensitive or commercially sensitive information that may provide him an unfair advantage in acquiring future contracts. This risk is exacerbated by the fact that Internal Audit were unable to ascertain how several contracts were awarded to Company A. However, there is no clear evidence that he was able to successfully exploit this advantage and win work as a direct result – the risk therefore remains potential rather than actual.

There is evidence that employees involved in these projects were aware of proper procurement processes and did not follow them. For example, for the initial Fee and Budget programme submitted by Company A in 2019, a waiver was produced although it was not required due to the low value procurement. Officers were therefore likely to be aware of how to raise waivers and the need to raise waivers in various types of procurement but did not issue waivers in other projects where it was actually necessary.

Another instance that demonstrates knowledge of the proper process but failure to properly exercise it occurred in 2020 when a procurement officer raised concerns that the Council was securing services from Contractor A above a value of £25,000 so a waiver should be raised. Despite this

signposting, no subsequent waiver was raised. However, it is also important to note that there was no follow up from the procurement officer either.

Overall, Contractor A's engagement demonstrates that the Council's failure to adhere to appropriate procurement processes and accompanying legislation has exposed the Council to risk.

Role of procurement

A factor that was not addressed in the Internal Audit report but became apparent during our review was the consideration of the role of procurement in Contractor A's engagement with the Council. Throughout our review, there was an absence of a supervisory procurement function in the interactions between Contractor A, Company A and Chorley Council. The most explicit demonstration of procurement requirements being considered was a procurement officer raising the issue of obtaining a waiver for the services secured in October 2020. However as mentioned above, despite no waiver being raised, procurement did not follow up on this.

There is a lack of clarity at the organisation on the role of procurement in the context of the Council. Throughout our review, it became clear that there was a difference of viewpoint surrounding the role of the procurement function at the Council.

Service leads viewed the obligation to collect, monitor and manage the necessary documentation for projects and contracts as the responsibility of the procurement function and the procurement function viewed those responsibilities as the remit of the service line managers.

Detailed findings

This lack of coordination contributed to the absence of the appropriate documentation in the majority of the projects awarded to Company A and to the engagement of Contractor A as a contractor for the Council.

The procurement strategy is a lever for cascading corporate strategy down to services and capital projects delivered through commercial partners. Council employees should be able to point to the procurement strategy of the organisation when considering the role of the procurement function.

The current procurement strategy at Chorley is out of date and spanned the period of April 2019 to March 2022. The strategy is a two-page document that does not provide any meaningful strategic direction for the procurement function. The Council are aware of the need to update this. As mentioned in a recent Grant Thornton report into procurement in local government, in our view, procurement is more effective when the corporate plan and procurement strategy are clearly aligned with one another. Therefore, the Council must ensure that the new procurement strategy aligns with the corporate plan.

While there are a number of examples in this case of corporate governance codes and strategies being in place but not being used correctly (see Contract Procedure Rules or Finance Procedure Rules), the procurement strategy is an example where the necessary governance architecture was not in place to any meaningful degree.

There is evidence of the procurement function currently being under resourced. At present, there are two substantive employees with procurement-focused responsibilities, one of whom only started at the organisation two months ago.

Two procurement officers retired in close succession and although the Council has been aware of this, there have been difficulties in recruitment. There is a current vacancy for the Senior Procurement Officer position. One of the two procurement officers holds appropriate qualifications. No other employee in the procurement function holds any relevant procurement qualifications. There is therefore a lack of appropriately qualified employees in addition to the lack of resource generally..

There is evidence of a lack of proactivity in the procurement function throughout the engagements with Contractor A. For example, a contract for Contractor A was not published on the Contracts Register, which procurement have oversight of. Waivers are required to have sign off from procurement officers and all the waivers issued during 2019 to 2022 regarding Contractor A and Company A received procurement sign off. Given the fact that there was no contract on the Contracts Register, it is fair to say that procurement should have checked that the appropriate documentation was in place when signing waivers relating to Contractor A or Company A.

A more proactive approach to contract management would have detected this lack of appropriate documentation earlier on and prevented the greater accumulation of invoices to Company A without the appropriate documentation in place.

We note that the Council recognised the lack of capacity in procurement and the difficulties in recruiting. The Council is actively seeking to secure additional procurement support from Blackburn with Darwen Council. At this stage, the SLA is in draft form but they are providing advice and guidance.

There are also currently talks ongoing with a recruitment agency to carry out an exercise for the Senior Procurement Officer position, this is aiming to commence imminently .

It is not only the role of the central procurement function that is relevant in ensuring value for money in procurement at Councils. Significant parts of procurement at local authorities is conducted by service line staff, as was the case with the procurement of Contractor A's contractor services. The Council should consider an individual's previous experience, particularly if they are not familiar with the demands of local government procurement processes. The lack of appropriate documentation in place suggests a lack of appropriate training for service line personnel on procurement processes and procedures.

Conflicts of interest

Role definition/clarity of responsibility

Contractor A was initially engaged with the Council to perform various works in 2019 following the submission of a fee proposal. He was onboarded as a contractor and to perform a role fulfilling project management and evaluation-type duties. There is evidence that Contractor A performed work outside of the initial fee proposal during the time period specified in his initial contract. As no further contract was created nor the previous contract extended, Contractor A worked outside of contract for an extended period of time.

Detailed findings

The lack of clear role definition surrounding Contractor A's job description increased the risk of conflicts of interest arising. As concluded in the Internal Audit report: 'as a defined workplan for Contractor A had not been established for each project he was involved in, coupled with the lack of proactive management of the contract with clear objectives means that it is not possible to provide assurance that management have put adequate controls in place to mitigate the misuse of Council time and resources and effectively manage any conflict of interest.'

Failure to disclose conflicts of interest

There is a clear conflict of interest between Contractor A's role as a contractor for the Council and his role as Director of Company A. Contractor A was performing these roles simultaneously. There is no evidence of Contractor A ever submitting a conflicts of interest schedule to declare this interest. This risk is further compounded by the fact that we were unable to evidence that any measures had been put in place to ensure that Contractor A was not privy to any conversations/meetings/phone calls relating to tenders in which his independence would have been compromised.

Council governance

The Internal Audit report concluded that the case demonstrated a clear breach of the Council's governance framework. There was evidence of a failure to apply appropriate governance procedures.

Contractor A was never provided a proper induction onto the Council system. We understand this is also the case for another member of the service line.

The failure of the Council's governance processes does not provide sufficient protection for officers operating on behalf of the Council. Officers were able to operate for a significant period of time without the failures unearthed in this case being picked up by organizational safeguards and checks and balances. Officers need to have the assurance that the Council's organizational architecture provides them with sufficient protection such that their role is not wholly dependent on their actions, particularly when they are inexperienced with local government process and requirements.

Finance processes

The Internal Audit report found a breach of the Financial Procedure Rules. Purchase orders should be raised at point of initiation of supply request i.e. fee proposals. There was evidence that purchase orders for Chorley Council projects were raised upon receipt of the invoices and in some cases raised retrospectively.

Cultural and structural issues within the Commercial Services directorate

The content of the Internal Audit report lead to us questioning whether the issues found in the report had the potential to be Council-wide.

Evidence suggests that the nature of the work performed by the Commercial Services directorate and other structural considerations contributed to the increased exposure to risk in this department.

Cultural and structural issues within the Commercial Services directorate increased the directorate's risk of failure to achieve value for money in its arrangements.

In the Commercial Services directorate at Chorley, the value of projects one support officer managed would have close to doubled when the shared service arrangements were implemented. There is evidence to suggest that the Council made some efforts towards providing extra resource. Arrangements were put in place in October 2021 to provide additional capacity in the form of an additional member of staff from another internal team (business support). They provided additional internal project and development capacity to the major projects team. The resource remained in place until it became permanent following a paper presented to Full Council in February 2022.

The major projects team was shared on an interim basis but our understanding is that there was no business case for that arrangement. This arrangement continued for a period of at least two years before permanent decisions were made. The lack of business case implies a lack of appreciation on the part of the Council of the scale of change that the implementation of the shared services arrangement would bring. The value of the workload almost doubled, without additional permanent staffing resource.

Detailed findings

Though the Council has provided evidence of an additional permanent staffing resource being provided in February 2022, this does not account for the extended period of time (from 2019) that the major projects team functioned as a shared service without commensurate resource.

The implementation of the shared services arrangement, even on an interim basis, should have included scenario planning and backwards mapping which could show evidence of the consideration of the increase in workload on the capability of the major projects team to carry out their responsibilities. The lack of capacity constrained the team's ability to ensure appropriate workload on the major projects.

