

# **BOROUGH OF BARROW-IN-FURNESS**

## **AUDIT COMMITTEE**

Meeting, Thursday, 14th December, 2017  
at 2.00 p.m. (Committee Room No. 4)

### **A G E N D A**

#### **PART ONE**

1. To note any items which the Chairman considers to be of an urgent nature.
2. To receive notice from Members who may wish to move any delegated matter non-delegated and which will be decided by a majority of Members present and voting at the meeting.

#### 3 **Admission of Public and Press**

To consider whether the public and press should be excluded from the meeting during consideration of any of the items on the agenda.

#### 4 Declarations of Interest

To receive declarations by Members and/or co-optees of interests in respect of items on this Agenda.

Members are reminded that, in accordance with the revised Code of Conduct, they are required to declare any disclosable pecuniary interests or other registrable interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Members may however, also decide, in the interests of clarity and transparency, to declare at this point in the meeting, any such disclosable pecuniary interests which they have already declared in the Register, as well as any other registrable or other interests.

- 5 To confirm the Minutes of the meeting held on 21st September, 2017 (copy attached) (Pages 1-15).
6. Apologies for Absence/Attendance of Substitute Members.

#### **FOR DECISION**

- (D) 7. Internal Audit Final Reports (Pages 16-17).
- (D) 8. Internal Audit Progress Report (Page 18).

- (D) 9. Monitoring Internal Audit Reports (Pages 19-24).
- (D) 10. Risk Management (Page 25).
- (D) 11. Annual Audit Letter (Page 26).
- (D) 12. External Audit Update (Page 27).
- (D) 13. Barrow Playing Field User Association (Page 28).
- (D) 14. Audit Committee Update (Pages 29-32).

**NOTE (D) - Delegated  
(R) - For Referral to Council**

**Membership of Committee**

Councillors:- Burns (Chair)  
Seward (Vice-Chair)  
Blezard  
Callister  
Gawne  
Murray

**For queries regarding this agenda, please contact:**

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## **AUDIT COMMITTEE**

Meeting Thursday 21st September, 2017  
at 2.00 p.m.

PRESENT:- Councillors Burns (Chairman), Barlow, Gawne, Murray and Sweeney.

Officers Present:- Susan Roberts (Director of Resources), Keith Jackson (Internal Audit Manager), John Penfold (Corporate Support Manager), Kim Fisher (Contracts and Procurement Officer), Brooke Parsons (Corporate Support Assistant), Sharron Rushton (Democratic Services Officer) and Sandra Kemsley (Democratic Services Officer).

Also present were Gareth Kelly and Neil Krajewski from Grant Thornton (from Minute No. 17 - 22).

### **17 – Minutes**

The Minutes of the meeting held on 27th July, 2017 were taken as read and confirmed.

### **18 – Apologies for Absence/Attendance of Substitute Members**

Apologies for absence had been received from Councillors Callister and Seward.

Councillors Sweeney and Barlow had attended as substitutes for Councillors Callister and Seward respectively for this meeting only.

### **19 – Statement of Accounts**

The Director of Resources reported that the Statement of Accounts summarised the transactions for 2016-2017 and the Council's financial position as at 31st March, 2017. The Statement of Accounts was intended to provide readers with clear information about the Council's finances and use of resources over the year.

The audited Statement of Accounts was attached as an appendix to the report. A further report on the agenda requested Members approval of the audited Statement of Accounts.

The audited Statement of Accounts incorporated revisions from the audit and must be approved by the Audit Committee by 30th September, 2017 and be published alongside the Annual Governance Statement.

The report was an executive summary of the audited Narrative Report, which was itself a summary of the Statement of Accounts.

## Finances

The financial headlines of the 2016-2017 accounts were:

- The General Fund was balanced with a net contribution from reserves, from underspends and additional income of £518k including £300k set aside to meet the business rate retention scheme volatility and £272k for the MMI Scheme of Arrangement.
- The Housing Revenue Account used £102k of the accumulated balance to fund housing maintenance commitments and reduced the voluntary provision to repay debt for 2016-2017.
- The authority's share of the Collection Fund for 2016-2017 was a surplus of £109k for Council Tax and a deficit of £584k for Business Rates; these were distributed to the General Fund in 2017-2018 and 2018-2019 along with the preceptors' proportions.
- The authority's net worth had increased from £97.4m to £107.9m which was largely attributable to the increase in asset values, the increase in the pension liability and reductions from the increase in short term investments.
- Usable reserves had increased slightly by £0.4m:
  - Revenue reserves had reduced by £1.1m
  - Capital reserves had increased by £1.5m
- Capital investment of £3.7m was delivered through the capital programme for 2016-2017.

## General Fund

The General Fund budget was revised through the year from £10m to £10.7m to incorporate additional revenue financing for projects from Public Health England £483k, Coastal Communities Fund £174k and other grants £52k.

The actual outturn for 2016-2017 had no impact on the General Fund balance.

- The actual outturn before transferring the agreed Medium Term Financial Plan support was a surplus of £184k.
- During 2016-2017, two reserve reallocations were agreed but at year-end the contributing reserves were not sufficient and revenue was required to top-up the reserves to the required levels:
  - £300k business rate income volatility reserve;
  - £273k MMI Scheme of Arrangement levy reserve.
- This resulted in a deficit of £389k which was reduced to £55k after transferring the budgeted £334k of Medium Term Financial Plan support.

- The year-end net deficit of £55k was funded from the budget contingency reserve as a one-off item leaving a balanced General Fund.

To analyse the result against the divisional reporting lines, in-year movements with reserves had been taken into account; the comparison was made between the £184k surplus and the £334k budgeted deficit; a positive variance of £518k.

Recurring savings and reductions were taken into account when setting the budget and budget revisions through the year. The items contained within the table below would be assessed during 2017-2018 and where appropriate budgets revised; there were items that would not recur or may not recur and those budgets were reviewed over a number of years rather than adjusted immediately (trend analysis).

Some of the items would have already been incorporated in the 2017-2018 budget setting process.

<b>Division £000</b>	<b>Additional Income</b>	<b>Reduced Expenditure</b>	<b>Total</b>
Resources	(86)	32	(54)
Community Services	84	166	250
Regeneration and Built Environment	100	77	177
Central Services	3	79	82
Corporate Amounts	(2)	7	5
<b><i>Cross-Service Items</i></b>			
Support Service recharges	58	-	58
	<b>157</b>	<b>361</b>	<b>518</b>

The division based presentation of financial information now appeared in the Comprehensive Income and Expenditure Statement with formal Notes containing Expenditure and Funding Analysis information.

Further details of the variances within the divisional headings were presented to the Executive Committee on 26th July, 2017. The services within the divisions were set out on Page 88 of the Statement of Accounts.

### Housing Revenue Account

The original Housing Revenue Account budget was approved by Full Council on 1st March, 2016, as a balanced budget; the income matching the expenditure forecast. The revised budget was approved by Full Council on 21st March, 2017, with an estimated contribution from the fund balance of £151k.

The actual outturn for the Housing Revenue Account was a deficit charged to the fund balance of £102k in respect of planned maintenance. The voluntary provision to repay debt was £611k lower than the budget expectation as the repairs and maintenance expenditure was higher during 2016-2017 due to catching up with works delayed from the adverse winter in 2015.

The Council held the following Housing Revenue Account reserve and balance during 2016-2017:

<b>1 April 2016 £000</b>		<b>31 March 2017 £000</b>
1,545	Housing Revenue Account balance	1,443
1,416	Major repairs reserve	1,194
<b>2,961</b>		<b>2,637</b>

### Collection Fund

The Collection Fund balance was a net deficit of £0.6m at 31st March, 2017, made up of a surplus on Council Tax of £0.8m and a deficit on NNDR of £1.4m.

The Council Tax surplus was payable across 2017-2018 and 2018-2019 to Cumbria County Council, the Police and Crime Commissioner for Cumbria and the General Fund £109k; split against their 2017-2018 precepts.

The NNDR deficit would be recovered from Central Government, Cumbria County Council and the General Fund £584k in 2017-2018 and 2018-2019. This was dealt with by precepting arrangements.

The accumulated amounts held at 31st March, 2017, for the Borough Council were:

- £252k surplus for Council Tax
- £806k deficit for the Business Rate retention scheme.

The Council also carried a provision for its share of lodged business rate appeals of £526k and an income volatility reserve of £1.8m; this covered the £0.8m deficit at 31st March, 2017.

### Capital Programme

During 2016-2017 the authority's capital expenditure was £3.7m:

<b>Investment</b>	<b>Expenditure</b>	<b>Source</b>	<b>Financing</b>
Public sector housing	£2.6m	Major repairs reserve	£2.6m
Private sector housing	£0.4m	Reserves/revenue	£0.3m
Public buildings/properties	£0.2m	Capital grants	£0.6m
Other public assets	£0.5m	Capital receipts	£0.2m
<b>Programme</b>	<b>£3.7m</b>	<b>Financing</b>	<b>£3.7m</b>

The capital receipts received in the year and unapplied at 31st March, 2017, total £1.9m, the capital grants received in the year and unapplied at 31st March, 2017, total £2.5m; these were included in the future years of the Capital Programme.

## General Fund Financial Reserves

The General Fund reserves reduced by £1.004m during 2016-2017:

<b>1 April 2016 £000</b>		<b>31 March 2017 £000</b>
2,300	General Fund balance	2,300
2,870	Medium Term Financial Plan support	1,535
681	Transformation reserve	733
1,228	Renewals reserve	1,832
100	Insurance reserve	91
593	Losses reserve	866
2,783	Budget contingency reserve	2,792
160	Apprentices reserve	106
119	Welfare support reserve	260
652	Ring-fenced properties	-
843	Earmarked revenue grants	810
<b>12,329</b>		<b>11,325</b>

A net £2.327m of reserves were used as planned and in accordance with matters reported to the Executive Committee for 2016-2017, £0.805m of additional one-off income was added to reserves at year-end in line with previous practice and was held against specific services, and an unplanned £0.518m was moved to reserves at year-end; the £0.518m being the variance from the General Fund outturn.

There were a number of transfers between reserves agreed during 2016-2017; £1m from the Medium Term Financial Plan support to the Business Rate income volatility reserve (held within the budget contingency reserve); £715k from the ring-fenced properties reserve to move the properties into the Council's control and ongoing maintenance of the properties; £198k from the Housing Benefit subsidy reserve (held within the budget contingency reserve) to the welfare support reserve to pay for the agreed grants to external funded bodies.

Further details of the movements in reserves were presented to the Executive Committee on 26th July, 2017.

### Provisions

As part of the Business Rates Retention Scheme, the Council was liable for successful appeals against Business Rates in the proportionate share; 50% Central Government, 40% for this Council and 10% for Cumbria County Council. The Council had a provision for unsettled appeals and at 31st March, 2017, this was £526k.

The Council also held a provision for the 25% levy on ongoing MMI claims under the scheme of arrangement of £9k; and a provision for the costs of previous early retirements of £10k at 31st March, 2017.

These provisions and the bad debt provisions had been assessed at 31st March, 2017 and were sufficient to cover the potential liabilities of the Council.

### Service Performance

The service performance indicators were split between those with an indicative target and those that were reported as outputs:

2015-2016	Indicator	Target	2016-2017
16.2 days	Average time to process:	18 days	13.2 days
16.2 days	• new housing benefit claims	18 days	13.5 days
4.9 days	• new council tax support claims	7 days	4.3 days
5.3 days	• changes to housing benefit claims	6 days	4.0 days
	• changes to council tax support claims		
95.2%	Percentage of local land charges searches completed in 5 working days	95.0%	94.4%
96.85%	Percentage collected:	96.6%	96.27%
98.73%	• council tax	98.4%	98.67%
	• business rates		
61.5%	Percentage of planning applications processed:	60.0%	75.5%
60.0%	• major application in 13 weeks	65.0%	66.5%
78.0%	• minor applications in 8 weeks	80.0%	82.8%
	• other application in 8 weeks		

2015-2016	Output	2016-2017	Change
31.5%	Average household recycling	29.7%	Reduced 1.8%
11	Right to buy sales	33	Increased 22
67	Disabled facilities grants awarded	70	Increased 3
£621k	Income from pay and display ticket sales	£599k	Reduced £22k
56k	Dock Museum visitor numbers	61k	Increased 5k
279k	Park Leisure Centre activity numbers	291k	Increased 12k
58k	The Forum ticket sales	64k	Increased 6k
9.76 days	Average days of sickness per employee	9.66 days	Improved

## Corporate Objectives

The achievements for 2016-2017 were shown against each theme in the table below:

<b>Housing: choice and quality</b>	<b>Regeneration &amp; Public Realm: enhancement</b>
<ul style="list-style-type: none"> <li>• Refurbishment of flats on Barrow Island continues with 155 completed so far; funded by Cluster of Empty Homes grant.</li> <li>• Renewal Area completion included in the Capital Programme.</li> <li>• Council-owned dwellings all meet decent homes standard.</li> <li>• Local Plan pre-submission draft completed.</li> <li>• Funding secured to support victims of domestic abuse.</li> <li>• The Well project for recovery facilities in the Borough continues to be implemented; funded by Public Health England.</li> </ul>	<ul style="list-style-type: none"> <li>• Cavendish Park Pavilion and Community Room project with the Barrow Island Community Sports Trust commenced; funded by Big Lottery and WREN.</li> <li>• Funding secured for linking the Landscapes and Communities of Barrow project with Art Gene; Coastal Communities Fund.</li> <li>• Site access for Marina Village works commenced; funded by the Local Enterprise Partnership.</li> <li>• Barrow Island maritime streets public realm works commenced; Cluster of Empty Homes grant.</li> <li>• Toddler Park play area installed in Vickerstown Park with local Residents Association; funded by WREN.</li> </ul>
<b>Local Economy: long term security</b>	<b>Service Delivery: value for money</b>
<ul style="list-style-type: none"> <li>• Supply chain project including skills and employment continuing with Furness Economic Development Forum; funded by the Coastal Communities Fund.</li> <li>• Barrow Business Improvement District up and running.</li> <li>• Support for low income families delivered through council tax support, discretionary housing payments and disabled facilities grants.</li> <li>• Support for welfare benefits delivered in partnership with Barrow Citizens Advice Bureau and Barrow and District Disability Association.</li> </ul>	<ul style="list-style-type: none"> <li>• 2016-2020 Budget Strategy agreed.</li> <li>• Council website rebranded and updated; now mobile friendly.</li> <li>• Customer interactions and customer experience continue to be reviewed.</li> <li>• Annual staff performance appraisals established and biennial staff survey established.</li> <li>• HR and Payroll System implemented with payroll in-house from April 2017.</li> <li>• Equality and Diversity Strategy approved.</li> </ul>

The Narrative report also included a note of the actions taken by the Council to ensure future financial resilience including the implementation of the Budget Strategy, Medium Term Financial Planning, and the refreshed Council Plan with associated documents that were aligned to the core priorities and objectives.

The Council's workforce consisted of 243 posts, 188 in the General Fund and 55 in the Housing Revenue Account. The posts were worked by 200.41 full time equivalents, 150.76 in the General Fund and 49.65 in the Housing Revenue Account. The Workforce Strategy presented the Council's plans and ambitions for its staff.

### Sections within the Statement of Accounts

The other sections within the Statement of Accounts were the same as previous years and contained further information on the financial performance for 2016-2017:

- Statement of Responsibilities – for the Council and for the Director of Resources.
- Movement in Reserves Statement – summary of the movement during the year for usable and unusable reserves and the statutory adjustments required arriving at the Council Tax requirement (dwelling rent setting for the Housing Revenue Account).
- Comprehensive Income and Expenditure Statement – summary of all services' accounting costs for the year.
- Balance Sheet – the value of the Council's assets and liabilities at the year end, the net assets were matched by the reserves held at the year end.
- Cash Flow Statement – the changes in the Council's cash and cash equivalents for the year, these were split between operating, investing and financing activities.
- Notes to support the main accounting statements.
- The Housing Revenue Account and supporting notes.
- The Collection Fund and supporting notes (Council Tax and Business Rates).