Team and impacted the team's ability to ensure appropriate documentation was in place in the engagements with Contractor A.

Mitigating factors

There are several mitigating factors which limit the extent of the risks highlighted in this report, and lead us to recommend a significant weakness and key recommendations, rather than any further exercise of auditor's powers.

Firstly, Internal Audit had found that Company A had submitted invoices for approx. £200k over a three-year period. Whilst this is a significant amount it is not significant in terms of total contract awards for the Council.

Secondly, the Council was familiar with Contractor A and his work prior to his onboarding in 2019. While this may have contributed to some naivety on the part of the Council and potentially influenced the lack of attention to ensuring the appropriate documentation was in place, it may have contributed to the fact that there is no evidence of malicious intent on the part of Contractor A in any of the engagements with the Council.

The only identified instance of potential unfair advantage for Contractor A is the emailing of the quality criteria prior to public submission of the invitation to tender. Other than this incident, where Contractor A was afforded the opportunity to secure an unfair advantage through the Council's lack of controls and safeguards, this risk did not actually materialize. Even in the case of the emailing the quality criteria for a bid to his business account, Contractor A was unsuccessful in that particular tender.

Additionally, whilst this report has demonstrated several instances of either a lack of controls or a lack of exercise of controls, the fact that this risk was picked up by Internal Audit via a routine check on the creditors system demonstrates the efficacy and utility of the Internal Audit service. As stated in the Internal Audit report, Internal Audit functions as the third line of defence in a Council's control network. The review and subsequent report was triggered by Internal Audit noticing idiosyncrasies on the creditors system associated with Company A. This suspicion was followed up and thoroughly investigated and considered by the Internal Audit service. This demonstrates that the Council does have controls in place to detect risks.

Though the Council was exposed to risk regarding the lack of IT/digital safeguarding when providing Contractor A with access, there is evidence of the Information Security Framework being signed by Contractor A at the commencement of his engagement with the Council. The Council therefore followed due process in this regard. Moreover, Contractor A was not given entirely unfettered access to the Council's whole system. He was only provided to certain information, there therefore must have been some consideration to limiting his access, though we do not find that this was sufficient.

Another important mitigating factor in this case surrounds the action taken by Council leadership on the receipt of more complete information. Firstly, it was requested that IT to remove systems access for Contractor A once the leadership was made aware of the findings of Internal Audit's report. On receipt of the report a formal investigation under the conduct policy into the work of personnel in the Commercial Services directorate was triggered. Subsequently two officers left the employment of the Council. This demonstrates some decisive action taken by the Council in light of Internal Audit's findings.

Detailed findings

Council management of the case

There are some elements of the Council's management of this case that undermine confidence in the Council's risk assessment and management. Firstly, the decision not to interview Contractor A. We understand from senior management that the decision not to interview Contractor A related to the conclusion that the findings in the report related to Council failings rather than the determination of malicious intent on the part of Contractor A as an individual. However, it would have been useful to understand and document Contractor A's motivations surrounding the decisions to email himself the large volume of emails, in particular, the email with the quality criteria. Furthermore, Contractor A breached the IT Security Framework and subsequently had his access to the system revoked, which likely warrants a conversation with the Council. The decision not to inform Contractor A of Internal Audit's report or to interview Contractor A in the review meant that he only became cognizant of the report through informal means.

The Council should have hedged against this risk by informing Contractor A himself and using the appropriate formal governance processes to do so. This demonstrates a lack of appreciation of due procedure on the Council's part and an underappreciation of the reputational risk of Contractor A not being properly risk managed.

Secondly, the decision not to suspend engagement with Contractor A while the review was underway. Contractor A continued to work for the Council during the Internal Audit review and continues to work for the Council at the time of writing. We have been advised that the rationale behind this decision surrounded the overarching need to complete the projects Contractor A was involved in. The previously mentioned resource constraints in the Commercial Services directorate meant that competent personnel with knowledge of the Council were difficult to come by and the removal of Contractor A would have significantly impacted the delivery of the projects.

While there is some reasonable judgement in this line of argument, at the time it was not clear whether the conclusion of the Internal Audit report would have found evidence of malicious intent on the part of Contractor A. There is also evidence that Contractor A continued to bid for and win new work from the Council during the period of the Internal Audit review. If any malicious intent had been reported, the decision not to suspend Contractor A pending review would have demonstrated a lapse in judgement on the part of the Council.

A further risk: Contractor B

Following the implementation of internal audit's recommendations, in June 2023, the Council informed us of another contractor identified with similar characteristics to Contractor A and Company A.

One of the internal audit recommendations surrounded the Council ascertaining whether any similar contractor engagements were in operation at the Council. An individual in the finance department flagged a particular contractor who had been performing work for the Council for an extended period (since 2017) and also had access to the Council network. Contractor B provided ad-hoc design and project management services for the Council relating to highways. They sat under the same director who onboarded Contractor A. Contractor B had access to the Commercial Services directorate offices and was provided and was provided a Council email address. The activity of the contractor was flagged to senior leadership when it became known that this contractor was providing quotes to other directorates in the Council. We have confirmed with the Council that Contractor B was not able to access any commercially sensitive information that would have provided them with an unfair advantage in bidding/quoting for work at the Council outside the Commercial Services directorate. We have confirmed that Contractor B was also not bidding for work. This therefore differentiates Contractor B from the activity of Contractor A and the risk level is lower than that of A.

Detailed findings

Since 2017, Contractor B has received over £310k from the Council. The sums are almost wholly made up of numerous smaller contracts that fell below the threshold required for contracts to go out to tender. The contractor was therefore able to secure the works via waivers or direct awards. There are, however, similar characteristics to Contractor A in terms of the lack of appropriate documentation and governance processes followed.

The Council acted swiftly and revoked Contractor B's access to the Council system.

The activity of Contractor B also came to light due to the implementation of the internal audit recommendations. This suggests that there has already been productive consequences to the actioning of the recommendations of internal audit. The Council are therefore on their way to identifying issues and improving governance and efficiency arrangements to ensure instances such as Contractor A do not reoccur.

As we have already identified a significant weakness in the Council's arrangements, the discovery of Contractor B does not change the conclusion that there is deficiency in the Council's arrangements. The identification of Contractor B serves to emphasise that the Council has weakness in these areas and implementation of our recommendations alongside the recommendations from internal audit, will enable the Council to develop and improve to avoid the recurrence of poor management of contractors.

Contractor B was only doing works for Chorley Council and all spend associated with Contractor B relates to Chorley Council. Contractor B, however, had access to the same documentation as Contractor A and therefore did have access to files relating to South Ribble. The governance risk for South Ribble, therefore remains the same, though the risk relating to spend mitigates the financial risk.

Conclusion

Audit consideration	Key Findings
1. Has the nature and extent of the issues identified by internal audit been fully explored and understood by the Council?	<p>We do not have assurance that the nature and extent of the issues identified by Internal Audit have been fully explored or understood by the Council.</p> <p>The Council have accepted the findings of the Internal Audit report and have agreed actions against the five key findings in the report. Finding no. 3 asked Procurement to consider providing a training to all Directors and Heads of Service surrounding proper procurement practices. This training was delivered on 27th and 28th February. The rest of the agreed actions are still in progress.</p> <p>The first finding and agreed management action asks Directors to consider their engagements with all contractors working in their areas. Internal audit effectively ask for the Council to consider whether there could be any other similar cases to Contractor A present in other areas of the Council. The conclusion of this exercise was that Directors could not find evidence of any similar cases in their work streams.</p> <p>We do not find the mechanism by which the Council has sought assurance of this risk existing elsewhere in the Council to be adequate or effective. The Council have asked Directors to voluntarily submit whether they believe there could be similar cases within their Directorate. The issue with voluntary submission is that it relies on Director's being able to see the control deficiencies within their own Directorate. As the demonstrated during the Internal Audit review, Directors are not always able to detect or objectively assess their own Directorates. The lever by which the Council have therefore satisfied themselves that this risk is no longer present in the Council's control environment is not effective.</p> <p>Furthermore, this action and finding focuses on the risk of Contractor A as the contractor operating on behalf the Council. It ignores the risks present in his engagement within the Council (including the conflicts of interest, the poor procurement processes, the IT security framework breaches and the breaches of the finance processes). The action therefore fails to address the range of risks found in the Internal Audit report conclusions.</p> <p>The status of the procurement function and the cultural and structural issues in the Commercial Services directorate are still present in the Council at the time of writing. These weaknesses contributed to the findings of the Internal Audit report. The lack of progress in these areas suggests that the nature and extent of the issues identified have not been fully explored nor understood by the Council. Our recommendations seek to provide greater assurance that the issues relating to procurement and the Commercial Services directorate are addressed.</p> <p>The decision not to speak to Contractor A at an earlier stage (discussions did not take place until February 2023) implies a lack of full exploration of the issues on behalf of the Council. By deciding not to speak to Contractor A earlier, the Council failed to fully explore and understand the weaknesses highlighted in the Internal Audit report. Gaining a greater understanding of Contractor A's thought process would have allowed the Council to assess whether the risk in his attainment of unfair advantage in the procurement process actually materialized as it would have indicated whether there was a deliberate attempt to subvert due process or an unintentional naivety to his decision to email himself documentation relating to tenders/contracts.</p>