The Committee thanked the Director of Resources, the Finance Team, Internal Audit and the External Audit Team for the hard work involved in completing the Statement of Accounts.

RESOLVED:- To receive the Statement of Accounts for 2016-2017.

### **20 – Annual Governance Statement**

The Corporate Support Manager provided Members with an updated Annual Governance Statement for 2016/2017.

The Council had responsibility for ensuring that Council business was conducted with the law and proper standards, and that public money was safeguarded and properly accounted for. Part of this governance process was the preparation and

publication of an Annual Governance Statement which was a self assessment of how effective the Council considered the governance arrangements to be.

The following members of staff were involved in preparing the Annual Governance Statement for 2016/17:

- Executive Director: Head of Paid Services
- Director of Resources: S151 Officer
- Assistant Director of Community Services
- Assistant Director of Regeneration and the Built Environment
- Assistant Director of Housing
- Members of the Governance Group
- Internal Audit Manager
- Democratic Services Manager (Monitoring Officer)
- Corporate Support Manager

The Annual Governance Statement was presented to this Committee in July and following discussions with the Auditor from Grant Thornton, the Head of Internal Audit and the Directors, the Statement had been revised so that it summarised the arrangements that the Council had in place. A copy was attached as an appendix to the report. Amendments had been made to the Significant Governance Control Issues section to reflect concerns raised in recent Internal Audit reports where the Audit Conclusion was Restricted Assurance. An action plan had been developed to address these concerns.

RESOLVED:- To receive the Annual Governance Statement.

## **21 – Audit Findings Report**

Gareth Kelly and Neil Krajewski attended the meeting to present the Audit Findings report to Members. The report highlighted any significant items arising from the audit process for the benefit of the Audit Committee.

The External Auditor was required to issue the report at the conclusion of the audit, noting any adjustments made to the draft accounts as published.

Subject to Members agreeing the Letter of Representation, the External Auditor would give an unqualified audit opinion.

The Audit was substantially completed although procedures were being finalised in the following areas:-

- Agreement of non-material disclosures to supporting information;
- Confirmation of the balance outstanding from an organisation in receipt of a material loan from the Council;
- Review of the final version of the Financial Statements;
- Obtaining and reviewing the management Letter of Representation;
- Review of the final versions of the Annual Governance Statement (AGS);
- Updating post balance sheet events review, to the date of the signing the opinion; and

- Providing the required submission to the National Audit Office in respect of the Council's Whole of Government Accounts (WGA) return.

The draft Financial Statement was received on 2nd June, 2017 which was almost a month ahead of the statutory deadline for this year and this demonstrated the Finance Team were able to achieve its goal of closing the Accounts faster. Next year the Accounts would need to be submitted for audit by 31st May, 2018, so this demonstrated good progress had been made. Good quality working papers supporting the accounts were provided in accordance with the agreed timetable.

The key messages arising from the audit of the Council's financial statements were:-

- The Council continued to produce good quality accounts which included all disclosures required by CIPFA and accounting standards;
- The Council had made good preparations for the change in the statutory timetable for the audit of the accounts; and
- Management needed to ensure that they had appropriate assurance over the adequacy of the accounting treatment for one-off or unusual items as the adjustments required this year all related items of this nature.

The External Auditors anticipated providing an unqualified audit opinion in respect of the Financial Statements.

The External Auditors Team had undertaken the audit in a professional and constructive manner and the Director Resources took the opportunity to thank the Audit Team.

RESOLVED:-

1. To receive the Audit Findings report; and
2. To request the Director of Resources organised a training session on understanding Council owned Housing Stock to Audit Committee Members.

## **22 – Approvals and Letter of Representation**

The Director of Resources submitted a report containing the Council's Letter of Representation and requested the approval for this to be signed in addition to signing and publishing the Statement of Accounts 2016-2017 and Annual Governance Statement 2016-2017.

### Statement of Accounts

After considering the Audit Findings Report for 2016-2017, Members were recommended to approve the audited Statement of Accounts for 2016-2017 and to authorise the Chairman of this Committee to sign on behalf of the Council.

The Statement of Accounts would be published on the Council's website once the audit certificate was provided.

### Annual Governance Statement

The same consideration applied to the Annual Governance Statement for 2016-2017 and Members were asked to authorise the Chairman of this Committee to sign on behalf of the Council.

The Statement of Accounts would be published on the Council's website once the audit certificate was provided.

### Letter of Representation

The purpose of this letter was to provide assurance to the External Auditors on relevant and significant matters relating to the financial year. The Letter of Representation was issued to disclose the material facts affecting the 2016-2017 transactions of the Council; the letter was attached as an appendix to the report. There were no significant issues to highlight.

Members were asked to consider and approve the Letter of Representation and authorise the Director of Resources and the Chairman of this Committee to sign on behalf of the Council.

### Acknowledgement

The Director of Resources thanked all of the Officers involved in both the finance and governance work carried out during 2016-2017 and during the audit process. Closing early this year was recognised as an achievement, but it had had impacts on technical matters and maintaining business as usual. There would need to be a debriefing process in order to eliminate some of the issues encountered before March 2018. The Director of Resources' concerns were around resources, including her own time, and how the condensed audit period may impact on business as usual. The Council would work through this with Grant Thornton who the Director of Resources thanked for working with the Council through the audit process.

### RESOLVED:-

1. To approve the audited accounts and authorise the Chairman of this Committee to sign the Statement of Accounts for 2016-2017 on behalf of the Council;
2. To approve the Annual Governance Statement for 2016-2017 and authorise the Chairman of this Committee to sign on behalf of the Council;
3. To approve the Letter of Representation and authorise the Director of Resources and the Chairman of this Committee to sign on behalf of the Council; and
4. To publish the Statement of Accounts and Annual Governance Statement on the Council's website.

### **23 –Internal Audit Final Reports**

The Director of Resources reported that Internal Audit had completed a number of audits in accordance with the approved Annual Plan. On completion, the final reports were presented to this Committee for consideration.

The Council's Internal Audit Manager had attended the meeting to present the reports to Members.

There had been one final report appended for consideration. The report included and its assurance level was as follows:-

17-01 Income Collection – Substantial Assurance

Members considered the report and raised their concerns with the Head of Internal Audit.

RESOLVED:- To note the Internal Audit Final Report.

### **24 – Internal Audit Progress Report**

The Director of Resources reported that the Internal Audit Progress report had been produced. The report set out the year to date progress against the agreed Internal Audit Annual Plan.

The Council's Internal Audit Manager attended the meeting to present the report to Members.

There had been no Priority One recommendations since the previous Audit Committee.

The report contained a statistical summary of the number of audit recommendations (13). It was noted that 13 recommendations had been Fully Accepted, each of the recommendations had been assigned a Priority Grade 1 – 3, 1 being major issues and 3 being minor issues. 3 had been rated Priority 1, 5 had been rated Priority 2 and 5 had been rated Priority 3.

RESOLVED:- That the report be received.

### **25 – Monitoring Internal Audit Reports**

The Corporate Support Manager submitted a report updating Members on the implementation of recommendations from Internal Audit reports where the Audit Conclusion was Restricted Assurance.

Internal Audit undertook reviews of Council's systems as defined in the Annual Audit Plan. The audit conclusion may be Restricted Assurance where significant weaknesses were identified. This had replaced monitoring of Priority 1 Recommendations because the Audit Conclusion may also be Restricted Assurance if there were a significant number of important issues.

At the last meeting of this Committee there were eight Audit Reports where the Audit Conclusion was Restricted Assurance.

Many of the issues were related to contracts and procurement and Management Board had agreed to the following actions to deliver improvements:

- The progress against individual contract checklists would be monitored electronically. This would be done by the Procurement Officer who could then intervene and provide advice if required; issues could be reported at the Contract Working Group;
- An informal support group consisting of Internal Audit and the Procurement Officer would be established so that if managers could not comply with procurement rules they could seek advice as to what steps to take and what documentation was required to support the deviation; this should be documented;
- The Purchasing Procedure would be amended so that all procurements over £25,000 required input from the Procurement Officer to ensure compliance with the Purchasing Guide. The chest should be used for procurement where appropriate; the Procurement Officer should decide on the appropriateness;
- The Purchasing Procedure would be amended to state that the threshold limits in the guide applied to orders in a 12 month period. This would identify incidents where multiple smaller orders for identical items were made to avoid compliance with the Purchasing Procedure threshold limits; this would be monitored by the Procurement Officer (an annual review);
- The Head of Internal Audit to be invited to Contract Working Group meetings on an exceptions basis to assist in resolving complex matters; and
- Senior managers would monitor the implementation of agreed recommendations through regular one to one meetings or the appraisal process.

Other issues related to previous recommendations not being implemented. The Corporate Support Manager would actively monitor the implementation of these recommendations and provide updates on an exceptions basis.

RESOLVED:- That the report be received.

## **26 – Risk Management**

The Corporate Support Manager attached as an appendix to his report the Risk Registers for 2017/18.

The Council's Risk Registers were reviewed by Management Board at their meeting on 30th August and the following amendments were made:

### Corporate Risk 2

Future subsidy of the Forum; now excluded from outsourcing had been added to the Potential Impact.

Council agreed full service and use of facility review to significantly reduce subsidy had been added to the Mitigating Actions.

### Corporate Risk 4

Sickness in Quarter 1 of 2017/18 had increased, largely related to long-term personal stress; the current counselling service offered by the Council would be reviewed had been added to the mitigating actions.

### Corporate Risk 8

Ongoing recruitment issues in Environmental Health may impact delivery times had been added to the mitigating actions.

### Operational Risk 1

The Mitigating Actions had been amended, the Forum had been removed from the risk and the outsourcing date to be 1st August, 2018.

### Operational Risk 7

A complete cremator replacement was planned for 2018/19 had been added to the Mitigating Actions.

RESOLVED:- To note the amendments.

## **27 – External Auditor Appointment from 2018-2019**

The Director of Resources reported that the Council had received a consultation invitation regarding the auditor appointment from 2018-2019 for five years.

Members would recall that the Council opted into the sector-led body for audit appointments and the PSAA was therefore responsible for procuring and appointing the Council's auditors. Grant Thornton won a contract through the procurement exercise and PSAA proposed that Grant Thornton was the appointed auditor for the Council.

The communication from PSAA set out the appointment details and requested a response to the appointment or objections by 5pm on 22nd September, 2017.

Members were recommended to raise any questions or representations with a view to agreeing that the Council had no objections to the proposed auditor appointment. It was proposed that the Director of Resources responded on behalf of the Council as satisfied with the proposed appointment of Grant Thornton.

This appointment did not include the work on the Housing Benefit Certification work which must be separately procured. There were discussions between the districts on joint procurement of this service and an update would be presented in due course.

RESOLVED:-

1. To agree that the Council had no objections to the proposed auditor appointment; and
2. To agree that the Director of Resources replied to the consultation on behalf of the Council.

The meeting closed at 3.12 p.m.

		<b>Part One</b>
<b>AUDIT COMMITTEE</b>		<b>(D) Agenda Item 7</b>
<b>Date of Meeting:</b>	<b>14th December, 2017</b>	
<b>Reporting Officer:</b>	<b>Head of Internal Audit</b>	
<p><b>Title: Internal Audit Final Report</b></p> <p><b>Summary and Conclusions:</b></p> <p>Internal Audit performs audits in accordance with the approved Internal Audit Annual Plan. This report includes the final audit reports issued since the last meeting of this Committee.</p> <p><b>Recommendations:</b></p> <p>To receive the Internal Audit final reports and raise any questions.</p>		

## **Report**

There are seven final reports for consideration by Members:

- 17-11 Treasury Management **Appendix 1**
- IT64 Internet and Email Controls **Appendix 2**
- IT65 IT General Controls **Appendix 3**
- CR91 Rawlinson Street **Appendix 4**
- CR107 High Level Electrical Repairs **Appendix 5**
- CR108 Electrical Repairs **Appendix 6**
- CR100 Cemetery and Crematorium **Appendix 7**

For information, the assurance and recommendations assigned to Internal Audit reports are as follows.

The assurance levels are:

**None** – control is weak, causing the system to be vulnerable to error and abuse.

**Restricted** – significant weaknesses have been identified in the system of control, which put the system objectives at risk.

**Substantial** – while there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.

**Unqualified** – there is an adequate system of control designed to achieve the system objectives.

The recommendation levels assigned to issues identified are:

Priority 1 – **major issues** that Internal Audit considers need to be brought to the attention of senior management.

Priority 2 – **important issues** which should be addressed by management in their areas of responsibility.

Priority 3 – **minor issues** which provide scope for operational improvement.

**Previous issues** – are issues identified in a previous audit report that have not been entirely implemented at the time of this latest audit.

#### Background Papers

Nil



**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 17-11**  
**TREASURY MANAGEMENT**

## Executive Summary

### Introduction

The Council defines Treasury Management as “the management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. Responsibility for treasury transactions is delegated to the Director of Resources, the Accountancy Services Manager and Financial Services Manager.

The Council’s treasury function is subject to a degree of self-regulation, a key element being the Treasury Management Strategy for 2017/18, which was approved by Council on 21 March 2017. This includes a framework of borrowing limits and prudential indicators designed to ensure that treasury and capital investment decisions are prudent and affordable. The Strategy is supplemented by detailed Treasury Management Practices which demonstrate compliance with the CIPFA Code of Practice for Treasury Management.

The Council currently has £39.5m of long-term borrowing from the Public Works Loan Board, with maturity dates between 2018 and 2053. No short-term loans have been taken out to date in 2017/18.

During 2017/18, surplus funds have been invested either directly with approved counterparties or in an interest bearing deposit account with the Council’s bankers, HSBC plc.

### Audit Objectives

An audit of this system forms part of the agreed 2017/18 programme. The audit objectives were to evaluate and test the internal controls over the Treasury Management process. The scope and objectives of the audit were discussed and agreed in advance with the Accountancy Services Manager.

Our audit coverage excludes any activities on the part of the Council involving the use of derivatives or complex financial instruments.

Audit work included a control evaluation of the system design, and testing the operation of key controls.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>One important issue</b>

### **Audit Conclusion – *Substantial Assurance***

As a result of the audit we have concluded that while there is a basically sound system of control, there are weaknesses, which may put the system objectives at risk.

We have made one Priority 2 recommendation which concerns the Accountancy Services Manager ensuring counterparty confirmation notices are received and retained for all investments placed on behalf of the Council.

### **Management Response**

We have received a constructive management response from the Accountancy Services Manager accepting the recommendation.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT IT 64**  
**Internet and Email Controls**

## Executive Summary

### Introduction

In accordance with the 2017/18 Audit Plan, a review has been undertaken of the current Internet and Email Controls.

A secure gateway between the Council's Network and the Internet is a key defence against intrusion, viruses, malware, denial of service and other attacks. Correctly configured firewalls and effective security software and controls will ensure that the internal network, services, data and systems are protected. Internal Audit reviewed the controls in place over the management of, access to and use of the Council's Internet and Email Services.

### Audit Objectives

The audit was agreed with the IT Team Leader as part of the 2017/18 IT Audit coverage. The main objective of the audit was to provide reasonable assurance that adequate controls exist over the Council's management of Internet and Email.

The scope of the audit and the key risks were discussed and agreed with the IT Team Leader, before the start of the audit.

Key Points
<b>Substantial Assurance</b>
<b>Two important issues</b>
<b>One minor issue</b>

### Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that there are weaknesses which could place some of the objectives at risk. We have identified two important issues and one minor issue but, these concerns apart, we found there to be sound arrangements for the protection of the Council network and are therefore able to provide substantial assurance.

We have made two Priority 2 recommendations, as follows:

- As an alternative to the compilation of availability statistics for these high priority services (internet and email), IT Services should prepare and publish a simple quarterly report relating to system outages occurring within standard hours; and
- The IT Team Leader should arrange for the current remote administrative access arrangements to be reviewed and strengthened; ensuring that the necessary controls are consistently applied.

We have also made one Priority 3 recommendation:

- Whilst there are no specific support issues for the services currently under review, the IT Team Leader should ensure that the Skills and Support Matrix is brought up to date.

### **Management Response**

We have received a constructive management response from the IT Team Leader, accepting each of the recommendations.

### **Acknowledgement**

internal Audit would like to thank IT Services and other staff for their co-operation and assistance during the review.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT IT 65**  
**IT GENERAL CONTROLS**

**Executive Summary**

**Introduction**

Internal Audit has developed an audit programme, covering general IT controls. The programme is based upon guidance originally provided by the Audit Commission, who defined the key areas of review. There are 12 areas in total, the completion of which enables Internal Audit to express an opinion on a wide area of IT activity, and helps to satisfy External Audit requirements for an assessment of IT general controls. Taking into account recent audit activity and the planned future programme, eight key areas were selected for this audit:

- Physical Security
- Operating Procedures and Staff Training
- Network Management
- PC Procurement, Management and Control
- Management of Contractors
- Information Asset Management and Classification
- System Planning and Acceptance and Change Control
- Service Support Agreements

**Audit Objectives**

The audit was agreed with management as part of the 2017/18 IT Audit coverage. The main objective of the audit is to provide reasonable assurance that adequate controls are in place over the key areas listed above.

The scope of the audit was discussed and agreed with the IT Team Leader, before the start of the audit. This was an overview of a wide area of IT activity, rather than a detailed audit review; and involved discussion with management responsible for development, implementation and operation of the controls. This included a limited review of policies, procedures and system documentation; and observation of operational activities.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>Five Important Issues</b>

**Audit Conclusion – Substantial Assurance**

As a result of the audit we have concluded that there are a number of weaknesses which place some of the objectives at risk. We have identified five important issues as listed below. These concerns apart however, we found the level of controls to be reasonable; and are therefore able to provide a substantial assurance.

We have made five Priority 2 recommendations, as follows:

- Management should set a target completion date for the review of door access, and arrange that subsequently, reports are circulated at regular intervals (annually?) to ensure that control is being maintained.
- IT management should ensure that the planned replacement Uninterrupted Power Supply (UPS) equipment is of a type suitable to permit software closedown; and that the new specification is then added to the "IT Infrastructure Standards" documentation to inform future purchases.
- IT Services should ensure that all privileged remote access is enabled only when required (as with other third party support routes). Also where the privileged user is a member of Council staff, a separate login should be available and used for those tasks requiring such access rights.
- IT Management should arrange for the agreed exceptions to the approved desktop strategy to be formally recorded together with the relevant business case.
- In view of the future transition from the Data Protection Act to the General Data Protection Regulations, consideration should be given to extending the classification and labelling of sensitive information to other areas (ie beyond the Public Sector Network mail system).

### **Management Response**

We have received a constructive management response from the IT Team Leader and the Corporate Support Manager, accepting each of the recommendations.

### **Acknowledgement**

Internal Audit would like to thank the IT Services and other staff for their co-operation and assistance during the review.

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT CR 91**  
**RAWLINSON STREET GROUP REPAIR**

**Executive Summary**

**Introduction**

This project relates to the external renovation of a number of terraced properties close to Barrow town centre.

The project formed part of the Council's Housing Market Renewal Programme, included within the Council's 2012/13 to 2015/16 capital programme with an approved budget of £300,000.

The contract was let to Top Notch Construction Ltd in the sum of £205,894; Arcus Consulting Ltd were also employed as project designers/supervisors and CDM co-ordinator on the project.

**Audit Objectives**

Internal Audit are required to consider for review all contracts entered into by the Council. The Director of Resources through the Head of Internal Audit will select all contracts valued over £100,000 and a sample of smaller contracts for detailed scrutiny and review.

The audit objectives were to perform an examination of the interim and final account and associated documentation.

Key Points
<b>Restricted Assurance</b>
<b>One major issue</b>
<b>Two important issues</b>

**Audit Conclusion – *Restricted Assurance***

As a result of the audit we have concluded that a significant number of weaknesses have been identified in the system of control, which may put some of the system objectives at risk.

We have made one Priority 1 recommendation which concerns the Property Services Manager ensuring the Contract Management Checklist is promptly completed for each stage of a project's progress and submitted to Internal Audit for review, as required by Contract Standing Orders; and findings from previous stages of the contract audit are responded to in a timely manner.

In addition, we have made two Priority 2 recommendations which relate to the Property Services Manager:

- considering the form of contract used for future projects to ensure compliance with the Council's Contract Standing Orders; specifically to ensure all clauses required by the Council are included; and

- confirming that the requirement, within Contract Standing Orders for a project review report to be completed, has been met.

### **Management Response**

We have received a response from the Property Services Manager, accepting one recommendation and partially accepting two recommendations.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Manager should ensure

- the Contract Management Checklist is promptly completed for each stage of a project's progress and submitted to Internal Audit for review, as required by Contract Standing Orders; and
- findings from previous stages of the contract audit are responded to in a timely manner.

### Rationale

The Contract Management Checklist is a key requirement of Contract Standing Orders and provides Internal Audit with important information to assist in the review of the project's progress through the stages of its management.

Internal Audit were provided with a Checklist for this contract, completed up to Section A, to enable the Stage 1 audit review to be carried out in September 2015. Given that following completion of the Stage 1 audit, a Findings Schedule was issued on 9<sup>th</sup> October 2015 with a response being received on 23<sup>rd</sup> December 2015.

By April 2016, over £151,000 of building and construction costs had been incurred on the project and we would expect Sections B and C of the Contract Management Checklist to have been supplied to enable completion of Stages 2 and 3 of the audit for this contract. A memo was issued on 5<sup>th</sup> April 2016, identifying the delay in progress, but a Stage 2 Checklist was not submitted to Internal Audit until 13<sup>th</sup> July 2016.

Upon completion of the Stage 2 audit, a Findings Schedule was issued on 22<sup>nd</sup> December 2016 but a response was not received until 31<sup>st</sup> August 2017. This delay was compounded by the need for the Property Services Manager to communicate with the consultant employed on the project to resolve issues identified during this stage of the audit.

Delays in both submission of Checklists and responses to findings render the contract audit process completely redundant.

### Management Response

I would accept to some degree that there has been undue delay in providing the checklists (e.g. between December 2015 and July 2016). However, there are some assertions that I would take issue with:

- There appears to have been a considerable delay (between July and December 2016) in producing the Stage 2 finding schedule that was not attributable to the project team.

- The delay between December 2016 and August 2107 was I accept a long one. However, much of the time taken was attributable to the consultants reviewing and revising the cost spreadsheets directly as a consequence of weaknesses being identified in these documents by the audit review. Considerable time and effort were expended in getting to the root of the problems and rectifying them, precisely because they were highlighted in the Stage 2 audit. This seems to me to be the opposite of a redundant process.

**Accepted  
qualifications**

**with**

**Implementation Deadline:**

**Immediately**

**CONTRACT PARTICULARS**

Contract Title:	Rawlinson Street Group Repair
Contract Form:	JCT 2011 Intermediate Contract
Contractor:	Top Notch Construction Ltd
Architect:	n/a
Quantity Surveyor:	n/a
Other Consultants	Arcus Consulting Ltd
Target Sum:	£205,894
Commencement Date:	6 July 2015
Completion Date:	30 October 2015
Date of Practical Completion:	18 April 2016
Delay in Completion:	Yes
Extension of Time Granted:	Yes
Liquidated and Ascertained Damages provision/paid/received:	£500 pw
Minimum Insurance Cover Required	£5m
Minimum Insurance Cover Confirmed	£5m
Minimum Bond Required	£20,590
Retention Amount	5% (2.5% after practical completion)
Submitted Final Account Sum:	£206,443.12
Audited Final Account Sum:	£206,443.12
Percentage increase/decrease: Submitted Final Account against Contract Sum.	0.3%

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT CR 107**

**HIGH LEVEL ELECTRICAL REPAIRS & FESTIVE LIGHTING**

## Executive Summary

### Introduction

The existing contract to provide this service ended on 31<sup>st</sup> March 2015 and, rather than extend the contract for a further two years, a new procurement exercise was carried out.

The tender process was undertaken via The Chest to ensure compliance with OJEU requirements and identify the preferred provider.

Tenders were submitted by eight contractors and following evaluation the contract was awarded to Optech Fibres Ltd for two years with potentially an extension for a further two years; the estimated value of the contract is £50,000 per annum.

### Audit Objectives

Internal Audit are required to consider for review all contracts entered into by the Council. The Director of Resources through the Head of Internal Audit will select all contracts valued over £100,000 and a sample of smaller contracts for detailed scrutiny and review.

The audit objectives were to perform an examination of the procurement method, selection of suppliers and provision of goods and services.

Key Points
Restricted Assurance
Five major issues
One important issue

### Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that there are a number of weaknesses which place the system objectives at risk.

We have made five Priority 1 recommendations with concern the Property Services Manager ensuring:

- the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders;
- contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations;
- approval is obtained from Executive Committee to suspend Contract Standing Orders when less than four competent contractors are invited to tender as required by Contract Standing Orders;

- the Tender Return Register is appropriately used as required by Contract Standing Orders; and
- tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.

In addition, we have made one Priority 2 recommendation, which relates to the Property Services Group Manager ensuring the Contract Management Checklist is promptly completed for each stage of a project's progress and submitted to Internal Audit for review, as required by Contract Standing Orders; and findings from previous stages of the contract audit are responded to in a timely manner.

### **Management Response**

We have received a response from the Property Services Manager, accepting all recommendations.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Manager should ensure the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders.

### Rationale

Contract Standing Orders "apply to the purchase by or on behalf of the Council of works, supplies (goods) and services with a contract value of £100,000 and above".

Financial Regulations state that financial thresholds for the procurement of goods and services "apply to the whole scope of supply. For example, if a service has been requested that has a value of £50,000 per year and the requirement is for two years then this purchase will fall into Contract Standing Orders".

Suppliers were invited to submit tenders, via "The Chest", to deliver the service for a period of two years with an option for a further two years. Given that the estimated value of the contract was £200,000 this clearly falls within Contract Standing Orders.

However, in this instance the contractor has merely had to accept the Council's 'Standard Terms and Conditions of Contract for the Purchase of Goods & Services'; a formal contract was not drawn up.

Consequently, a number of the requirements of Contract Standing Orders have been met (as identified in the recommendations detailed below).

### Management Response

I would accept that the approach to contracts of this nature has not been consistent. Where the initial value of the contract is less than £100,000, albeit with a possibility to extend the contract to a value greater than £100,000, it is my understanding that it has not been uncommon to deal with the tender as though it fell below the £100,000 threshold.

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 2</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations.

#### Rationale

Contract Standing Orders state: "All contracts awarded under these Contract Standing Orders require sealing as confirmation of approval by the Executive Committee" and Financial Regulations state "All officers entering into contractual arrangements must enter the necessary information into the Council's electronic contract register".

Internal Audit were informed that neither of these requirements had been met.

#### Management Response

As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 3</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.

**Rationale**

Contract Standing Orders require, as a minimum, "The tender evaluation and pricing is reported to the Executive Committee for decision".

Internal Audit were unable to obtain any evidence that the tender evaluation for this contract had been reported to Executive Committee for decision.

**Management Response**

See response to recommendation 2

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 4</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure the Tender Return Register is appropriately used as required by Contract Standing Orders.

#### **Rationale**

Contract Standing Orders require "Tenders opened electronically shall be recorded in the tender opening register for completeness where these are opened by Council Officers and Members".

Internal Audit reviewed the Tender Return Register and identified that the Register had not been completed for this contract.

#### **Management Response**

See response to recommendation 2.

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 5</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure approval is obtained from Executive Committee to suspend Contract Standing Orders when less than four competent contractors are invited to tender as required by Contract Standing Orders.

**Rationale**

Contract Standing Orders require 'Tenders will be invited from a minimum of four competent contractors, unless otherwise approved by the Executive Committee'

Internal Audit noted that tenders were invited from just two contractors but could find no evidence that specific approval was obtained from Executive Committee to remove this requirement by suspending Contract Standing Orders.

**Management Response**

To some extent I would argue that this is a question of interpretation. PQQ documents were sent out to eight contractors. Three PQQs were returned and one contractor did not meet the required criteria, of the two remaining; only one actually submitted a price. It is therefore arguable that tenders were invited from eight contractors, although in the event only one was received. It is not uncommon for tenders to be invited from four or more contractors, and for fewer than four to be received. It would be helpful for the requirement to be clarified in these circumstances.

**Accepted**

**Implementation Deadline: Immediately**

**CONTRACT PARTICULARS**

Contract Title:	High level electrical repairs & festive lighting
Contract Form:	None. Standard terms for purchase of goods & services used
Contractor:	Optech Fibres Ltd
Architect:	n/a
Quantity Surveyor:	n/a
Other Consultants	n/a
Target Sum:	£50,000 pa
Commencement Date:	1 April 2015
Completion Date:	n/a
Date of Practical Completion:	n/a
Delay in Completion:	n/a
Extension of Time Granted:	n/a
Liquidated and Ascertained Damages provision/paid/received:	n/a
Minimum Insurance Cover Required	£10m
Minimum Insurance Cover Confirmed	£10m
Minimum Bond Required	n/a
Retention Amount	n/a
Submitted Final Account Sum:	n/a
Audited Final Account Sum:	n/a
Percentage increase/decrease: Submitted Final Account against Contract Sum.	n/a

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT CR 108**  
**ELECTRICAL REACTIVE REPAIRS & MAINTENANCE**

## Executive Summary

### Introduction

The existing contract to provide this service ended on 31<sup>st</sup> March 2015 and, rather than extend the contract for a further two years, a new procurement exercise was carried out.

The tender process was undertaken via The Chest to ensure compliance with OJEU requirements and identify the preferred provider.

Tenders were submitted by three contractors and following evaluation the contract was awarded to Bill Caulfield Electrical Ltd for two years with potentially an extension for a further two years; the estimated value of the contract is £50,000 per annum.

### Audit Objectives

Internal Audit are required to consider for review all contracts entered into by the Council. The Director of Resources through the Head of Internal Audit will select all contracts valued over £100,000 and a sample of smaller contracts for detailed scrutiny and review.

The audit objectives were to perform an examination of the procurement method, selection of suppliers and provision of goods and services.

Key Points
Restricted Assurance
Four major issues
Three important issues

### Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that there are a number of weaknesses which place the system objectives at risk.

We have made four Priority 1 recommendations with concern the Property Services Manager ensuing:

- the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders;
- contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations;
- the Tender Return Register is appropriately used as required by Contract Standing Orders; and

- tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.

In addition, we have made three Priority 2 recommendations, which relate to the Property Services Manager ensuring:

- the Contract Management Checklist is promptly completed for each stage of a project's progress and submitted to Internal Audit for review, as required by Contract Standing Orders; and findings from previous stages of the contract audit are responded to in a timely manner;
- Forms of Tender are signed by all contractors submitting tenders; and
- a robust procedure is in place to evaluate each tender against the pre-determined criteria.