Conclusion

Audit consideration	Key Findings
2. Has effective action been taken to strengthen the weaknesses in controls and governance that contributed to the issues found in the report?	<p>The Council has accepted the findings of the Internal Audit report and agreed actions to remedy the weaknesses identified. There is also evidence of decisive action being taken following the review which has been documented in the report.</p> <p>Our view however, is that the Internal Audit recommendations do not go far enough in terms of coverage of the issues identified in the report. We have issued recommendations to aim to seek full coverage of the issues identified.</p> <p>We do not have assurance that effective action has been taken to strengthen the weaknesses in controls and governance that contributed to the issues found in the Internal Audit report. Several of the weaknesses found in the report remain in the Council's control environment. Our recommendations seek to provide greater assurance that the weaknesses identified will be addressed.</p>
3. Were arrangements to manage the exit of the identified senior managers adequate to ensure value for money?	<p>We have assurance that the arrangements to manage the exit of senior managers were adequate to ensure value for money. The Council commissioned the services of North West Employers association to perform the investigations.</p> <p>In the decisions made, the Council considered the cost of potential legal advice should any challenge be made to the Council's decisions. The Executive Member Decision concluded that the overall cost of a negotiated settlement would likely be less than any protracted formal HR processes.</p> <p>We are satisfied that the Council's decision making process surrounding these two exit packages represents adequate arrangements for the achievement of value for money.</p>

Key recommendation 1 (KR1) - Governance



ICT/digital safeguards

Recommendation 1

When onboarding a contractor onto the Council network and providing system access, due consideration must be given to the extent of the access required in order for that individual to effectively perform their role. The Directorate responsible for the contractor and IT must communicate to ensure that appropriate system access is provided, tailored to the specific needs of that individual. Each contractor added to the Council system must be treated on a case-by-case basis with consideration of the risks involved. This consideration must also be appropriately documented and an audit trail maintained to ensure appropriate risk management.

Consideration of system access must also be regularly reviewed throughout periods of employment. The circumstances of that individual's employment or engagement with the Council can change during their time with the organisation. Their system access must therefore be reviewed regularly in order to re-consider the risks.

Why/impact

See section on ICT/digital safeguards.

Management Comments

The council continues to recognise the challenges identified in both its internal audit review and the additional work undertaken by its external auditor. We continue to work to strengthen internal controls in response.

The council has already put in place the following:

- changes to the process to create access to the council network to explicitly identify the type of access being granted (for example, contractor, permanent employee, fixed term employee)
- the agreement of a Director, documenting necessity and extent of access required.
- introduction of a regular check of network access for contractors.

The council has further work planned:

- the introduction by December 2023 of a new file saving system making use of Microsoft Teams, which enables controlled external access to individual files, which will have a number of advantages:
 - o limiting the requirement for external users to have network access
 - o providing greater ability to provide limited access to files
 - o allow easy reporting of external access to council systems and files
 - o greater integration with staff attendance management system iTrent for automated reporting on starters and leavers

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendation 2 (KR2) - Governance



Council governance

Recommendation 2

The Council must consider what organizational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances operate effectively to provide the assurance that officers acting improperly will be detected by Council systems. This will ensure appropriate protection for both officers and the organisation.

The Council also need to ensure they carry out a more comprehensive exercise to assess whether any similar cases to that identified in relation to Contractor A exist elsewhere in the Council.

Why/impact

See section on Council governance.

Management Comments

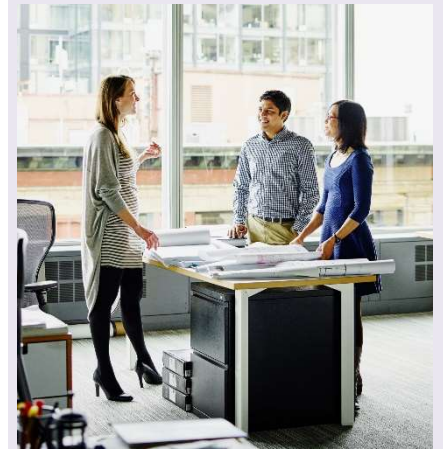
The council has already put in place the following:

- strengthened the approach to the corporate governance group, with Heads of Service attending on a rotation basis to discuss in detail their operation of internal controls and issues, with regular reports from the group to the Leadership Team.
- strengthened role of procurement function.

Further work is underway:

Review of all creditors over £50k in the last three years, to identify and verify: procurement route, contractual arrangements, network access and ongoing relationship. This will be completed by the end of September 2023

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendation 3 (KR3) – Improving Economy, Efficiency and Effectiveness



Procurement

Recommendation 3

The Council must ensure that employees are aware of the requirements of the Contract Procedure Rules. This includes:

- The requirement to activate formal extensions of contracts if further engagement with a contractor is desired
- The need for fee proposals at the commencement of works in order to ensure that there is sufficient control and knowledge of costs from the outset of a project
- The requirement to document how contracts are awarded/procured
- Compliance with the 2015 Public Contracts Regulations, including the need to publish award notices on Contracts Finder for all awards above £25,000
- Compliance with the Transparency Code, including the need to publish details for all contracts in excess of £5,000 on the Transparency Register

The Council must ensure that in the submission of an invitation to quote/tender, the bidders are privy to the same information and no one bidder is able to secure an unfair advantage from another. If there is evidence that one bidder would be able to secure an unfair advantage, this bidder must be prohibited from submitting a bid for that particular contract.

Why/impact

See section on procurement processes.

Management Comments

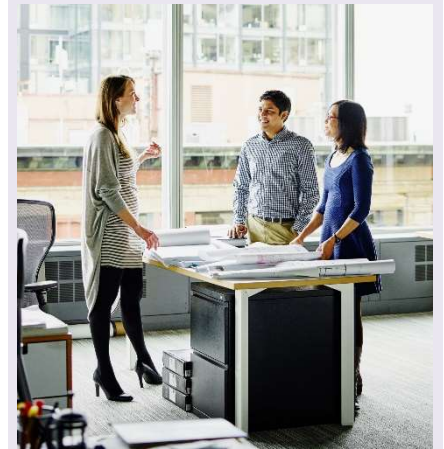
The council has already put in place the following:

- governance Essentials Training for the Leadership Team, including procurements and the CPRs
- training for officers undertaking procurement
- strengthened the waiver request process, to ensure that it is consistently documented and well recognised.
- procurement proactively owning the completion of Contracts Finder and Transparency Register

Further work is planned:

- with increased capacity in the procurement team (including external advice and support from Blackburn Council) and reviewing the delivery model of the procurement team, the council will develop a business partnering approach to procurement, providing greater support and oversight through the process. This will be implemented through 2023/24.
- implementation of a new electronic form to manage the waiver approval process. To be completed by October 2023

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendation 4 (KR4) - Improving Economy, Efficiency and Effectiveness



Procurement

Recommendation 4

The Council must consider the role of the procurement function in respect of the whole organisation. The Council should outline the responsibilities of procurement versus service line leads in contract management and procurement and document this delineation in its Constitution. The Council must seek to renew and enhance its procurement strategy. The Council must prioritise the appropriate resourcing of its procurement function, particularly with respect to the shared services arrangement. The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements. The Council must seek to appropriately train the employees in the procurement function. There was evidence of a limited advisory and supervisory function of the procurement team throughout this review. The procurement function is also lacking in appropriately qualified personnel. The procurement team must be aware of their responsibilities as an advisory and monitoring function and must perform this role effectively.

Why/impact

See section on the role of procurement.

Management Comments

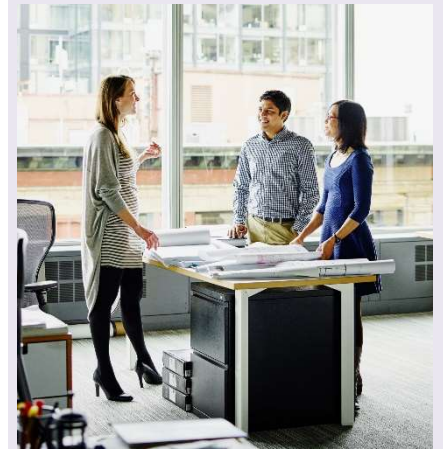
The council has already put in place the following:

- strengthened procurement function, with a new, qualified Senior Procurement Officer in post from 19 June 2023, and the continuation of external advice and support from Blackburn Council.