### **Management Response**

We have received a response from the Property Services Manager, accepting six recommendations and partially accepting one recommendation.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

**Recommendation 1 Responsibility: Property Services Manager**

**Priority: 1**

The Property Services Manager should ensure the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders.

### **Rationale**

Contract Standing Orders “apply to the purchase by or on behalf of the Council of works, supplies (goods) and services with a contract value of £100,000 and above”.

Financial Regulations state that financial thresholds for the procurement of goods and services “apply to the whole scope of supply. For example, if a service has been requested that has a value of £50,000 per year and the requirement is for two years then this purchase will fall into Contract Standing Orders”.

Suppliers were invited to submit tenders, via “The Chest”, to deliver the service for a period of two years with an option for a further two years. Given that the estimated value of the contract was £200,000 this clearly falls within Contract Standing Orders.

However, in this instance the contractor has merely had to accept the Council’s ‘Standard Terms and Conditions of Contract for the Purchase of Goods & Services’; a formal contract was not drawn up.

Consequently, a number of the requirements of Contract Standing Orders have been met (as identified in the recommendations detailed below).

### **Management Response**

I would accept that the approach to contracts of this nature has not been consistent. Where the initial value of the contract is less than £100,000, albeit with a possibility to extend the contract to a value greater than £100,000, it is my understanding that it has not been uncommon to deal with the tender as though it fell below the £100,000 threshold.

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 2</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
<p>The Property Services Group Manager should ensure contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations.</p>		
<p><b>Rationale</b></p>		
<p>Contract Standing Orders state: "All contracts awarded under these Contract Standing Orders require sealing as confirmation of approval by the Executive Committee" and Financial Regulations state "All officers entering into contractual arrangements must enter the necessary information into the Council's electronic contract register".</p>		
<p>Internal Audit were informed that neither of these requirements had been met.</p>		
<p><b>Management Response</b></p>		
<p>As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediately</b>

<b>Recommendation 3</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.

**Rationale**

Contract Standing Orders require, as a minimum, "The tender evaluation and pricing is reported to the Executive Committee for decision".

Internal Audit were unable to obtain any evidence that the tender evaluation for this contract had been reported to Executive Committee for decision.

**Management Response**

See response to recommendation 2.

**Accepted**

**Implementation Deadline: Immediately**

<b>Recommendation 4</b>	<b>Responsibility: Property Services Manager</b>	<b>Priority: 1</b>
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The Property Services Group Manager should ensure the Tender Return Register is appropriately used as required by Contract Standing Orders.

**Rationale**

Contract Standing Orders require "Tenders opened electronically shall be recorded in the tender opening register for completeness where these are opened by Council Officers and Members".

Internal Audit reviewed the Tender Return Register and identified that the Register had not been completed for this contract.

**Management Response**

See response to recommendation 2.

**Accepted**

**Implementation Deadline: Immediately**

**CONTRACT PARTICULARS**

Contract Title:	Electrical reactive repairs & maintenance
Contract Form:	None. Standard terms for purchase of goods used
Contractor:	Bill Caulfield Electrical Ltd
Architect:	n/a
Quantity Surveyor:	n/a
Other Consultants	n/a
Target Sum:	£50,000 pa
Commencement Date:	4 May 2015
Completion Date:	n/a
Date of Practical Completion:	n/a
Delay in Completion:	n/a
Extension of Time Granted:	n/a
Liquidated and Ascertained Damages provision/paid/received:	n/a
Minimum Insurance Cover Required	£5m
Minimum Insurance Cover Confirmed	£5m
Minimum Bond Required	n/a
Retention Amount	n/a
Submitted Final Account Sum:	n/a
Audited Final Account Sum:	n/a
Percentage increase/decrease: Submitted Final Account against Contract Sum.	n/a

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT CR 100**  
**CREMATORIUM & CEMETERY OFFICE**

## Executive Summary

### Introduction

This project relates to the refurbishment of the Thorncliffe Crematorium and Cemetery office.

The project formed part of the scheme included within the Council's 2015/16 capital programme and the approved budget for the scheme in 2015/16 was £499,800.

The contract was let to Allison Construction Ltd in the sum of £342,320; with a number of consultants, including structural engineer and quantity surveyor, also being employed on the project.

### Audit Objectives

Internal Audit are required to consider for review all contracts entered into by the Council. The Director of Resources through the Head of Internal Audit will select all contracts valued over £100,000 and a sample of smaller contracts for detailed scrutiny and review.

The audit objectives were to perform an examination of the interim and final account and associated documentation.

Key Points
Restricted Assurance
Two major issues
Five important issues

### Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that a significant number of weaknesses have been identified in the system of control, which may put some of the system objectives at risk.

We have made two Priority 1 recommendations which concern the Assistant Director (Regeneration & Built Environment):

- ensuring that the contract management checklist is completed fully and submitted promptly to Internal Audit, together with relevant supporting documentation, for review at each stage of a project's progress, as required by Contract Standing Orders; and
- explaining why payment of the retention was made to the Contractor prior to audit completion, as required by Contract Standing Orders.

In addition, we have made five Priority 2 recommendations which relate to the Assistant Director (Regeneration & Built Environment):

- providing supporting documentation to demonstrate appropriate checks were carried out on the five contractors invited to submit tenders for the project; as this information has not been provided to Internal Audit;
- ensuring:
  - the correct number of quotations, as required by the Council's Purchasing Procedure, are obtained from all consultants appointed to a project;
  - all quotations are retained and provided to support the Contract Management Checklist; and
  - all consultants are informed of the requirement to comply with the Council's Contract standing Orders and Financial Regulations
- considering the form of contract used for future projects to ensure compliance with the Council's Contract Standing Orders; specifically to ensure all clauses required by the Council are included;
- confirming he has received sufficient evidence that any defects have been made good prior to payment of the Final Account; based on information received, there is no evidence to confirm this; and
- confirming that the requirement, within Contract Standing Orders for a project review report to be completed, has been met.

### **Management Response**

We have received a constructive response from the Assistant Director (Regeneration & Built Environment) accepting all recommendations.

### **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review.

<b>Recommendation 1</b>	<b>Responsibility: Assistant Director (Regeneration &amp; Built Environment)</b>	<b>Priority: 1</b>
<p>The Assistant Director (Regeneration &amp; Built Environment) should ensure that the contract management checklist is completed fully and submitted promptly to Internal Audit, together with relevant supporting documentation, for review at each stage of a project's progress, as required by Contract Standing Orders.</p>		
<p><b>Rationale</b></p>		
<p>The Contract Management Checklist is a key requirement of the Council's Contract Standing Orders and provides Internal Audit with important information to assist its review of the project's progress through the five recognised stages of its management.</p> <p>Works at the crematorium had reached the "practical completion" stage, and payments to the contractor and consultants exceeded £375,000, before a partially completed checklist for stage 1 was received by Internal Audit. Given the status of the project, checklists for stages 1 to 4 ought to have been submitted to Internal Audit by this time.</p> <p>Several requests for supporting information were subsequently made before sufficient documentation was received to enable an audit of the contract process to be performed.</p> <p>In the absence of timely completed checklists and supporting documentation, the audit process becomes inefficient and actions may be taken that do not comply with the Council's Contract Standing Orders. This clearly increase risk to the Council and does not provide the required assurance.</p>		
<p><b>Management Response</b></p>		
<p>I originally gave the project to another Officer to manage the audit process through, unfortunately he subsequently left the Council and I picked the project up again. I can confirm the correct processes were followed but not provided in a timely manner.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

**Recommendation 2**    **Responsibility:** Assistant Director  
 (Regeneration & Built Environment)    **Priority:** 1

The Assistant Director (Regeneration & Built Environment) should explain why payment of the retention was made to the Contractor prior to audit completion, as required by Contract Standing Orders.

**Rationale**

Contract Standing Orders state: 'Contracts are subject to review in accordance with Financial Regulations section 19. This includes the completion of the Contract Management Checklist and Internal Audit stage checks and clearance of the final account prior to payment where appropriate'.

Internal Audit identified the final payment of the retention was made in June 2017, before completion of the contract audit and contrary to Contract Standing Orders.

This clearly reduces the level of protection available to the Council should errors or rectification be required.

**Management Response**

Following the end of the defects period and completion of snagging I released the outstanding retention of £8,951. No errors were highlighted by the Quantity Surveyor. Although I accept I did not follow the required procedure before releasing the retention.

**Accepted**

**Implementation Deadline: Immediate**

**CONTRACT PARTICULARS**

Contract Title:	Crematorium & Cemetery Office
Contract Form:	JCT 2011 Intermediate Contract
Contractor:	Allison Construction Ltd
Architect:	Chris Bugler
Quantity Surveyor:	Stuart Brahney Associates
Other Consultants	David Eley (M&E); RG Parkins (Structural Engineer); baker Mallet (CDM -C)
Target Sum:	£342,320
Commencement Date:	12 October 2015
Completion Date:	8 April 16
Date of Practical Completion:	20 May 16
Delay in Completion:	Yes
Extension of Time Granted:	Yes
Liquidated and Ascertained Damages provision/paid/received:	n/a
Minimum Insurance Cover Required	£5m
Minimum Insurance Cover Confirmed	£5m
Minimum Bond Required	£34,232
Retention Amount	5% (2.5% after practical completion)
Submitted Final Account Sum:	£358,048.76
Audited Final Account Sum:	£358,048.76
Percentage increase/decrease: Submitted Final Account against Contract Sum.	4.5%

		<u>Part One</u>
<b>AUDIT COMMITTEE</b>		<b>(D)</b>
<b>Date of Meeting: 14th December, 2017</b>		<b>Agenda</b>
<b>Reporting Officer: Head of Internal Audit</b>		<b>Item</b>
		<b>8</b>
<p><b>Title: Internal Audit Progress Report</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Internal Audit Progress Report covering the period 1st April, 2017, to 1st December, 2017, has been produced and presents the progress against the agreed Internal Audit Annual Plan.</p> <p><b>Recommendations:</b></p> <p>To receive the Internal Audit Progress Report and raise any questions.</p>		

### **Report**

The Internal Audit Progress Report for the period from 1st April, 2017 to 1st December, 2017 is attached at **Appendix 8**. The report presents the progress against the agreed Internal Audit Annual Plan.

Members are recommended to receive the Internal Audit Progress Report and raise any questions.

### **Background Papers**

Nil

**BARROW BOROUGH COUNCIL**

**INTERNAL AUDIT PROGRESS REPORT**

**April to December 2017**

**2017/18**

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# EXECUTIVE SUMMARY

## Purpose

The purpose of the report is to update Members of the Council's Audit Committee on:

- Internal Audit work performed up to 1<sup>st</sup> December 2017, including final reports issued relating to a previous reporting period; and
- Significant issues that have arisen during this period as a result of our work.

## Content

The information is presented in the following schedules:

1. *A Statistical Summary of Recommendations*

This schedule includes all audit recommendations to which Council management have responded between 1<sup>st</sup> April and 1<sup>st</sup> December 2017. The figures are analysed according to the 'priority' of the recommendations, and the extent to which each has been accepted by management for action.

2. *Accepted Priority 1 Recommendations*

This schedule provides details of all major recommendations which have been accepted by management.

3. *Rejected Recommendations*

This schedule provides details of major and significant (i.e. Priority 1 and Priority 2) recommendations, which have been rejected by Council Management.

4. *Audit Coverage*

Details of audit assignments carried out in the period, including any checks on external partner organisations.

5. *Classifications of Assurance and Recommendations*

An explanation of the classifications used for prioritising recommendations and assessing levels of assurance.

## 1. STATISTICAL SUMMARY OF RECOMMENDATIONS

The following table summarises the number of audit recommendations we have made in our final reports issued up to 1<sup>st</sup> December 2017; analysed by their priority, including whether accepted by management.

Recommendations	Total	Priority 1	Priority 2	Priority 3
Made	45	15	24	6
Fully Accepted	44	15	23	6
Partly Accepted	1	-	1	-
Not Accepted	0	-	-	-

## 2. ACCEPTED PRIORITY 1 RECOMMENDATIONS

There have been twelve Priority One recommendations since the previous Audit Committee, which relate to the following:

<b>Audit Report</b>	<b>CR91-Rawlinson St Group Repair</b>
<b>Recommendation</b>	<p>The Property Services Manager should ensure</p> <ul style="list-style-type: none"> <li>• the Contract Management Checklist is promptly completed for each stage of a project's progress and submitted to Internal Audit for review, as required by Contract Standing Orders; and</li> <li>• findings from previous stages of the contract audit are responded to in a timely manner.</li> </ul>
<b>Rationale</b>	<p>The Contract Management Checklist is a key requirement of Contract Standing Orders and provides Internal Audit with important information to assist in the review of the project's progress through the stages of its management.</p> <p>Internal Audit were provided with a Checklist for this contract, completed up to Section A, to enable the Stage 1 audit review to be carried out in September 2015. Given that</p> <p>Following completion of the Stage 1 audit, a Findings Schedule was issued on 9<sup>th</sup> October 2015 with a response being received on 23<sup>rd</sup> December 2015.</p> <p>By April 2016, over £151,000 of building and construction costs had been incurred on the project and we would expect Sections B and C of the Contract Management Checklist to have been supplied to enable completion of Stages 2 and 3 of the audit for this contract. A memo was issued on 5<sup>th</sup> April 2016, identifying the delay in progress, but a Stage 2 Checklist was not submitted to Internal Audit until 13<sup>th</sup> July 2016.</p> <p>Upon completion of the Stage 2 audit, a Findings Schedule was issued on 22<sup>nd</sup> December 2016 but a response was not received until 31<sup>st</sup> August 2017. This delay was compounded by the need for the Property Services Manager to communicate with the consultant employed on the project to resolve issues identified during this stage of the audit.</p> <p>Delays in both submission of Checklists and responses to findings render the contract audit process completely redundant.</p>

<b>Response</b>	<p>I would accept to some degree that there has been undue delay in providing the checklists (e.g. between December 2015 and July 2016). However, there are some assertions that I would take issue with:</p> <ul style="list-style-type: none"> <li>• There appears to have been a considerable delay (between July and December 2016) in producing the Stage 2 finding schedule that was not attributable to the project team.</li> <li>• The delay between December 2016 and August 2107 was I accept a long one. However, much of the time taken was attributable to the consultants reviewing and revising the cost spreadsheets directly as a consequence of weaknesses being identified in these documents by the audit review. Considerable time and effort were expended in getting to the root of the problems and rectifying them, precisely because they were highlighted in the Stage 2 audit. This seems to me to be the opposite of a redundant process.</li> </ul>
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<b>Audit Report</b>	<b>CR107- High Level and Festive Lighting</b>
<b>Recommendation</b>	The Property Services Manager should ensure the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders “apply to the purchase by or on behalf of the Council of works, supplies (goods) and services with a contract value of £100,000 and above”.</p> <p>Financial Regulations state that financial thresholds for the procurement of goods and services “apply to the whole scope of supply. For example, if a service has been requested that has a value of £50,000 per year and the requirement is for two years then this purchase will fall into Contract Standing Orders”.</p> <p>Suppliers were invited to submit tenders, via “The Chest”, to deliver the service for a period of two years with an option for a further two years. Given that the estimated value of the contract was £200,000 this clearly falls within Contract Standing Orders.</p> <p>However, in this instance the contractor has merely had to accept the Council’s ‘Standard Terms and Conditions of Contract for the Purchase of Goods &amp; Services’; a formal contract was not drawn up.</p> <p>Consequently, a number of the requirements of Contract Standing Orders have been met (as identified in the recommendations detailed below).</p>

<b>Response</b>	I would accept that the approach to contracts of this nature has not been consistent. Where the initial value of the contract is less than £100,000, albeit with a possibility to extend the contract to a value greater than £100,000, it is my understanding that it has not been uncommon to deal with the tender as though it fell below the £100,000 threshold.
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<b>Audit Report</b>	<b>CR107- High Level and Festive Lighting</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations.
<b>Rationale</b>	Contract Standing Orders state: "All contracts awarded under these Contract Standing Orders require sealing as confirmation of approval by the Executive Committee" and Financial Regulations state "All officers entering into contractual arrangements must enter the necessary information into the Council's electronic contract register".  Internal Audit were informed that neither of these requirements had been met.
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR107- High Level and Festive Lighting</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.
<b>Rationale</b>	Contract Standing Orders require, as a minimum, "The tender evaluation and pricing is reported to the Executive Committee for decision".  Internal Audit were unable to obtain any evidence that the tender evaluation for this contract had been reported to Executive Committee for decision.
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR107- High Level and Festive Lighting</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure the Tender Return Register is appropriately used as required by Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders require "Tenders opened electronically shall be recorded in the tender opening register for completeness where these are opened by Council Officers and Members".</p> <p>Internal Audit reviewed the Tender Return Register and identified that the Register had not been completed for this contract.</p>
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR107- High Level and Festive Lighting</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure approval is obtained from Executive Committee to suspend Contract Standing Orders when less than four competent contractors are invited to tender as required by Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders require 'Tenders will be invited from a minimum of four competent contractors, unless otherwise approved by the Executive Committee'</p> <p>Internal Audit noted that tenders were invited from just two contractors but could find no evidence that specific approval was obtained from Executive Committee to remove this requirement by suspending Contract Standing Orders.</p>
<b>Response</b>	To some extent I would argue that this is a question of interpretation. PQQ documents were sent out to eight contractors. Three PQQs were returned and one contractor did not meet the required criteria, of the two remaining; only one actually submitted a price. It is therefore arguable that tenders were invited from eight contractors, although in the event only one was received. It is not uncommon for tenders to be invited from four or more contractors, and for fewer than four to be received. It would be helpful for the requirement to be clarified in these circumstances.