Further work is planned:

- refresh of the Procurement Strategy. To be completed by October 2023
- review of the contract procedures rules and associated changes to the constitution. To be completed by November 2023.
- review the procurement function to include capacity and team deliver model. To be completed by December 2023.

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement recommendation (IR1) – Financial Sustainability



Finance processes

Recommendation 1

The Council must ensure that council staff are aware of the Financial Procedure Rules. The Council should consider implementing internal controls within the finance system that would prevent staff from raising purchase orders retrospectively or upon receipt of invoices.

Why/impact

See section on finance processes.

Management Comments

Finance team members were aware of the FPR's in these circumstances. Management recognise the difficult situation that arises where work has been undertaken at the direction of the council but the financial management process has not been followed. Moving forward it is intended to document any departure from FPR's and for this to be authorised by s151 Officer



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Agenda Item 4

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendation (IR2) - Governance



Council governance

Recommendation 2

The Council must ensure that contractors and new starters are administered a formal induction into the Council and that this is appropriately documented so as to maintain an audit trail.

Why/impact

There was no evidence of one senior officer Contractor A being provided with a formal induction onto Council systems. A formal induction would have reduced the likelihood of their failure to apply appropriate Council processes and procedures in this case.

Management Comments

The council has already put in place the following:

- all new members of staff undertake formal induction through the Learning Hub, which maintains records of the completion.
- processes to ensure that employing services undertake an induction of all contractors

Further work is planned:

- to introduce a e-learning module tailored to contractors. To be completed by September 2023.



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The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendation (IR3) - Governance



Finance processes

Recommendation 3

The internal audit report was triggered by a routine check on the creditors system indicating the submission of a large volume of invoices to one company which did not have the appropriate procurement documents in place.

We recommend that the Council implement an automated interface between the creditors system and the procurement system so as to forgo the need for manual input and upload of the necessary procurement documentation for a supplier.

In lieu of the incorporation of an automated interface, the Council should perform a manual exercise to match all suppliers listed on the creditors system with corresponding contracts on the Contracts Register. This exercise would demonstrate if any of the Council's suppliers are operating outside of contract.

Why/impact

At present, the Council cannot provide assurance that there are not other contractors operating as Contractor A did. Fulfilment of this recommendation would provide assurance to Members that all contractors that are invoicing the Council are also accounted for by procurement.

Management Comments

The council has already put in place the following

- completion of the initial spot-check of contractors, which was been considered in this report.
- review of creditor spend over the last three years to identify any issues or anomalies.

Further work is underway:

- review of all creditors over £50k in the last three years, to identify and verify: procurement route, contractual arrangements, network access and ongoing relationship. This will be completed by the end of September 2023
- the Council are in the process of procuring a new Finance System. The proposed interface is accepted as an improvement if it can be included in the development



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The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendation (IR4) - Governance



Conflicts of interest

Recommendation 4

The Council must ensure that an individual's role in the Council or with the Council is appropriately defined from the commencement of their engagement with the Council so as to protect the organisation from risks of conflicts of interest.

The Council must ensure that declarations of interest are properly obtained.

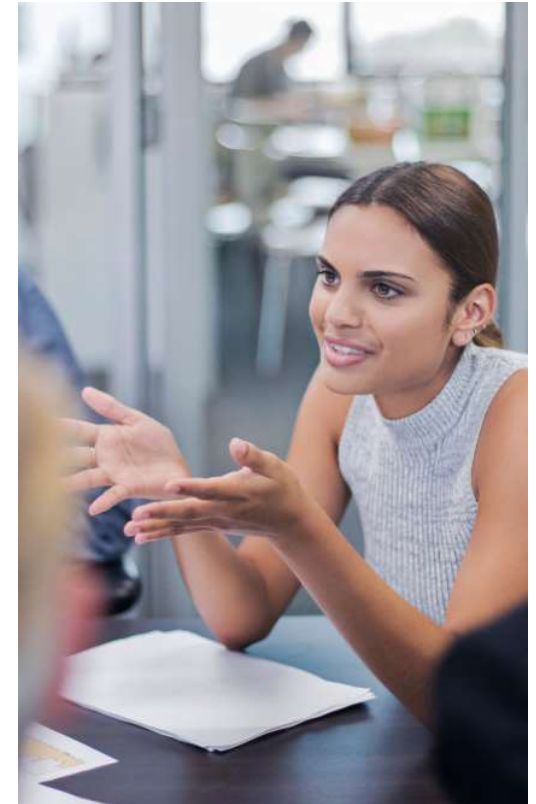
Why/impact

See section on conflicts of interest.

Management Comments

The council has already put in place the following

- changes to the new starter process to ensure that each individual's role is clearly defined and to highlight any potential conflicts of interest and securing declarations of interest.



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The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendation (IR5) - Governance



Council management of the case

Recommendation 5 The Council must appropriately consider risk in the aftermath of reports, such as the Commercial Services internal audit report. The decision not to interview or inform Contractor A resulted in him finding out through informal means. This contributed to stress on the part of Contractor A and put the Council at risk of reputational damage.

The Council consideration of risk is also relevant to the decision not to suspend Contractor A pending investigation. Should the internal audit review have found that there was malicious intent on the part of Contractor A and that the Council had suspicion of this but did not suspend his engagement with the Council pending investigation, this would have put the Council at risk of significant reputational damage.

Why/impact See section on Council management of the case.

Management Comments We agree with this recommendation and will ensure the recording of the consideration of the risks considered in deciding next steps following reports such as this.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendation (IR6) – Improving Economy, Efficiency and Effectiveness



Commercial services directorate

Recommendation 6

The Council must ensure that when major changes to organizational structure are considered (for example, a shared services arrangement) that sufficient impact assessments are performed to provide assurance of the appropriate consideration of risk. This process must be documented.

Why/impact

The Council was not able to provide sufficient evidence that there was due consideration of the impact of the shared services arrangements on the responsibilities of employees within the Commercial Services directorate with regard to increasing the resource.

Management Comments

Assessment of risks in major changes to organisational structures will be included within the council's change policy and in the reports to committees when those changes are considered. This has already commenced and is in place.



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The range of recommendations that external auditors can make is explained in Appendix C

PART 2

Value for Money work

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial planning and performance

The Medium Term Financial Strategy (MTFS) 2021/22 to 2023/24 sets out the financial challenges facing the Council over the medium-term. This includes assumptions in relation to significant reductions in central government funding, including New Homes Bonus, and a reduction in retained business rates income following the outcome of the government's business rates review.

The Council's MTFS highlights the reduction of its New Homes Bonus allocation in each of the two year period starting 2021/22 (funding forecast is £1.49m) and 2022/23 (funding forecast is £0.55m). The MTFS details the challenge and uncertainty the council faces in bridging the budget gap over the three year period. The large reduction in funding in 2021/22 (as well as the reduction in New Homes Bonus) included the forecast outcome of the Fair Funding and Business Rates Review. As a result of the latter the MTFS forecast a significant reduction in retained business rates income, £400k 2022/23 and £800k by 2023/24.

Business rates retention – The Council benefits from the Lancashire Business Rates Pool by approximately £1.6m – although this continued in 2021-22 – due to the uncertainty around business rates retention this is assumed to reduce to nil by 2023-24

The Council's budget planning and MTFS is based on assumptions around income and expenditure growth over the forecast period to 2023-24 which, as far as possible, includes the known changes to the key funding and expenditure drivers for example. The MTFS sets out the range of key assumptions these include:

- Renegotiation of Contracts
- Productivity Savings
- Income Generation
- Inflationary assumptions.

Pay awards and pensions contributions uplift have been incorporated over the period. General assumptions include forecasts for Council Tax base growth based on housebuilding projections and Council tax increases of 2%

Overall the Council funding from all sources is forecast to fall from £13.9m in 2016-17 to £12.3m in 2023-24. In order to achieve a balanced budget, Council officers developed savings and income opportunities across existing transformation themes, as reflected in the Council's Corporate Strategy 2019/20 to 2021/22 (approved by Full Council 19 November 2019), resulting in proposals to meet the budget gap

Financial sustainability (cont.)

Financial planning and performance (cont.)

The Council is forecasting a cumulative budget deficit over the period to 2023-24 of £2.6m which is to be partially offset by Council tax increases however, significant additional efficiency savings and increased income is required to reduce the deficit. This is expected to be delivered from the Council's transformation program.

Efficiency savings are projected, mainly from the shared service project £508k by 2023-24 and £150k per annum from staffing/vacancies.

The MTFS is reviewed annually as part of the annual budget setting process. The Council is currently updating inflation associated costs and sources of funding - some grants received are linked to indexation as part of the 2022/23 budget setting process. No changes are made to the in year budget, with overspends managed by underspends, reserves, contingency built into the budget. Sensitivity analysis and scenario planning is undertaken as part of the development of the budget however, this analysis is not formally presented to members. We have made an improvement recommendation relating to this on page 13 of this report.

However, given current levels of inflation reported (since April 2022) by the Office for Budget Responsibility (OBR), are significantly higher than the assumed levels set out in the MTFS, a formal mid-year review of MTFS, including a review of original assumptions assisted the accuracy of forecasts. The budget is developed each year considering cost pressures which are clearly outlined within the budget. This is particularly important for services, where an analysis of information from historic and more recent trends are used to estimate the demand for services. The Council also considers changes in the demography of the population.

Cash forecasts have been prepared for a two year period covering the 2021/22 and 2022/23 financial years. Cash flows are highlighted as actual, known or known but estimated. The forecasts include both planned and unplanned/unusual items for the main sources of income and expenditure for each month. The cash flow forecasts indicate that the Council's cash balance will remain positive throughout 2021/22 and 2022/23.

We are satisfied that, the Council has adequate financial planning arrangements and there is evidence this being scrutinised at Cabinet, Full Council and Governance Committee. Financial risks in the Council are being managed. The Council's corporate risk register includes a risk around delivering a financially sustainable Council, which demonstrates that the Council is aware of the significant challenges it continues to face and is actively managing its financial health.



Financial sustainability (cont.)

Fundings challenges and savings

The MTFS 2020-2023 sets out a savings target of £1.183m for the 3 year period. Since 2014/15, the Council has delivered £4.179m of savings and the budget for 2021/22 included a savings target of £190k, comprising £150k from managed reduction of the staffing establishment and £40k from the expansion of Shared Services bringing economies of scale.

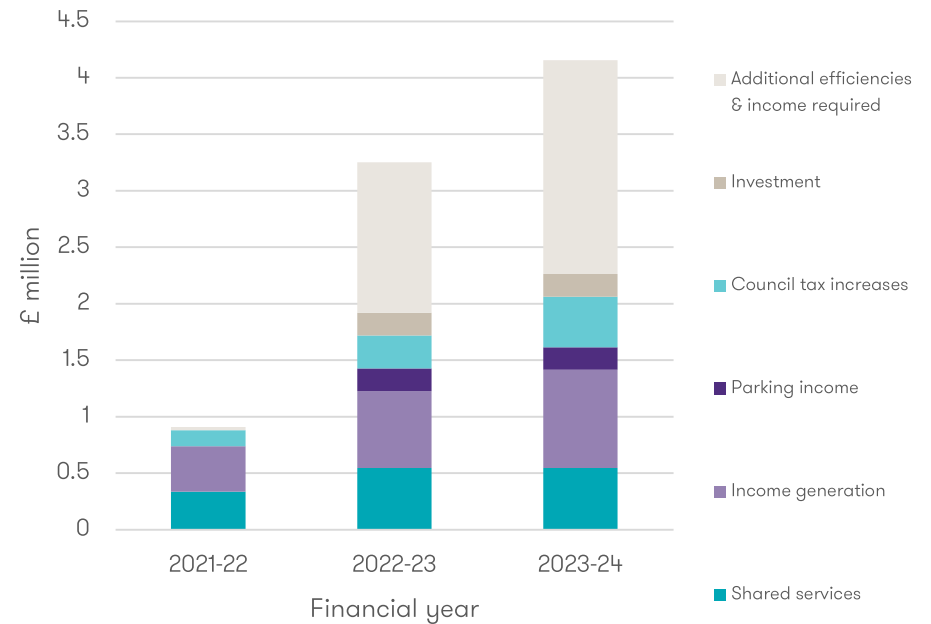
The staffing establishment savings of £150k were achieved and these have been removed from the relevant directorate staffing base budgets as follows; Communities £25k, Customer and Digital £75k and Policy and Governance £50k. Due to the time taken for the implementation of the ICT and Customer Services reviews, there has been some slippage in the delivery of the £40k savings target for Shared Services. The savings achieved have been allocated in full as part of the budget setting process for 2022/23; in 2021/22 the shortfall was covered by in year underspends.

The MTFS highlights the budget gap will not be bridged by savings driven by the shared services programme alone, further efficiencies and income generation will be required in 2022-23 and 2023-24. The Council is pursuing a strategy of investment within the borough which generates additional income. The financial plans include a target of further additional annual income of £0.4m from such investments by 2023-24.

A summary of proposals for prioritisation for bridging the budget gap was presented to the Senior Leadership Team in November 2021 (highlighted in chart on the right (figure 1). These proposals were rated on the impact on service delivery and savings return. This was accompanied by the expected future cost pressures over the medium term. Subsequently the Council has taken action to identify and narrow the budget gap with a focus on achieving savings, primarily through efficiencies driven by the ongoing transformation programme, but also by generating additional investment income.

Section 25 report of the council Chief Finance Officer to Council highlighted the strategy will seek to bridge the gap by 2023/24 through generating efficiency savings and additional income of £4.168m. The council expects to generate £827k per annum net income from its recent investments by 2023/24.

Figure 1
Bridging the budget deficit



Financial sustainability (cont.)

Managing reserves position

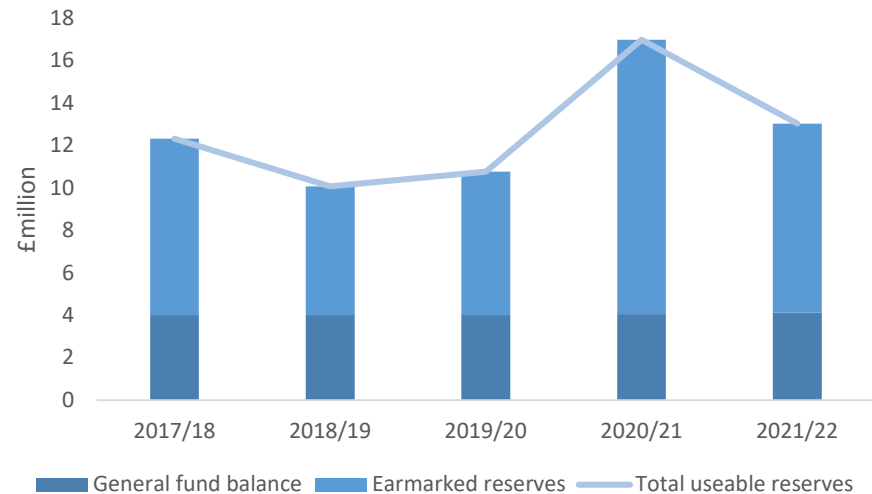
The MTFS highlights the Council's reserves form an important role in managing uncertainty. In particular, the MTFS outlines key areas of uncertainty identified, these are summarised below:

- **Pay award:** an average 2% pay increase per year has been assumed for 2020/21 to 2022/23. However, it is clear from recent inflationary pay rises that this may need to be revised. Every 1% increase in pay results in over £100k of additional expenditure to the Council.
- **Pensions:** as part of a triennial pension review the Lancashire County Pension Fund announced an increase in employer pension contributions for 2020/21 to 2022/23 to meet the future costs of the scheme.
- **Brexit:** the potential risks to the Council include changes to interest rates and inflation, a slowdown in the local economy affecting rental and property values and income from retained business rates.

The Council was able to maintain its general fund reserve fund balance in 2021/22, this provides a buffer in case the Council fails to deliver savings or future uncertainties arise in the medium term. The useable reserves balance at end of 2021/22 was £13.031m which represented 88.6% of 2021/22 net revenue expenditure (£14.699m).

The graph on the right summarises an analysis of the useable reserves for the period 2017/18 to 2021/22, it is important that the Council continues to focus on the delivery of savings and strengthening its usable reserves.

Figure 2
Useable Reserves



Financial sustainability (cont.)

Supporting the sustainable delivery of services

Our review of MTFS indicated that the Council has an understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. Financial planning reports which underlie the budget and MTFS highlight all spend is directed towards the delivery of core services and achievement of Council Plan priorities.

The Council approved the Capital Strategy in February 2021.