<b>Audit Report</b>	<b>CR108-Electrical Reactive Repairs and Maintenance</b>
<b>Recommendation</b>	The Property Services Manager should ensure the treatment of expenditure that exceeds £100,000 complies with Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders "apply to the purchase by or on behalf of the Council of works, supplies (goods) and services with a contract value of £100,000 and above".</p> <p>Financial Regulations state that financial thresholds for the procurement of goods and services "apply to the whole scope of supply. For example, if a service has been requested that has a value of £50,000 per year and the requirement is for two years then this purchase will fall into Contract Standing Orders".</p> <p>Suppliers were invited to submit tenders, via "The Chest", to deliver the service for a period of two years with an option for a further two years. Given that the estimated value of the contract was £200,000 this clearly falls within Contract Standing Orders.</p> <p>However, in this instance the contractor has merely had to accept the Council's 'Standard Terms and Conditions of Contract for the Purchase of Goods &amp; Services'; a formal contract was not drawn up.</p> <p>Consequently, a number of the requirements of Contract Standing Orders have been met (as identified in the recommendations detailed below).</p>
<b>Response</b>	I would accept that the approach to contracts of this nature has not been consistent. Where the initial value of the contract is less than £100,000, albeit with a possibility to extend the contract to a value greater than £100,000, it is my understanding that it has not been uncommon to deal with the tender as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR108-Electrical Reactive Repairs and Maintenance</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure contracts are sealed and entered in the Council's online contract register as required by the Council's Contract Standing Orders and Financial Regulations.
<b>Rationale</b>	<p>Contract Standing Orders state: "All contracts awarded under these Contract Standing Orders require sealing as confirmation of approval by the Executive Committee" and Financial Regulations state "All officers entering into contractual arrangements must enter the necessary information into the Council's electronic contract register".</p> <p>Internal Audit were informed that neither of these requirements had been met.</p>
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR108-Electrical Reactive Repairs and Maintenance</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure tender evaluations are properly reported to Executive Committee for decision as required by Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders require, as a minimum, "The tender evaluation and pricing is reported to the Executive Committee for decision".</p> <p>Internal Audit were unable to obtain any evidence that the tender evaluation for this contract had been reported to Executive Committee for decision.</p>
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR108-Electrical Reactive Repairs and Maintenance</b>
<b>Recommendation</b>	The Property Services Group Manager should ensure the Tender Return Register is appropriately used as required by Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders require "Tenders opened electronically shall be recorded in the tender opening register for completeness where these are opened by Council Officers and Members".</p> <p>Internal Audit reviewed the Tender Return Register and identified that the Register had not been completed for this contract.</p>
<b>Response</b>	As per recommendation 1, this is in part a consequence of treating the contract as though it fell below the £100,000 threshold.

<b>Audit Report</b>	<b>CR100 – Crematorium and Cemetery Office</b>
<b>Recommendation</b>	The Assistant Director (Regeneration & Built Environment) should ensure that the contract management checklist is completed fully and submitted promptly to Internal Audit, together with relevant supporting documentation, for review at each stage of a project's progress, as required by Contract Standing Orders.
<b>Rationale</b>	<p>The Contract Management Checklist is a key requirement of the Council's Contract Standing Orders and provides Internal Audit with important information to assist its review of the project's progress through the five recognised stages of its management.</p> <p>Works at the crematorium had reached the "practical completion" stage, and payments to the contractor and consultants exceeded £375,000, before a partially completed checklist for stage 1 was received by Internal Audit. Given the status of the project, checklists for stages 1 to 4 ought to have been submitted to Internal Audit by this time.</p> <p>Several requests for supporting information were subsequently made before sufficient documentation was received to enable an audit of the contract process to be performed.</p>

<b>Rationale</b>	In the absence of timely completed checklists and supporting documentation, the audit process becomes inefficient and actions may be taken that do not comply with the Council's Contract Standing Orders. This clearly increase risk to the Council and does not provide the required assurance.
<b>Response</b>	I originally gave the project to another Officer to manage the audit process through, unfortunately he subsequently left the Council and I picked the project up again. I can confirm the correct processes were followed but not provided in a timely manner.

<b>Audit Report</b>	<b>CR100 – Crematorium and Cemetery Office</b>
<b>Recommendation</b>	The Assistant Director (Regeneration & Built Environment) should explain why payment of the retention was made to the Contractor prior to audit completion, as required by Contract Standing Orders.
<b>Rationale</b>	<p>Contract Standing Orders state: 'Contracts are subject to review in accordance with Financial Regulations section 19. This includes the completion of the Contract Management Checklist and Internal Audit stage checks and clearance of the final account prior to payment where appropriate'.</p> <p>Internal Audit identified the final payment of the retention was made in June 2017, before completion of the contract audit and contrary to Contract Standing Orders.</p> <p>This clearly reduces the level of protection available to the Council should errors or rectification be required.</p>
<b>Response</b>	Following the end of the defects period and completion of snagging I released the outstanding retention of £8,951. No errors were highlighted by the Quantity Surveyor. Although I accept I did not follow the required procedure before releasing the retention.

### **3. REJECTED RECOMMENDATIONS**

#### **3.1 PRIORITY ONE RECOMMENDATIONS**

There have been no rejected Priority One recommendations during the reporting period.

#### **3.2 PRIORITY TWO RECOMMENDATIONS**

There have been no rejected Priority Two recommendations during the reporting period.

#### 4. INTERNAL AUDIT COVERAGE:

APRIL – SEPTEMBER 2017

Report Number	Audit Assignment	System Significance Band	Status	Assurance
	<b>ANNUAL AUDITS</b>			
17-01	Income Collection	1	Final	Substantial
17-02	Housing Benefits	1		
17-03	Council Tax & Council Tax Support	1	In progress	
17-04	Business Rates (NNDR)	1	In Progress	
17-05	Risk Management	1		
17-06	Cash Floats/Receipting Controls	-	In progress	
17-08	Fraud and Corruption Survey	-	Complete	N/a
17-09	Performance Management	2		
17-10	Budgetary Control	2	In Progress	
17-11	Treasury Management	2	Final	Substantial
17-12	Car Park Meter Income	2	Commenced	
17-13	Payroll (incl Expenses)	2		
17-14	Accounts Receivable	2		
17-15	Corporate Control/Governance	2		
17-16	Main Accounting System and Periodic Controls	2	Q2 In Progress	
17-17	Procurement (inc. Ordering)	2	Commenced	
17-18	Accounts Payable	2		
17-19	Housing Rents	2		
17-20	Standing Orders/Financial Regs/Council Plans & Policies	2	Commenced	
17-21	Housing Maintenance (Day to day repairs)	2		
17-22	Housing Rents - System Review	-		
17-23	NFI responsibilities	-	Ongoing	
17-25	Benefit Certification	-	Complete	
17-26	Probity	-	Complete	N/a
17-27	Council Leased Vehicles	-	Final	Restricted
17-28	Probity	-	Complete	N/a

Report Number	Audit Assignment	System Significance Band	Status	Assurance
17-29	TRO review	-	Complete	N/a
17-30	Elior Forum Review	-	Complete	N/a
	<b>COMMUNITY ORGANISATIONS AND MAYOR'S ACCOUNT</b>			
-	Hawcoat	-	Complete	N/a
-	Abbotsvale	-	Complete	N/a
-	Dalton Community Association	-		
-	Barrow Playing Fields Users Association 2013-14	-	Outstanding Issues	
17-24	Mayor's Account	-	Complete	N/a
	<b>IT ENVIRONMENT AUDITS</b>			
IT64	Email and Internet Controls	-	Final	Substantial
IT65	IT General Controls	-	Final	Substantial
IT66	IT Implementation Review	-	In progress	
<b>17-07</b>	<b>IMPLEMENTATION REVIEW</b>			

### Fraud Hotline Calls

	Revenues/ Benefit related	Staff Related	Other	Total
2017/18 (April – December)	22	1	7	30
2016/17 (Full year)	54	3	3	60

## 5. CONTRACT AUDIT

Report Number	Audit Assignment	Status	Assurance/ Comment
CR91	Rawlinson Street Group Repair	Final	Restricted
CR100	Crematorium/Cemetery Office	Final	Restricted
CR107	High level electrical repairs & festive lighting	Final	Restricted
CR108	Electrical reactive repairs & maintenance	Final	Restricted
CR80	Roa Island Jetty	Stage 4 Findings issued 15th Sept 16	Final Account awaited
CR94	2014 CHP Devonshire Road Improvements	Stage 2 and 3 Findings issued 4th May 17	Awaiting Stage 4/5 checklist
CR95	Town Hall Ground Floor Improvements	Stage 4 Findings to issue	
CR97	Maritime Streets Landscaping Design	Stage 3 completed 17th Sept 15	Awaiting response to findings
CR98	Maritime Streets Landscaping Works		Awaiting further information
CR113	Recycling Containers	Stage 1 Findings issued 30th May 17	
CR115	Refuse, Recycling & Street Cleansing 2017-24	Supporting information outstanding	

## 6.CLASSIFICATIONS

### 6.1 Classification of Assurance Levels

At the conclusion of each audit, we give an overall opinion on the level of assurance, which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

<b>Level</b>	<b>Definition</b>
1. Unqualified Assurance	The controls appear to be consistently applied.
2. Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
3. Restricted Assurance	The level of non-compliance identified places the system objectives at risk.
4. None	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

### 6.2 Priority of Recommendations

Our audit recommendations are categorised by three priority levels: -

- Priority 1* Major issues that we consider need to be brought to the attention of senior management.
- Priority 2* Important issues which should be addressed by management in their area of responsibility.
- Priority 3* Detailed issues of a relatively minor nature.

## 7. PERFORMANCE

The Public Sector Internal Audit Standards (PSIAs) require Internal Audit to be measured in terms of performance. The indicators below provide information over the arrangements and effectiveness of Internal Audit.

Indicator		2017/18
1	Percentage of Draft reports issued within 10 working days of completion of audit fieldwork.	100%
2	Percentage of Management Responses received within 20 working days of issue of the Draft report.	89%
3	Percentage of Final reports issued within 10 working days of receipt of management response.	100%
4	Percentage of Priority 1 and Priority 2 Recommendations acceptable to the audit client.	100%

### Draft Reports issued

Ref	Audit	Date issued

## APPENDIX 1 – RESTRICTED ASSURANCE AUDITS

Ref	Audit	Recommendations			Previous Recommendations			Total	Date Issued
		P1	P2	P3	P1	P2	P3		
17-27	Council Leased Vehicles	3	3	0		0		6	27 June 2017
CR91	Rawlinson Street Group Repair	1	2	0		0		3	22 November 2017
CR107	High Level and festive lighting	5	1	0		0		6	22 November 2017
CR108	Electrical reactive maintenance and repairs	4	3	0		0		7	22 November 2017
CR100	Crematorium and Cemetery Office	2	5	0		0		7	29 November 2017

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 9</b>
<b>Date of Meeting: 14th December, 2017</b>	
<b>Reporting Officer: Corporate Support Manager</b>	
<b>Title: Monitoring Internal Audit Reports</b>	
<b>Summary and Conclusions:</b>	
Update Members on the implementation of recommendations from Internal Audit reports where the Audit Conclusion was Restricted Assurance.	
<b>Recommendations:</b>	
To consider the report and determine whether further action is required.	

**Report**

Internal Audit undertakes reviews of Council's systems as defined in the annual audit plan. The audit conclusion may be Restricted Assurance where significant weaknesses are identified. This has replaced monitoring of Priority 1 Recommendations because the Audit Conclusion may also be Restricted Assurance if there are a significant number of important issues.

At the last meeting of this committee there were eight Audit Reports where the Audit Conclusion was Restricted Assurance.

Many of the issues were related to contracts and procurement and Management Board agreed an action plan to deliver improvements:

- The progress against individual contract checklists is being monitored electronically.
- An informal support group consisting of Internal Audit and the Procurement Officer will be established so that if managers can't comply with procurement rules they can seek advice as to what steps to take and what documentation is required to support the deviation; this shall be documented.
- The Purchasing Procedure will be amended so that all procurements over £25,000 require input from the Procurement Officer to ensure compliance with the Purchasing Guide. The chest should be used for procurement where appropriate; the Procurement Officer shall decide on the appropriateness.
- The Purchasing Procedure has been amended to state that the threshold limits in the guide apply to orders in a 12 month period. The Head of

Internal Audit to be invited to Contract Working Group meetings on an exceptions basis to assist in resolving complex matters.

- Senior managers will monitor the implementation of agreed recommendations through regular one to one meetings or the appraisal process.

Robust arrangements for monitoring the use of leased vehicles have been implemented and although the vehicle tracking and drivers identification devices have not yet been fitted and it is anticipate that this will be completed in Quarter 4.

Other issues related to previous recommendations not being implemented. I actively monitor the implementation of these recommendations and provide updates on an exceptions basis.

A more detailed list of progress is attached at **Appendix 9**.