The Capital Strategy (2020/21 to 2023/24) identifies the following outcomes which the capital programme is designed to achieve:

- maintaining existing assets and statutory compliance - covers all assets;
- as an enabler to achieve Council Plan outcomes (transforming services and organisation);
- enterprise driven investment to deliver savings or generate sustainable income streams"

These outcomes link to the Council's Plan. The strategy also reflects external factors such as UK government policy, partnerships and relevant Council strategies such as those relating Property Asset Management.

The Capital Strategy includes planned capital expenditure over the four year period from 2019/20-2022/23 by year. There is scope for the narrative of the MTFS section 'Capital Programme', to provide more detail on how some of the projects link to Corporate Plan and Capital Strategy outcomes. The capital budget supports the delivery of strategic priorities. To strengthen the link between strategic priorities and the capital programme, the capital programme could be categorised by outcomes identified within the Council Plan. This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme. We have made an improvement recommendation on page 14 of this report relating to this. The financing of the capital programme is included in the MFTS and is supported by the Treasury Management Statement, also approved by Council..

Capital project proposals are considered by the Senior Leadership Team (SLT) prior to submission to the Council Executive Cabinet for formal approval. The SLT and Executive Cabinet Groups consider how each proposal will help to deliver corporate priorities, savings and the revenue implications of the project (e.g. on-going maintenance costs). Previous VfM reports have identified a lack of adequate business case information presented to support capital schemes. To address this the Council has recently introduced improved due diligence processes to support the business case development (and subsequent review and approval) of proposed capital schemes.

Our work found no evidence of major capital investment being postponed or cancelled. There was slippage in the expected expenditure in capital budget during 2021/22 with capital spending being 83.4% of budget. Examples of re-profiled capital projects include Alker Lane (£3.608m expenditure re-profiled to 2022/23) and Play, Recreation and Open Space where the majority of the budget (£2.280m) has been re-profiled to occur, quarter three in 2022/23.

Managing risks to financial resilience

Risks are incorporated into the MTFS which identifies the key risks to delivery of the MTFS and the actions to mitigate each risk identified. The potential impact of changes of various estimates and assumptions is discussed with Cabinet as part of the briefing process in the development of the budget. However, this is not formally reported to members. As mentioned previously in this report, we have raised an improvement recommendation that the Council introduce formal reporting to Cabinet members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFS. This will provide transparency on the sector wide uncertainties the Council is subject to and the potential impact of these on its financial sustainability. This is reflected in the improvement recommendation on page 13.

There is no evidence of the Council failing to update financial plans to reflect changes in government policy. Where required, the Council has sufficient provisions in place to take into account the impact of legal and regulatory proceedings.

Financial sustainability (cont.)

Alignment with workforce, capital, investment and other operational planning

The MTFS is the framework for how the Council plans to use its financial resources to deliver activity on the Council's outcomes. The MTFS is one of three key strategic documents: linking the MTFS to the Council Plan and the strategic Transformation Strategy 2021/24 (includes workforce plan). The Council is clear that the MTFS is fully integrated with the Council Plan acting as the foundation to deliver the vision and priorities within it.

The Workforce Plan provides an organisation wide framework to develop the workforce to achieve the Council's priorities. Given historic challenges in recruitment in a number of services, particularly specialist areas such as finance, it is important that the Council continue to engage in proactive workforce planning and develops its own people through investment in apprenticeships and other on the job training/professional qualifications.

The Council has a Treasury Management Strategy, which sets out the balance between optimising return and mitigating risk. The Council follows the CIPFA Code of Practice on Treasury Management, which sets out the reporting requirements, to ensure best practice is followed. The minimum reporting requirements are for three main reports incorporate estimates and actuals. An annual Treasury Strategy (prepared in advance of the new financial year) covers the annual Treasury and Investment Strategies, the Treasury and Capital Prudential Indicators and the Minimum Revenue, a Provision Policy Statement and a mid-year Strategy Review to update Members with the progress of the capital programme, amending prudential indicators as necessary, and whether the Treasury Strategy is still appropriate or requires revision. The Council continues to adopt a low risk investment strategy.

Our work has not identified instances of services developing plans in silo or producing conflicting or competing elements. Budgetary information reported in year is consistent with the financial position as reflected in the financial statements.

Conclusion

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council, but we have made improvement recommendations to formally report to Cabinet Members on sensitivity analysis and scenario planning and strengthen the link between strategic priorities and the capital programme. These are set out on pages 34 and 35 of this report.



Improvement recommendation



Financial sustainability

Recommendation	Following up on a previous recommendation made in the 2020/21 AAR report we recommend the Council should refine formal reporting to Cabinet Members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFS.
Why/impact	Regular review of MTFS assumptions will help to ensure ongoing accurate financial forecasting and allow for appropriate timely action. Reporting a mid-year review of MTFS assumptions, sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improved the accuracy of forecasting.
Auditor judgement	Greater agility on financial management is required given current financial uncertainties, regular review and challenge of MTFS assumptions to help ensure financial forecasts remain accurate.
Summary findings	Sensitivity analysis and scenario planning is undertaken as part of the development of the budget, however this analysis is not formally presented to members.
Management comment	Progress has been made in line with 20/21 AAR as information regarding the sensitivity of assumptions and estimates, and the resulting financial impact of each of these, was provided to the Portfolio Exchange meeting of Executive Cabinet Members as part of the 23/24 Budget Setting process (December 2022). This will be developed further in 23/24 with a mid-year review of the MTFS, to include a review of the MTFS assumptions, sensitivity analysis and scenario planning, the product of which will then be presented to Members.



The range of recommendations that external auditors can make is explained in Appendix A.

Improvement recommendation



Financial sustainability

Recommendation	To strengthen the link between strategic priorities and the capital programme, the capital programme could be categorised by outcomes identified within the Council Plan.
Why/impact	This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme.
Auditor judgement	Clear detailed links highlighting how planned capital projects link to the Council Plan would enable members make informed decisions and challenge Capital Strategy assumptions to help ensure forecasts remain accurate.
Summary findings	The Capital Strategy includes planned capital expenditure over the four year period from 2019/20-2022/23 by year. The narrative of the MTFS section 'Capital Programme', provides insufficient details on how some of the projects link to Council Plan and Capital Strategy outcomes.
Management comment	All schemes within the Capital Programme are now reported under the Corporate Priority to which they relate.



The range of recommendations that external auditors can make is explained in Appendix A.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Risk Register is clearly set out, with a risk owner, concise description and key controls to manage the risk. The Council has a Risk Management Policy, Process Guide and Toolkit to ensure consistent scoring of risks across all Directorates. The Council provides appropriate training on risk management. All corporate risks at the end of Quarter 4 (2021/22) have been reviewed by the Risk Owners Group, Directorate Management Teams, Corporate Management Team and considered at Cabinet Briefing.

The Council's risk appetite was unchanged throughout 2021/22. The Quarter 4 risks and direction of travel outlined in the cabinet briefing report provide assurance that the Council's current Risk Management arrangements are responsive and effective. The impacts of the pandemic can be seen throughout the Corporate Risk Register. The risk review document highlighted 19 high risks and seven medium risks. The highest scoring risks continue to focus on delivering Council priorities, including large scale investment projects, partnership working, and cyber security. There are significant challenges facing the organisation within the coming year, including budgetary pressures, internal and external change, and the ever-increasing demand for services.

The 2021/22 Risk Refresh (July 2021) showed that COVID-19 would continue to dominate the refreshed risk register, impacting the delivery of services either directly or indirectly. Three additional risks have been included:

- Incidents affecting ICT service delivery / business continuity
- Cyber-attacks that impact business continuity and delivery
- Failure to optimise new options for income generation (This was previously accounted for under 'failure to optimise new ways of working', however, due to the importance of income generation in order to operate sustainably, this has been separated into a separate risk.)

The Corporate Performance Monitoring Report highlighted overall performance of key projects was good with ten (71%) rated as green, three (21%) classified as not started, and one (7%) rated as amber. Action plans for those projects rated amber were set out within the report. Performance of the Corporate Strategy indicators and key service delivery measures is closely monitored, with 71% of Corporate Strategy measures and 67% of key service delivery measures performing on or above target or within the 5% threshold.

Governance (cont.)

Monitoring and assessing risk (cont.)