#### Background Papers

Nil

**Restricted Assurance Internal Audit Reports**

**Crematorium Extension**

<b>Recommendation</b>	<b>Status</b>
The Council should ensure that tenders received which are found to be incomplete, are returned to the contractor and not included within the evaluation process.	Implemented
The Assistant Director (Regeneration and Built Environment) should ensure that the contract management checklist is completed fully and submitted promptly for review at each stage of a project's progress.	Implemented
The Assistant Director (Regeneration and Built Environment) should ensure that contractors invited to tender for Council projects are subject to a formal financial and technical evaluation	Implemented
The Assistant Director (Regeneration and Built Environment) should ensure that all tender packaging/envelopes are consistently retained and that when consultants are utilised to assist with the tender process, similar controls are in place.	Implemented
The Assistant Director (Regeneration and Built Environment) should ensure that: a) the extensions of time allowed by the consultant architect clearly cover the full delay in the completion of the contract; b) documentation is available to demonstrate that the extensions were requested by the contractor; and extensions are authorised by the issue of formal certificates varying the completion date.	Implemented
The Assistant Director (Regeneration and Built Environment) should ensure that all contract variations are supported by priced Architect's Instructions.	Implemented
The Assistant Director (Regeneration and Built Environment) should consider producing a Project Review Report for this contract.	Implemented

**Kennels**

<b>Recommendation</b>	<b>Status</b>
The Council should review the fees and charges at the Kennels to ensure they are relevant and up to date.	Reviewed no change
The Council should ensure that the recharges to animal charities are accurate, and invoiced on a regular and timely basis.	Implemented
The Council should ensure that weekly reconciliations of cash held at the Kennels to income records are carried out.	Implemented
The Council should confirm the procedure for payment of dog adoptions and ensure that income received is reconciled to supporting records.	Implemented

## Car Parking Collection

Recommendation	Status
<p>The Council should, as a matter of urgency, consider whether its current collection arrangements for car park machine income meet the requirements of its insurers in respect of:</p> <ul style="list-style-type: none"> <li>a) All Risks Insurance; and</li> <li>b) Fidelity Guarantee Insurance,</li> </ul> <p>and take any necessary action to ensure compliance.</p>	Implemented
<p>The Council should review the timeliness and coverage of town centre car park coverage with regard to PCN issue.</p>	Accepted no further action required
<p>The Council should ensure that special allowances/permissions relating to car parking are formally documented and approved at an appropriate level.</p>	Implemented
<p>The Council should ensure that the cabinet containing keys for the counting room is locked at all times.</p>	Implemented
<p>The Council should review the counting and income storage area for Car Park machine income.</p>	Implemented
<p>The Council should ensure that the total income counted and banked is reconciled to:</p> <ul style="list-style-type: none"> <li>a) The receipted income figure entered onto the cash receipting system; and</li> <li>b) the income recorded on the bank statement.</li> </ul>	Implemented
<p>The Council should review the quarterly performance information reported to Executive Committee.</p>	Implemented
<p>The Council should review the pricing information boards at all pay and display car parks within the Borough to confirm that the correct and up to date pricing structures are displayed.</p>	Implemented
<p>The Council should review and consider the arrangements regarding the counting of car park machine cash income by a single officer.</p>	Implemented
<p>The Council should transfer responsibility for the analysis and monitoring of car park meter income from the Corporate Support Section to Admin Services.</p>	Implemented

## Housing Stock Condition Survey

<b>Recommendation</b>	<b>Status</b>
The Maintenance & Asset Manager should explain why a limited tender (quotation) exercise was undertaken; and Contract Standing Orders were not followed when it became clear that a full stock condition survey was to be carried out at an estimated cost of £100,000.	Implemented
The Maintenance & Asset Manager should ensure that all tender evaluations are reported to Executive Committee as required by Contract Standing Orders.	Implemented
The Maintenance & Asset should ensure that tender notices include both a date and a time for submission of tenders.	Implemented
The Maintenance & Asset Manager should ensure that the contract management checklist is completed fully and submitted promptly for review at each stage of a project's progress.	Implemented

## Procurement

<b>Recommendation</b>	<b>Status</b>
Officers should ensure that all relevant supporting documentation relating to procurements are retained and are readily available for inspection to confirm compliance with the Council's purchasing procedures.	Due March 2018
The Council should review the procurement of the Legal Service Framework Agreement.	Considered and no action required at this time.
The Council should consider amending the Purchasing Procedure to include a requirement that the Procurement Officer is notified of all potential expenditure above a certain level prior to any prices/quotations being sought.	Implemented
The Council should consider introducing a requirement to openly advertise for expenditure levels below those requiring compliance with Contract Standing Orders.	Completed

## Performance Management

Recommendation	Status
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) consider its aims and objectives for effectively managing the performance of its services;</li> <li>b) determine the appropriate mechanism for delivering those aims and objectives; and</li> </ul> <p>review all outstanding audit recommendations to decide whether they are still relevant for future performance management arrangements.</p>	<p>Reviewed and delivery mechanism will be agreed through Management Group</p>
<p>The Council should review and document the principles applied to setting service performance targets, to include:</p> <ul style="list-style-type: none"> <li>a) amending its Priorities document to clarify which indicators require targets and which are simply measures;</li> <li>b) defining the relationship between the current year's targets and the previous year's targets/actuals; and</li> <li>c) considering consistently setting challenging targets to improve services.</li> </ul>	<p>Completed</p>
<p>The Assistant Director Community Services should:</p> <ul style="list-style-type: none"> <li>a) review the method used to produce user number statistics for the Park Leisure Centre;</li> <li>b) consider whether the Exerp leisure management system is appropriate for use at the Centre; and</li> <li>c) urge Pulse to correct identified deficiencies in the system.</li> </ul>	<p>On- going The use of the Exerp management system is being reviewed.</p>
<p>The Park Leisure Centre Manager should produce guidance notes for the production of required Leisure performance statistics.</p>	<p>Implemented</p>
<p>The Council should ensure that performance information is only published when it has confidence in the accuracy of the data.</p>	<p>Implemented</p>

## Leased vehicles

Recommendation	Status
<p>The Council should ensure that all leased vehicles are used only for Council business. The Council will fit vehicle tracking and driver identification devices to all vehicles</p>	<p>Delayed and now to be completed by Q4</p>
<p>The Council should clearly define who has overall responsibility for the use of Council leased vehicles.</p>	<p>Completed</p>
<p>The Council should introduce a log to record all usage of leased vehicles.</p>	<p>Implemented</p>
<p>The Council should ensure an up to date register of all staff authorised to use Council vehicles is maintained and staff should sign a register to acknowledge their acceptance of any conditions of use.</p>	<p>Implemented</p>

		<u>Part One</u>
<b>AUDIT COMMITTEE</b>		<b>(D)</b>
<b>Date of Meeting: 14th December, 2017</b>		<b>Agenda</b>
<b>Reporting Officer: Corporate Support Manager</b>		<b>Item</b>
		<b>10</b>
<p><b>Title: Risk Management</b></p> <p><b>Summary and Conclusions:</b></p> <p>Provide Members with amendments to the Council's Risk Registers for 2017/18.</p> <p><b>Recommendations:</b></p> <p>To note the report.</p>		

### Report

The Council's Risk Registers (attached at **Appendices 10** and **11**) were presented to this Committee on 21st September and no changes were made.

The Risk Registers will be presented to Management Board at their meeting on 20th December and I will report any changes to the next meeting of this Committee.

The Risk Management Policy has been reviewed and was agreed by the Executive Committee at their meeting on 18th October, 2017.

### Background Papers

Nil

Threat description and reference	Likelihood	Impact	Score	Potential impact	Mitigating actions	Responsible Officer	Likelihood	Impact	Score
Corporate 1 2017/1 Legislative changes will impact on the Housing Revenue Account Income.	5	5	25	Imposed 1% rent reduction year on year for 3 years. (est total loss in budget of c10% over the 3 years) - welfare reform changes, in particular the continued impact of the bedroom tax, and the implementation of universal credit. There has also been a significant increase in the number of "Right to Buy" applications which are generally for larger properties and is impacting on the our ability to manage tenancies. Although the numbers on universal credit remain low experience is showing it is proving difficult to collect rent from such recipients)	The Housing Service has drafted its next Business Plan which will agree The Service will deal with The threats to income over The next three years in particular. The Housing Service has and is implementing a range of initiatives within its operational arrangements to deal with welfare reform. This ranges from The change in focus of Housing officers and up-skilling to engagement with potential residents with emphasis on ensuring they have budget plans in place from The start of their new tenancy. Equal priority is also afforded to existing tenants to ensure they have The necessary budget plans and arrangements in place to meet their Housing costs. new Technology solutions are also being progressed to improve The management of tenancies.	Assistant Director - Housing	5	4	20

<p><b>Corporate 2 2017/2</b> Future financial stability and sustainability of the Council.</p>	<p>5</p>	<p>Without sufficient funding plans discretionary services may be at risk of reduction or closure.</p> <p>Statutory services may be delivered with reduced service levels.</p> <p>Staff redundancies may not be avoidable.</p> <p>Funding to external bodies may be reduced.</p> <p>The Council's capital programme and treasury management strategy must be affordable and reduced revenue resources may impact on the Council's plans.</p> <p>The overall capacity of the Council to deliver services may need to be scaled down and may fall below users expectations.</p> <p>The 2019-20 projected £2.7m deficit which has increase because of the New Homes Bonus will be reduced through the next Budget Strategy.</p> <p><b>Future subsidy of the Forum; now excluded from outsourcing.</b></p>	<p>The Council's Medium Term Financial Plan has been projected out to 2019-2020 and will be aligned to the Council's Plan and presented to the Executive Committee. All of the assumptions are clearly shown and will continue to be reviewed during the life of the Budget Strategy. The Budget Strategy development process is underway. Through the Budget Strategy, the Medium Term Financial Strategy aim of eliminating the deficit in the core budget will be delivered. This will require the use of the reserves set aside for support and pacing the changes, to achieve longer term financial resilience.</p> <p>The impacts of the Budget Strategy will be closely monitored by Management Board, including the impacts on the workforce. The Council has a Workforce Strategy which provides a clear commitment to employees. Along with the Budget Strategy, the Council will review and publish its Plan, Priorities and Objectives for the coterminous period.</p> <p>The Council is somewhat limited in the additional external funding it can access, but wherever possible bids are submitted where grants are available; this is for projects and not for sustainable services. In order to maximise the grant funding brought into the Borough, the Council increasingly works with other organisations to draw funding in; in most cases taking on the role of accountable body.</p> <p><b>Council agreed full service and use of facility review to significantly reduce subsidy.</b></p>	<p>Executive Director and Director of Resources</p>	<p>5</p>	<p>4</p>	<p>20</p>
<p><b>Corporate 3 2017/1</b> Failure of external partner, service providers or contractors</p>	<p>3</p>	<p>This is likely to result in the suspension of some service while alternative service providers are identified</p>	<p>The Council monitors the position of service providers through regular client meetings and will undertake company checks on our contractors</p> <p>The Council retains the intellectual property and assets that will support continuity of services</p>	<p>Management Board</p>	<p>3</p>	<p>4</p>	<p>12</p>

<p><b>Corporate 4 2017/2</b> Level of sickness worsens</p>	<p>4</p>	<p>4</p>	<p>A significant increase may impact on the Council's capacity to deliver services. An increase in sickness absence may result in the need for temporary staff thereby increasing costs.</p>	<p>The Council put a number of measures in place in 2016/17 which have contributed to reducing the current levels of sickness. Details of sickness management will be reported to Management Board on a quarterly basis. <b>Sickness in Q1 of 2017/18 has increased, largely related to long-term personal stress; the current counselling service offered by the Council will be reviewed.</b></p>	<p>Director of Resources</p>	<p>3</p>	<p>4</p>	<p>12</p>
<p><b>Corporate 5 2017/1</b> Impact of Welfare Reform changes</p>	<p>4</p>	<p>4</p>	<p>This has had an impact on the Housing Revenue Account as detailed in risk Corporate 1 2017/1 above. An increasing number of residents experience low incomes and risk homelessness.</p>	<p>1. Continue to support and work with advice agencies throughout the Borough to assist residents to receive appropriate advice. 2. Maximise the Discretionary Housing Payments fund and assist residents in the most challenging financial circumstances to look for longer-term solutions to their problems. 3. The Council has developed a Homeless Strategy based on our approach of preventative work to assist residents under threat of losing their homes and assist those who are homeless, to resolve their issues. Reduced grants for Local Government Council Tax Reduction Scheme are not passed on as reduction in entitlement. Continue to invest in group repair schemes to enhance the properties and environment. Continue to offer disabled facilities grants and disabled adaptations. The Council provides financial support to Citizens Advice Bureau and the Barrow and District Disability Association to continue to provide welfare benefits advice until 2020.</p>	<p>Management Board</p>	<p>4</p>	<p>3</p>	<p>12</p>
<p><b>Corporate 6 2017/1</b> Delivery of the water front regeneration programme</p>	<p>4</p>	<p>4</p>	<p>Failure to deliver the programme will damage the profile of Barrow as a place to live and work. There is currently an active market in private sector residential development which would make the Marina Village of interest to private sector developers.</p>	<p>The Council is committed to complete the site assembly. The project can progress in phases subject to the availability of funding. The first access into the site has obtained planning permission and construction has started. The Council has entered into discussions with the Home and Communities Agency to bring forward the site as a development priority for Cumbria.</p>	<p>Executive Director</p>	<p>3</p>	<p>3</p>	<p>9</p>

<p><b>Corporate 7 2017/1</b> Maintain H&amp;S arrangements and target services for improvement.</p>	<p>2</p>	<p>5</p>	<p>10</p>	<p>Members of the public and Council employees could be put at risk by Council operations</p>	<p>The establishment of the Technical Services Team and the Health &amp; Safety Management Group has strengthened the Council's H&amp;S arrangements. Health &amp; Safety systems will be kept under review. All staff have received electronic H&amp;S training. Agreed H&amp;S improvement plan in the process of implementation. High risk services will be targeted for improvement. The Council has been advised on risk mitigation by its insurers Zurich Mutual and has agreed a corporate inspection policy and action plan to improve the inspection of properties.</p>	<p>Executive Director</p>	<p>2</p>	<p>3</p>	<p>6</p>
<p><b>Corporate 8 2017/2</b> Capacity to undertake statutory inspections, investigations and enforcement action.</p>	<p>5</p>	<p>5</p>	<p>25</p>	<p>Compliance with statutory targets may be compromised. Response time for investigations and enforcement action may be compromised.</p>	<p>Consultancy services are brought in as required for specific issues or to backfill where Council officers deal with complex cases. <b>Ongoing recruitment issues in Environmental Health may impact delivery times.</b></p>	<p>Assistant Director - Regeneration and Built Environment</p>	<p>4</p>	<p>4</p>	<p>16</p>
<p><b>Corporate 9 2017/1</b> Information Technology security breach</p>	<p>4</p>	<p>5</p>	<p>20</p>	<p>Corrupt systems and loss of data. Withdrawal of Public Sector Network access. System downtime impacting on service delivery. Low level issues are being identified as risks during the annual testing and the resource requirement for achieving PSN compliance is increasing as a result.</p>	<p>Up-to-date Information Security Policy. Staff using email and internet sign up to the Policy. Management overview of email and internet usage. Individual virtual servers for discrete business areas. Business continuity plan. Symantec has been set up on all windows machines to provide a level of protection against virus, spyware and other threats. E-training for email and internet vigilance has been delivered to all staff. Virtual desktops provide more controlled environment which further limits the possibility of breaches. IT Services will continue to Review ICT Security and update systems as required. IT Services will also provide training and advise to minimise the risks.</p>	<p>Director of Resources</p>	<p>2</p>	<p>3</p>	<p>6</p>

<p><b>Corporate 10 2017/1</b> Effective workforce planning</p>	<p>4</p>	<p>4</p>	<p>4</p>	<p>Potential impact – Without effective workforce planning, service delivery and service quality are placed at risk. If adequately qualified and experienced officers are not in place, the risk of service failure and customer dissatisfaction increase and the risk of regulatory failure may need to be addressed. Without a transparent commitment from Management and the Administration, the workforce may be less inclined to remain with the Council for the longer term and seek out a career elsewhere.</p>	<p>Mitigation – The Council has a Workforce Strategy which will be reviewed and updated with the Council Plan and associated documents. Management and the Administration are aware that the Council's workforce is the most valuable resource in achieving service delivery and customer satisfaction. Development, training and succession planning are keys to the retention of the workforce and in recruiting new employees. Where there are skills gaps, the Council will look to fill that gap with training and in the short term look to consultants or other skilled professionals to ensure service continuity. The Council will only look to retain consultants on a short term basis, as and when required, to allow time for the required skills and knowledge to be acquired by the workforce.</p>	<p>Director of Resources</p>	<p>4</p>	<p>3</p>	<p>12</p>
<p><b>Corporate 11 2017/1</b> Incidents of fraud, bribery or corruption</p>	<p>2</p>	<p>2</p>	<p>4</p>	<p>It would indicate a failure of the Council's systems. Loss of money. Loss of reputation and confidence.</p>	<p>Fraud and corruption policy in place for staff and Members. Effective whistle blowing policy in place. Monitoring of standards and checks by Internal Audit</p>	<p>Director of Resources</p>	<p>1</p>	<p>2</p>	<p>2</p>
<p><b>Corporate 12 2017/1</b> Major incident affecting service delivery</p>	<p>1</p>	<p>5</p>	<p>5</p>	<p>Widespread damage due to fire, flooding or severe weather.</p>	<p>Business continuity plan. Contingency plans. access to Council systems</p>	<p>Executive Director</p>	<p>1</p>	<p>4</p>	<p>4</p>
<p><b>Corporate 13 2017/1</b> Major incident affecting ICT systems</p>	<p>1</p>	<p>4</p>	<p>4</p>	<p>Damage to Council's ICT infrastructure due to fire or flooding. Failure of ICT systems may adversely affect service delivery.</p>	<p>Disaster recovery plan Business continuity plan. Contingency plans. access to Council systems Offsite replicate server has been established.</p>	<p>Director of Resources</p>	<p>1</p>	<p>3</p>	<p>3</p>

Operational risks April 2017

Threat	Likelihood	Impact	score	Potential impact	Mitigating actions	Responsible	Likelihood	Impact	score
<p><b>Operational 1 2017/2</b> Not having adequate staffing to deliver key services.</p>	4	5	20	Key services, including statutory services and demand led services cannot be delivered or delivered at an unacceptably low level.	<p>The many customer facing services have been contracted out and therefore staffing lies with the contractor. Housing are still in house and we will manage staffing levels. it is anticipated that we will have outsourced the Park Leisure Centre by 1st August 2018.</p> <p>Management Board co-ordinate leave to ensure that senior management is available. Staff holiday planning is undertaken by the managers within departments.</p> <p>Consultancy services are used where unplanned absences will result in statutory services being adversely affected. The Council has also agreed mutual aid arrangements for professional support with other local authorities.</p>	Management Board	3	4	12
<p><b>Operational 2 2017/1</b> Access to operational buildings.</p>	2	5	10	Key services, including statutory services and demand led services cannot be delivered.	<p>The Council has a Business Continuity Plan.</p> <p>Services that are contracted out do not depend on the Council's premises being accessible.</p> <p>The leisure services are not statutory - no access would be inconvenient and prevent users from enjoying the facilities.</p> <p>Key back office functions performed in the Town Hall can be carried out from other operational buildings.</p> <p>There are several key holders for each operational building.</p>	Executive Director	1	3	3

Operational risks April 2017

Threat	Likelihood	Impact	score	Potential impact	Mitigating actions	Responsible	Likelihood	Impact	score
<b>Operational 3 2017/1</b> Unable to collect household waste.	3	5	15	Households would potentially have side waste if the refuse container filled up due to delays in collections. There are health and safety issues with holding waste and particularly side waste for householders.	The waste collection service is contracted out. There is a waste management snow plan. There is capacity within the week to put on additional collections to catch up from any delays.	Assistant Director - Community Services	2	3	6
<b>Operational 4 2017/1</b> Unable to pay housing benefits to claimants.	3	5	15	Housing benefit recipients would be unable to pay their rent and this may jeopardise their tenancies.	The BACS file is produced by the Council's contractor a day ahead of time. The Council has support for BACS from its supplier and from its bank. Payments can be made by alternative methods in exceptional circumstances.	Director of Resources	2	2	4
<b>Operational 5 2017/1</b> Reduced income may challenge the Council's ability to focus on any more than the decent homes standard and delay investment in the wider environment or the upkeep of communal areas on estates	3	5	15	The Housing Service seeks to ensure the majority of its investment is delivered through a procurement club which adds value, capacity and ensure value for money.	Regular stock surveys are completed and communication with tenants ensures available resources are focused appropriately.	Assistant Director - Housing	2	3	6

Operational risks April 2017

Threat	Likelihood	Impact	score	Potential impact	Mitigating actions	Responsible	Likelihood	Impact	score
<p><b>Operational 6 2017/1</b> Welfare reform changes will impact on the cost of the Council providing temporary accommodation and the up-turn in the local economy is impacting on the availability of the private sector accommodation such as Bed and Breakfast.</p>	4	4	16	The Council will find it increasing difficult to provide suitable temporary accommodation.	The Council will carryout a review of the options of providing temporary accommodation and seek a model that ensures suitable accommodation is provided and full cost recovery from recipients.	Assistant Director - Housing	4	3	12
<p><b>Operational 7 2017/1</b> Unplanned outage of the cremator.</p>	2	5	10	Services are pre-booked and there would be disruption to users in rescheduling or transferring the services. There would be a loss of income.	The cremator is regularly checked by crematorium staff and by the contracted maintenance provider. A complete cremator replacement is planned for 2018/19. Arrangements exist with a neighbouring crematorium for the planned outage that occurs when the Council's cremator is re-lined.	Assistant Director - Community Services	2	3	6
<p><b>Operational 8 2017/1</b> Failure of swimming pool filters or other equipment and downtime for major maintenance work.</p>	2	4	8	The swimming pool would be unavailable to users until fixed. If the outage ran over weeks, the gym & swim members may request a partial refund. There would be a loss of income.	The daily checks carried out on the swimming pool and associated plant would identify potential areas of concern and the appropriate contractor would be brought in to address the issues raised.	Assistant Director - Community Services	2	3	6

Operational risks April 2017

Threat	Likelihood	Impact	score	Potential impact	Mitigating actions	Responsible	Likelihood	Impact	score
<b>Operational 9 2017/1</b> Significant breach of the Council IT network	4	5	20	Unauthorised access to sensitive financial information which may result in loss of monies. Unauthorised access to personal data which may leave Council vulnerable to litigation. Infection of the Council's network by malicious viruses which may prevent the Council carrying out its normal duties. The Council loses access to the Public Sector Network which increases operating costs and impact on us delivering Council services effectively.	The Council has implemented the controls required to comply with the Public Sector Network requirements including robust penetration testing to identify and address weaknesses. Installation of Symantec mail filtering, Bloxx web filtering, robust firewalls, antivirus software. Third party support which includes installing up to date versions and patches to reduce the risk of unauthorised access or infections. E-learning programme on IT security for all staff	IT Team Manager	2	3	6
<b>Operational 10 2017/1</b> Significant system failure	2	3	6	Unable to effectively conduct normal business activities. Loss of historical work and data. Failure to meet deadlines	On-going monitoring of system performance. Disaster recovery arrangements in place with off-site real time replication of data. External support and maintenance contacts in place with appropriate Service Level Agreements	IT Team Manager	1	3	3
<b>Operational 11 2017/1</b> Unmanaged access to Council network	3	2	6	Uncontrolled interventions which may inadvertently impact on the Council's network leading to system downtime.	Change control procedure in place. External access by third parties is risk assessed.	IT Team Manager	1	2	2

		<u>Part One</u>
<b>AUDIT COMMITTEE</b>		<b>(D)</b>
<b>Date of Meeting: 14th December, 2017</b>		<b>Agenda</b>
<b>Reporting Officer: Director of Resources</b>		<b>Item</b>
		<b>11</b>
<p><b>Title: Annual Audit Letter for the year ended 31/3/2017</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Annual Audit Letter for the year ended 31st March, 2017, has been produced by the External Auditors. The External Auditors will present the report to Members.</p> <p><b>Recommendations:</b></p> <p>To receive the External Auditors report and raise any questions.</p>		

### **Report**

The External Auditors have produced the Annual Audit Letter for the year ended 31st March, 2017, which summaries the key findings from the financial year 2016-2017 audit work.

In summary, the Council obtained an unqualified financial statements opinion and in terms of value for money, the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31st March, 2017.

The report is attached at **Appendix 12** and will be presented to Members by the External Auditors.

### **Background Papers**

Nil



# The Annual Audit Letter for Barrow Borough Council

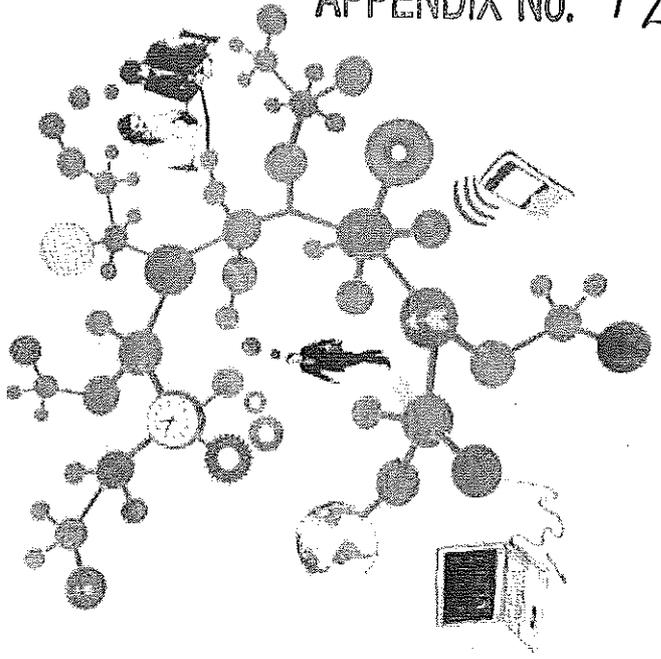
Year ended 31 March 2017

October 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Barrow Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee, as those charged with governance, in our Audit Findings Report on 21 September 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements as outlined in section two; and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion, as outlined in section three.

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

The Council provided the draft accounts for audit on 2 June 2017. This was almost a month earlier than the previous year and was a positive outcome reflecting effective forward-planning by management. This demonstrates the Council is in a strong position to produce the draft 2017/18 financial statements by 31 May 2018 as required by the regulations. We gave an unqualified opinion on the Council's financial statements on 22 September 2017.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 September 2017.

## **Certificate**

We certified that, we had completed the audit of the accounts of Barrow Borough Council in accordance with the requirements of the Code on 22 September 2017.

## **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete, but it will be finalised by the statutory deadline of 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

## **Working with the Council**

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
October 2017

# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £895,000, which is 2% of the Council's revenue expenditure – cost of services. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration, exit packages and related party transactions.

We set a lower threshold of £44,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Resources are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Table 1 overleaf sets out the key risks we have identified and the work we performed in response to those significance estimation related risks with the results of this work.

# Audit of the accounts

Table 1: Accounts Risks - These are the risks which had the greatest impact on our overall audit strategy and where we focused more of our work

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment (PPE)</p> <p>Our work addressed the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated.</p> <p>The Council revalues its non-housing assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> <p>In accordance with the relevant guidance, Council dwellings are revalued annually.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• reviewed the competence, expertise and objectivity of the experts management used.</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>• discussed with the valuer the basis on which the valuation was carried out and challenged the key assumptions.</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these assets held at carrying value are not materially different to current value.</li> <li>• tested a judgemental sample of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> </ul>	<p>Our work provided sufficient assurances that the rolling valuation programme had been appropriately designed and implemented and that valuations had been provided on an appropriate basis. Valuations undertaken had been appropriately accounted for in the financial statements.</p> <p>Management has agreed to consider obtaining valuations of individually significant assets on a more frequent basis. This will assist management to obtain further assurance that the value of property, plant and equipment is fairly stated in the Balance Sheet at the end of each reporting period.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. This provided an understanding of the basis on which the valuation was carried out.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul>	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

# Audit of the accounts

## **Audit opinion**

We gave an unqualified audit report opinion on the Council's accounts on 22 September 2017.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 21 September 2017.

Two adjustments to the primary statements which impacted on the Council's reported surplus for the year were agreed with managements: one of these adjustments increased expenditure by £314,000 and the other reduced expenditure by £325,000 resulting in a net improvement of £1,000 in the reported surplus.

Six other adjustments identified were amended by management, but these did not impact on the reported financial position. The most significant adjustments were:

- a loan of £1M due for repayment in less than 12 months had been incorrectly classified as part of long-term borrowing in the Balance Sheet;
- operating lease commitments were overstated by £1.428m. The treatment in the draft accounts reflected the Council's assessment that its new contract for the provision of waste services included an operating lease. Review of the contract and discussion with management confirmed that that the risk and reward arrangement was actually constituting a finance lease and consequently adjustments were made to the operating leases disclosure.
- a capital grant received from Public Health England had been classified as a non-specific revenue grant in error. Adjustment were made to the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement to reclassify the grant.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published these documents on its website with the draft accounts in advance of the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. Management revisited the original draft Annual Governance Statement prior to sign-off to streamline the document to ensure it set out more clearly the key elements of the Council's governance arrangements.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use our other statutory duties.

---

# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The two key risks we identified and the work we performed are set out in Table 2 overleaf.

## **Overall VFM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, for the year ending 31 March 2017.

# Value for Money

Table 2: Value for money risks – These are the significant risk arrangement areas we reviewed in forming our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
<p><b>Budget Strategy</b></p> <p>In our 2015-16 Audit Findings Report we noted that the Council had developed a budget strategy in September 2016 and that significant detailed work would need to be undertaken by officers and members to realise the savings associated with the re-provision of the leisure and the revenues and benefit service.</p>	<p>We assessed the Council's arrangements with those officers responsible for developing and implementing the detailed plans required to deliver the necessary savings. We assessed whether sufficient progress was being made with the plans to realise the strategy.</p>	<p>The Council has made progress to implement the savings schemes set out in the Budget Strategy. Two of the savings schemes represent approximately £1.25m of the total savings of £2.37m per year, which the Council needs to deliver and our work focussed on these. A Delivery Plan for the implementation of the strategy was considered by the Executive Committee in November 2016. We set out below our understanding of the current position in relation to the two major savings schemes and our assessment of the arrangements currently in place.</p> <p><b>Leisure Contract</b></p> <p>The Council has been working with external consultants to take forward the procurement of an outsourcing partner to deliver leisure services in the Borough. At the time of preparing the Budget Strategy, the Council had identified that savings of around £470,000 per annum could be delivered through outsourcing the Forum and the leisure centre under a new contract which is due to be in place by 1 April 2018.</p> <p>Prior to going out to tender, the Council commissioned an early market engagement exercise which provided some assurance that the market would come forward with a bid to provide services at the Forum and the leisure centre. This indicates that appropriate arrangements were in place to inform the approach set out in the Budget Strategy. However, our review of the relevant documentation suggests there was only limited evidence that there was market appetite for running the services provided by the Forum on terms that would be acceptable to the Council.</p> <p>The original plans have now been revised following further work so that the outsourcing exercise is confined to the leisure centre. The timing has also changed: due to an existing contract for the provision of fitness and gym facilities on the leisure centre site, a decision was taken to postpone the commencement date for the new contract to 1 August 2018.</p> <p>Officers have provided assurance that the savings targeted in the approved budget strategy can still be achieved even though the Council now only intends to outsource the running of the leisure centre. The Council is confident that the market will come forward with a proposal to run the service where any payment due from the Council to the outsourcing partner is significantly less than the current cost of running the facility. This reflects an expectation that an outsourcing partner will be able to generate more income and have lower overheads than the existing arrangements. We understand from the Director of Resources that the Council recently held a well-attended event for prospective bidders interested in tendering for the leisure contract.</p> <p>More detailed projections have been produced to support the revised estimate linked to the outsourcing of the leisure centre. However, officers recognise that there is still some uncertainty that a provider will come forward with a proposal on terms that will be sufficient to ensure the Council can deliver the required savings. Alongside any savings generated from the leisure centre outsourcing, management has confirmed that they intend to find additional savings through making changes to the way in which services are delivered at Forum. Management understands that the Council may still need to find savings in other areas to achieve the reduction in net expenditure set out in the Budget Strategy.</p> <p><b>Revenues and Benefits Contract</b></p> <p>The Council's existing arrangements for the provision of the revenues and benefits service expire on 30 September 2018. Management has indicated that they intend to provide Members with the opportunity to consider a range of options in relation to future service provision. Management has explained that their focus in the period to 31 March 2017 has been on the leisure outsourcing. Management need to ensure there is sufficient flexibility built into the timetable to enable a full range of options to be considered and that the expiry date of the existing contract does not restrict the best value for money options available.</p>