The Strategic Risk Register is a 'live' register and is therefore continually reviewed. The Council uses The GRACE (Governance, Risk Assessment and Control Evaluation) system within the Council to enable the completion of risk registers at all levels including the Strategic Risk Register, Service Risk Registers, projects, key procurements, partnerships and processes. The risk refresh highlighted the majority of risk levels remained static as mitigating actions have ensured that the risks have been effectively managed and have therefore not been escalated, with only three risk scores having been altered: one increased residual score, an increased inherent score, and a decreased residual score, whilst 13 risks' scores remained unchanged. Corporate risks continue to be reviewed on a quarterly basis by the Risk Owners themselves, Directorate Management Teams (DMTs), Corporate Management Team (CMT), the Leader and Deputy Leader of the Council, informal Cabinet Briefing and formally by the Governance Committee. Deep dive reviews of the critical risks were presented to the Governance Committee throughout the year, allowing for more detailed and effective oversight and challenge.

There is scope to increase the Council's risk maturity and duality of risk by formally considering opportunities to exploit as well as a focus on downside risks, in risk registers. We have included an improvement recommendation on page 39.

Assurance over the effective operation of internal controls

In developing its 2021/22 Annual Governance Statement (AGS), the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance. Our review of minutes of Governance Committee, Cabinet and Council highlighted periodic monitoring and reviews are being reported appropriately and governance issues are addressed. The Annual Governance Statement (AGS) was prepared in accordance with the guidance set out in CIPFA Bulletin 10 – Closure of the 2021/22 Financial Statements.

The Council has adopted a three line of defence model in which the responsibility for implementing a strong system of governance and internal control within the Council lies primarily with the Shared Senior Management Team. Directors and Service Leads provide the first line of defence as they need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change.

Compliance and support functions provide the second line of defence, with the third line being provided by Internal Audit and other inspection agencies. Internal Audit do not repeat the work of the second line, rather it is considered during reviews to assess the level of reliability which can be placed upon it.

Internal Audit

The Council's Internal Audit services are provided by an in-house team. Despite the impacts of Covid-19, sufficient work was carried out across the Council's 5 directorates to support the opinion given. The Service lead for audit & risk (Head of Internal Audit) provided "adequate assurance" over the effectiveness of the Council's arrangements for governance, risk management and internal control. Based on the 26 completed reviews 92% received a substantial or adequate rating. Only two audit reviews in 2021/22 were given lowest assurance level of 'limited', relating to GDPR data sharing arrangements and Primrose Gardens a council property.

The annual report also makes reference to Internal Audit's Quality Assurance and Improvement Programme, which ensures work is compliant with PSIAS. Internal Audit had its last formal External Quality Assessment against the Public Sector Internal Audit Standards in May 2018. There is evidence that all actions have been addressed. In line with the PSIAS 5 year cycle, Internal Audit is due an external review in 2023.

Counter Fraud

Anti-fraud and corruption polices are kept under close review. The Council also participates in the National Fraud Initiative (NFI). The Council has a Whistleblowing policy and a Speak Up statement, which complements the Whistleblowing policy and encourage individuals to raise issues of concern in a safe environment. The Council has not been subject to any material frauds in year.

Governance (cont.)

Leadership, decision making and committee effectiveness

The Council operates a Leader and Cabinet form of executive. In addition, there are scrutiny committees which hold the Cabinet to account. The work of the Council's committees is governed by the constitution which is regularly reviewed and updated (latest version updated January 2020). The Council's AGS sets out how the Council operates, how decisions are made and the policies and are followed to ensure that these are efficient, transparent and accountable to local people.

The Governance Committee undertakes oversight of audit activity and considers the level of assurance it can give over the Council's corporate governance arrangements within the defined regulatory framework.

Our attendance at the Governance Committee and review of other committee minutes indicates that key strategic decisions are subject to challenge and are supported by detailed papers. The Governance Committee provides appropriate challenge of financial and non-financial items.

The Council maintains a record of member interests and gifts and hospitality on its website. The constitution is also clear that members must ensure that their register of interests is kept up-to-date and updates should be notified within 28 days of becoming aware of any new interest.

We acknowledge that the Council does an annual exercise to inform the related party disclosures in the financial statements, although this is not integrated into other central or departmental registers.

Budgetary control and monitoring

The Council has an established process for developing its annual budget and MTFS. The development of the budget commences with the rolling forward of the Budget Model from the prior year.

The model is updated to reflect any known permanent changes to funding, including new grants, latest Council Tax base data and Business Rates. Assumptions are reviewed, including inflation rates and Council Tax base and updated to reflect new savings proposals, existing savings delivery, service pressures, changes to sources of funding announced within the spending review, changes to service fees and charges and the Council tax base.

The Council's MTFS covers a three year period. A report was brought to Council outlined the approach to updating the MTFS. This report contained the financial planning assumptions for the period of the new three-year MTFS set within this Council Plan.

The potential impact of changes of various estimates and assumptions is discussed with the full Council as part of the briefing process in the development of the budget. However, this is not formally reported to members. As already mentioned, the Council could introduce formal reporting to members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFS. This would assist with providing transparency on the sector wide uncertainties the Council is subject to and the potential impact of these on its financial sustainability. This is included in an improvement recommendation on page 34 of this report.

The Finance Department engages at least monthly with budget holders. There is monitoring at a service, directorate and corporate level. There is stringent in year oversight of the budget at a high level, with quarterly budget monitoring reports taken to Cabinet. These reports include outturn against budget and explanations for underspend/ overspends against budget at a directorate level. Any proposed revisions to the budget are also communicated through this report. There is clear reporting on the forecast outturn and the impact on useable reserves. An update is also provided against the Capital Programme, with revisions also communicated. We are satisfied that timely and accurate financial monitoring information is provided to budget holders.

Financial monitoring reports and minutes demonstrate that in year forecast variances are being monitored and reviewed promptly, and budget holders are being held to account for delivering to budget. This was clearly reported via in year monitoring and year end outturn report. Cabinet on 16 June 2022, the year end Financial Outturn and Corporate Performance Reports were approved by Cabinet. We are satisfied that appropriate arrangements were put in place to allow for challenge and scrutiny of these key documents. The original approved net budget for 2021/22 was £14.496m. After taking account of adjustments to General Grants and transfers to and from reserves, the revised net budget 2021/22 is £14.688m (before year-end transfers to reserves) at 31st March 2022. The provisional outturn position is £14.474m which is an underspend of (£0.224m). This position is after recommended transfers to earmarked reserves of £0.341m.

Conclusion

See our risk based work in relation to significant weaknesses identified. Other than these issues we have not identified any further significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. There are good systems in place for oversight of the budget. We have made an improvement recommendation in the financial sustainability section on page 34 which is also applicable here.

Improvement recommendation

Governance

Recommendation	There is scope to increase the Council's risk maturity and duality of risk by formally considering opportunities to exploit as well as a focus on downside risks, in risk registers.
Why/impact	Regular formal review helps to ensure potential opportunities are captured and can be acted upon quickly where appropriate.
Auditor judgement	Greater agility around risk management and the identification of opportunities as well as risks can help to mitigate emerging issues.
Summary findings	This is a good practice recommendation for the Council to consider.
Management comment	The council will update its approach to risk management to more formally record considerations of opportunities. This will be completed by December 2023.



The range of recommendations that external auditors can make is explained in Appendix A.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council revised its Corporate Performance Framework in October 2020 following a review to produce a shared performance framework as part of the shared services strategy with South Ribble Council.

Performance is reported and monitored by the Scrutiny Budget and Performance Panel and Cabinet on a quarterly basis. The performance report is a detailed scorecard of KPIs aligned to the Council's strategic objectives includes baselined targets, year-on-year comparison and indication of the forecast for performance i.e. on track, under performing etc. whilst the scorecard is only a summary of performance there is narrative information which may be useful to stakeholders, particularly where the Council is underperforming against a metric.

There are multiple levels of review before reports are published for committee meetings to ensure confidence in the accuracy of data. Pre-briefs are held with Cabinet prior to formal meetings to ensure reports are understood.

In 2021/22, internal audit conducted an interview report to assess the progress made to embed the Corporate Performance Framework since its implementation (in October 2020). It was evident that the Council had undertaken significant work. However, an adequate performance rating was ascribed because there were still some performance indicators being incorrectly reported.

The Council's performance outturn for 2021/22 was reported in the Quarter 4 Performance Monitoring Report. This report was presented to the Scrutiny Performance committee and Cabinet in June 2022. The report includes a description of actions that the Council undertook and 24 performance measures which provide an indication of how well the Council is performing against its priorities. The overall performance of key projects is good with 71% rated as green, 21% classified as not started, and one 7% rated as amber. Action plans for those projects rated amber are set out within the report. Performance of the Corporate Strategy indicators and key service delivery measures continues to be closely monitored, with 71% of Corporate Strategy measures and 67% of key service delivery measures performing on or above target or within the 5% threshold.

There was some slippage against these measures given the impacts of the pandemic throughout the 2021/22 financial year. However, as the Council returns to business as usual it is important that performance continues to be monitored closely and there is a renewed focus on delivery of Council Plan priorities.

Improving economy, efficiency and effectiveness (cont.)

Stakeholder Engagement

The Council stakeholder consultation process (with diverse key stakeholder groups including the public) included a consultation question format which set out the key principles of the budget proposals along with a summary of the current context and challenges facing the council in future years. Budget Proposals included:

- Capital investments of over £56m in corporate priority projects to drive forward ambitions for economic growth and ensure that Chorley is an even more attractive place to live, work and invest
- Increase the council tax by 1.99% which equates to 7 pence per week.
- Continued investment with over £1m revenue to deliver corporate strategy priorities with investment in high quality recreation grounds, health services and business development.
- Deliver sustainable public services through transforming the organisation, taking a more commercial approach and working closely with partners to integrate services.

Respondents were asked to review the proposals and provide their comments in response to the budget, with the intention of gaining more qualitative feedback to gain a deeper insight into views and opinions.

Consultation on the 2021/22 budget was undertaken between 22 January to the 14 February 2021. The consultation was publicised through a structured digital campaign including 16,916 emails delivered to residents signed up to receive communications via the My Account feature on the council website. The emails received 8,672 unique views (51.3%) and 1,410 link clicks (8.3%) both of which shows an increased take up compared to the prior year. Awareness was also raised through traditional media outlets and local networks. Residents were also invited to share their views and comments using social media. The formal consultation received approx. 300 qualitative responses through an open question format, via an online survey which provided detailed feedback.

Council business is conducted in public unless legislation deems it appropriate for it to be considered in private. The Council carries out a wide range of public consultation and key decisions of officers are published on the Council's website.

Benchmarking

The Council uses the CIPFA resilience index to assess the levels of financial resilience in comparison to neighbouring authorities. The tool uses 8 indicators to evaluate district councils across different factors affecting such as sustainability of reserves, interest payable, gross debt, fees and charges to expenditure ratio, council tax requirement etc. The CIPFA resilience index report demonstrates that the Council is performing strongly and above the average across most of the indicators other than fees and charges ratio which is consistent with the relatively low revenues from fees and charges.

The Council also undertook a review of compliance with the CIPFA Financial Management code in May 2021 which reported a positive assessment of compliance identifying areas for improvement. The areas assessed as "amber" risk have clear actions assigned, appropriate owners and agreed to address the issues.

The Council actions for review of Capital projects includes that all business cases for spending plans are reviewed by the Senior Management Team (SMT) before passing through to Members where decision-making is taken by the relevant Committee or Full Council, in line with the Constitution and Financial Regulations. Also there is requirement for any 'commercial' investments to be monitored through the Capital Strategy and Budget Monitoring updates.

Improving economy, efficiency and effectiveness (cont.)

Capital Programme monitoring

The Council is part way through a transformation programme (2021-2024) to have shared services [joint senior management team including Chief Executive, finance, corporate governance and legal, communications and visitor economy, transformation and partnerships, ICT Services and customer services] with South Ribble Council. The programme is detailed in the Transformation Strategy which sets out the overarching actions and strategies the Council will progress against each key driver of change to deliver the strategy vision. Review of papers highlighted appropriate oversight of the programme from the Shared Service Joint Committee and Cabinet. At each phase of the program there is consideration of the risks and benefits of each stream of work and the benefits realized are tracked and reported.

Partnerships

The Council's Constitution sets out how it engages with stakeholders and partners through joint working arrangements, partnership boards (for example the Chorley, South Ribble & West Lancashire Children's Partnership Board and Chorley Liaison Committee) and annual appointments to external organisations. Our review of meeting papers highlighted this engagement and partnership working is a key theme throughout the Council strategy.

Delivering sustainable public services through partnership working is a key area of the Council strategy and this is further supported by the Community Strategy and Actions Plans which are focused on recover from the impacts of the pandemic.

Procurement

See separate risk based work on procurement pages 7 to 26.

Conclusion

See our risk based work in relation to significant weaknesses identified. Other than these issues we have not identified any further significant weakness in the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.



Opinion on the financial statements



Audit opinion on the financial statements

We gave unqualified audit reports on the Council and Group financial statements on 10 January 2023, in line with the statutory deadline.

Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report and Annual Governance Statement.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report which was reported to the Council's Audit and Assurance Committee on 23 November 2022.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We completed our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Follow-up of previous recommendations

Recommendation	Year raised	Progress to date	Addressed?	Further action?
<p>Financial Sustainability</p> <p>Refine formal reporting to members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFS</p> <p>MTFS assumptions are updated annually as part of the annual budget setting process.</p> <p>Sensitivity analysis and scenario planning is undertaken as part of the development of the budget however, analysis is not formally presented to members.</p>	2020-21	The MTFS is reviewed annually as part of the annual budget setting process. The Council is currently updating inflation associated costs and sources of funding as part of the 2022/23 budget setting process. Changes are made to the in year budget, with overspends managed by underspends, reserve virements and use of contingencies built into the budget. Given recent rises to inflation and other macro-economic uncertainty, assumptions within the MTFS are regularly reviewed as part of the budget monitoring process and the development of the Medium Term Financial Strategy.	Partly	Updated improvement recommendation Made on page 34.

Follow-up of previous recommendations

Recommendation	Year raised	Progress to date	Addressed?	Further action?
<p>Financial Sustainability</p> <p>Provide a clear distinction between discretionary and non-discretionary spending in the budgetary information to members and ensure it is published on the website.</p> <p>No distinction is made in the financial information reported to TCWG between statutory and discretionary spending.</p>	2020-21	The council does not separately code or distinguish between discretionary and non-discretionary expenditure when entering individual transactions on the financial system; to do so would be very difficult for example whilst some council services are statutory, there are elements of both discretionary and non-discretionary expenditure incurred as part of the day to day delivery of these services. In response to the recommendation however, where possible where costs can be distinguished between the two headings, this will be identified in the budgetary information reported to Members and published, the default being that expenditure will be categorised as 'discretionary'.	Yes	N/A

Follow-up of previous recommendations

Recommendation	Year raised	Progress to date	Addressed?	Further action?
<p>Governance</p> <p>We recommend that the Council ensures the Internal Audit function is adequately resourced to deliver the work programme and continue to monitor delivery of the audit plan going forward to ensure sufficient assurance is obtained to support the annual opinion</p>	2020-21	Council has appropriate Internal Audit arrangements in place. Internal Audit services are provided by an in-house team. The annual Internal Audit report makes reference to Internal Audit's Quality Assurance and Improvement Programme, which ensures work is compliant with PSIAS. Internal Audit had its last formal External Quality Assessment against the Public Sector Internal Audit Standards in May 2018. There is evidence that all actions have been addressed. In line with the PSIAS 5 year cycle, Internal Audit is due an external review in 2023.	Yes	N/A

Appendices

Appendix A - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	14,15 & 20

Appendix B - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public issue report under Schedule 7 of the Local Audit and Accountability Act 2014.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to court under Schedule 28 of the Local Audit and Accountability Act 2014.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice under Section 31 of the Local Audit and Accountability Act 2014.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Appendix C - Responsibilities of the Council



Role of the Director of Finance:

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

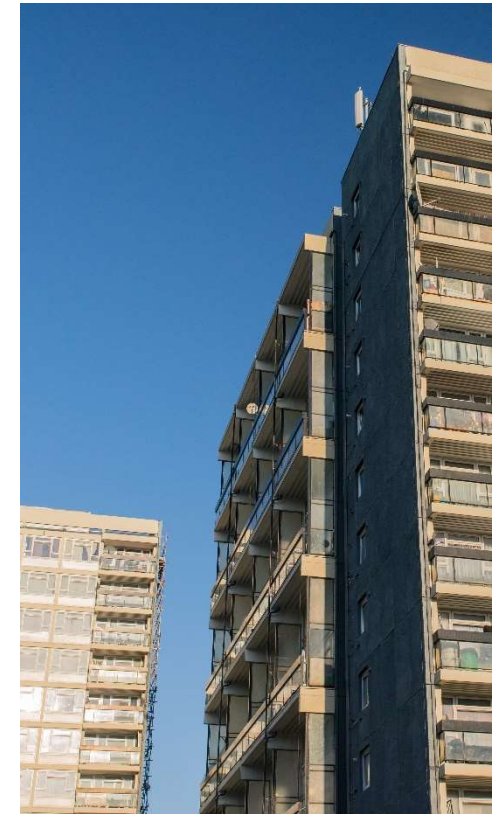
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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





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