# Value for Money

Table 2: Value for money risks – These are the significant risk arrangement areas we reviewed in forming our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
<p>Provision of Council-owned housing</p> <p>Recent changes in government policy has negatively impacted on the 30-year business plans local authorities were required to produce when they took on additional housing debt as part of the re-financing of Council housing in 2011/12. These changes pose a risk to the sustainable provision of Council-owned housing if they are not addressed.</p>	<p>We assessed the Council's arrangements with those officers responsible for developing and implementing the detailed plans required to deliver the necessary savings. We will assess whether sufficient progress is being made with the plans to realise the strategy.</p>	<p>Management recognise the pressure presented by changes in government policy. The Council has prepared a detailed projection for the Housing Revenue Account ('HRA'), which models the impact of the reduction in rents imposed by the central government and the continuation of the existing trend whereby increasing numbers of Council tenants are taking advantage of the opportunity to purchase their Council property under the terms of the right to buy scheme.</p> <p>To balance the 2017-18 HRA budget management established a Housing Service Review Group and savings totalling £268,000 were agreed of which the majority relates to a reduction in the voluntary provision for repayment of debt. Looking ahead to 2018-19, management has forecast that if further remedial action is not taken the deficit on the HRA will be £300,000 in 2018-19 and around £500,000 each year from 2019/20 onwards. We understand the aforementioned working group has been tasked with identifying further savings, as well as changes to the service which could increase income. There is a recognition amongst senior managers at the Council and Members that the sustainability of the service depends on management continuing to bring forward changes which reduce the cost of running the service.</p> <p>Maintenance represents the main cost associated with the housing function. The Council has worked hard to ensure that all but four of its properties meet the government's decent homes standard. There has also been extensive work undertaken to review maintenance contracts to ensure these meet the Council's requirements and provide value for money. In January 2017, the Council identified that further planned maintenance was required to rectify problems with the roofs and the damp insulation on some properties in the Borough. These works had not been identified as part of a condition survey in 2014 and the need to undertake the work became apparent after repairs to the affected properties were required. We understand that in both cases the coastal climate experienced by the Borough has had a significant impact. Therefore when planning scheduled maintenance, the Council will need to factor in instances where components within the Council dwellings most at risk from climate-related degradation are likely to require renewal or replacement sooner.</p> <p>New accounting arrangements affecting the HRA come into effect from the 2017-18 financial year. This is because the five-year transition period introduced after the major self-financing reforms introduced in 2012-13 has ended. Under the new arrangements, depreciation is charged to the Housing Revenue Account and there is no longer any provision for an adjustment to be made to cap the amount charged to the HRA at an amount equal to the amount set aside to fund major repairs as part of the Council's business plan. The Council needs to ensure its medium term financial plan for the HRA takes account of the consequence of these changes as the impact could be significant, especially as the value of the Council's dwellings has increased in recent years due to trends in the local market and changes in guidance issued to valuers. Increases in the value of Council dwellings lead to an increase in the depreciation charge.</p>

## Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and we confirm that no other services were performed.

Fees	Proposed	Actual fees	2015/16 fees
	fee	£	£
Statutory audit	51,119	51,119	51,119
Housing Benefit Grant Certification	13,733	TBC	16,168
<b>Total fees (excluding VAT)</b>	<b>64,852</b>	<b>TBC</b>	<b>67,287</b>

The proposed fees for the year are in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA.

Our grant certification fee is still an estimate, as our work on the Council's housing subsidy claim is on-going and will not be finalised until the 30 November 2017 deadline.

### Reports issued

Report	Date issued
Audit Plan	23 March 2017
Audit Findings Report	21 September 2017
Annual Audit Letter	6 October 2017



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<b>AUDIT COMMITTEE</b>	<u>Part One</u> <b>(D)</b> <b>Agenda</b> <b>Item</b> <b>12</b>
<b>Date of Meeting: 14th December, 2017</b>	
<b>Reporting Officer: Director of Resources</b>	
<p><b>Title: External Audit Progress Report and Update</b></p> <p><b>Summary and Conclusions:</b></p> <p>The External Auditors have produced a progress and update report for the Audit Committee. The External Auditors will present the report to Members.</p> <p><b>Recommendations:</b></p> <p>To receive the External Auditors report and raise any questions.</p>	

### **Report**

The External Auditors have produced a progress and update report for the Audit Committee. The report is attached at **Appendix 13** and will be presented to Members by the External Auditors.

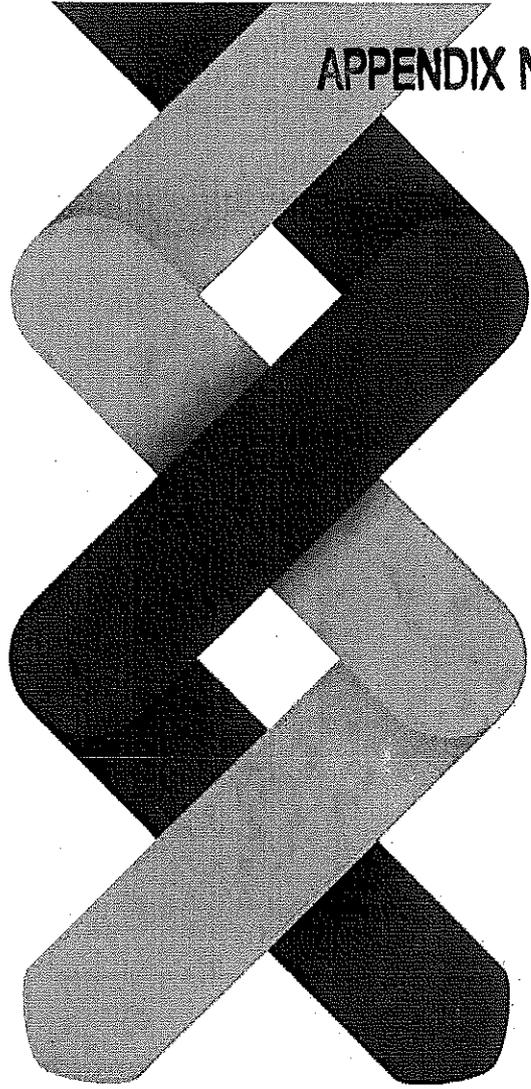
### **Background Papers**

Nil

# Audit Progress Report and Sector Update

Barrow Borough Council  
Year ending 31 March 2018

December 2017



# Contents

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# Introduction

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**This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.**

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications.

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

# Progress at 1 December 2017

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will shortly issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We are due to commence our interim audit in January 2018. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any findings from the interim audit to you in our Audit Plan, which the Committee will consider at its meeting in March 2018.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin in June 2018 with findings reported to you in the Audit Findings Report by the earlier deadline of 31 July 2018.

## Value for Money

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

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

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

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

We will make our initial risk assessment to determine our approach in January 2018 and report this to you in our Audit Plan at the March 2018 Audit committee

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline of 31 July 2018.

## Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by 30 November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Chief Accountant workshops are being set up for early 2018 and details will be circulated soon. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

# Sector Update

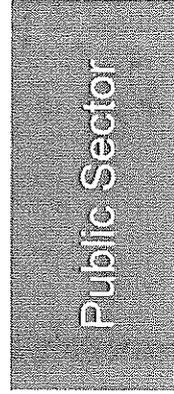
Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

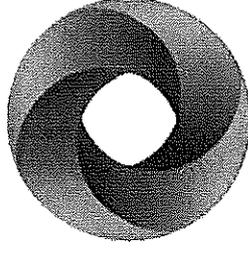
Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.



# Combined Authorities: Signs of Success



In her foreword to 'Building our Industrial Strategy' the Prime Minister states that the initiative "will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East."

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be underestimated – but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

## Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.



Combined Authorities:  
signs of success

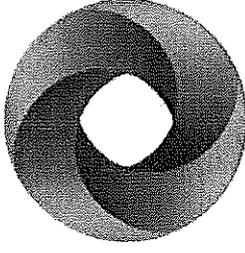


## Grant Thornton Publication

Challenge question:

Is your Authority considering how the combined authority model may evolve?

# Setting up a successful social enterprise



Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended.

The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

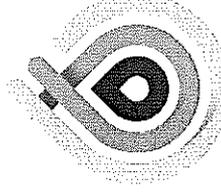
## Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified



Grant Thornton  
Accountants

Setting up a  
social enterprise



## Grant Thornton Publication

Challenge question:

Is your local authority looking to transition a public service to a social enterprise model, and if so are you familiar with this report?

# Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

CIPFA  
The Institute of Chartered Accountants in England and Wales

code of practice on  
local authority accounting  
The Financial Reporting 2017/18



LASAAC

CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

Looking further ahead, this sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.

## CIPFA Publication

Challenge question:

Is your Director of Resources aware of the changes affecting the preparation of the financial statements for 2017/18 and the forthcoming changes to financial instruments and revenue recognition.



# Overview of General Data Protection Regulation (GDPR)

## What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

## What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25<sup>th</sup> May 2018.

✓ **How will this affect you?**

✓ All organisations that process personal data will be affected by the GDPR.

✓ **What organisations need to do by May 2018**

✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

✓ **What organisations need to do by May 2018**

✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.

✓ New policies and procedures need to be fully signed off and operational.

## Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

## Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

## GDPR

### Challenge question:

Can your authority effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

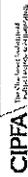
How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

# CIPFA publications

CIPFA has published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

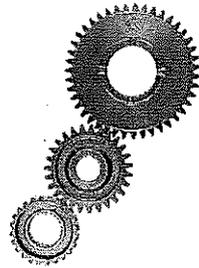
- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.



An introductory guide to

local government  
finance

2017 edition



CIPFA has also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.

CIPFA has updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

## CIPFA Publication

Challenge question:

Are these publications of use to you?



# DCLG Consultation

DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter 1 of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

## Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

- To this end a number of proposals are made including requiring local authorities to:
- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
  - disclose the contribution that investment activities make to their core functions
  - use indicators to assess total risk exposure
  - apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
  - disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
  - disclose additional information where authorities borrow to invest in revenue generating investments
  - Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

## Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

## DCLG consultation

Challenge question:

- Is your Director of Resources planning to respond to the consultation?



# Links

## Grant Thornton website links

<https://www.granthornton.co.uk/>

<http://www.granthornton.co.uk/industries/publicsector>

<http://www.granthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.granthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.granthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.cfoinsights.co.uk/>

## CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

## DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>



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<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 13</b>
<b>Date of Meeting: 14th December, 2017</b>	
<b>Reporting Officer: Director of Resources</b>	
<b>Title: Barrow Playing Field User Association</b>	
<b>Summary and Conclusions:</b>	
This report provides a brief note on the Barrow Playing Field User Association as requested by Members.	
<b>Recommendations:</b>	
To note the report.	

**Report**

The Barrow Playing Field User Association has administered the grass recreation areas at Ormsgill Playing Fields, Hawcoat Youth Fields and Walney Playing Fields (Biggar Bank), on behalf of the Council since 1992.

The organisation structure consists of four members that include representation from the local leagues, the Barrow and District Junior League and the Furness Premier League. The leagues formulate fixtures and these are passed onto the Association and this is how pitches are booked, with games played on weekends and selective evenings during the course of the year.

The Barrow and District Junior league operate on a Saturday morning from September to May and selective evenings from April to September. Presently, this season, 14 different clubs across various age groups have used the facilities in order to play home games. The league also operates a girls/ladies section with 5 member clubs playing on selective Sundays and evenings on a 12 month basis.

The Furness Premier League operates on Saturday afternoon from August to May and evenings in April, May and August. At present 7 different senior clubs use the facilities for home matches.

The Association does not appoint officials and the grass cutting contract is contracted to Continental Landscapes directly by the Council.

The Council supports these activities and recognises that they complement Council Plan Priority 3 – closing the gap on health inequalities.

**Background Papers**

Nil

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 14</b>
<b>Date of Meeting: 14th December, 2017</b>	
<b>Reporting Officer: Director of Resources</b>	
<p><b>Title: Audit Committee Update</b></p> <p><b>Summary and Conclusions:</b></p> <p>This report provides an update for Members on various topics.</p> <p><b>Recommendations:</b></p> <p>To note the report.</p>	

## Report

### Budget Strategy

The Budget Strategy proposals for 2017-2018 are included in the General Fund revenue budget. The current position for each of the areas identified proposals is presented in the following table:

<b>Savings area</b>	<b>Strategy target</b>	<b>Current saving</b>
Major contract renewals <ul style="list-style-type: none"> <li>• Street cleansing contract awarded</li> <li>• Revenues, Benefits and Customer Services saving for 2018-2019</li> <li>• Internal Audit service insourced</li> </ul>	£1.02m	£0.40m
Leisure <ul style="list-style-type: none"> <li>• Leisure Centre outsourcing saving for 2018-2019</li> <li>• The Forum review saving for 2018-2019</li> </ul>	£0.49m	-
Treasury <ul style="list-style-type: none"> <li>• Provision to repay debt rescheduled 2016-2017</li> </ul>	£0.26m	£0.31m
Burials and Cremations <ul style="list-style-type: none"> <li>• Charging policy implemented 1st April 2017</li> </ul>	£0.25m	£0.20m
Ring-fenced Properties <ul style="list-style-type: none"> <li>• Both properties brought into General Fund 2016-2017</li> </ul>	£0.15m	£0.03m

<b>Savings area</b>	<b>Strategy target</b>	<b>Current saving</b>
Dock Museum <ul style="list-style-type: none"> <li>Recoverable charges implemented 2016-2017</li> <li>Other efficiencies to follow</li> </ul>	£0.05m	£0.03m
Commercial Estate <ul style="list-style-type: none"> <li>Additional rental income and associated reduction in NNDR</li> </ul>	£0.05m	-
Kennels <ul style="list-style-type: none"> <li>Service provision under review</li> </ul>	£0.03m	-
Playgrounds <ul style="list-style-type: none"> <li>Review of service delivery 2016-2017</li> <li>Application of Playgrounds Policy 2017-2018</li> </ul>	£0.03m	Not yet available
Allotments <ul style="list-style-type: none"> <li>Charging policy implemented 1st April 2017</li> <li>Grounds maintenance and repair costs reviewed</li> </ul>	£0.03m	£0.01m
Barrow Park <ul style="list-style-type: none"> <li>Boating service subsidy removed</li> <li>Use of the Pavilion and other efficiencies to follow</li> </ul>	£0.03m	£0.01m
Conveniences <ul style="list-style-type: none"> <li>New arrangements in place for 2017-2018</li> </ul>	£0.01m	Not yet available
<b>Total</b>	<b>£2.40m</b>	<b>£0.99m</b>

The medium term funding gap increased to £2.7m following the changes to the New Homes Bonus with the financial settlement in 2017-2018. The medium term finances will be revised following the formation of the 2018-2019 budget.

#### Housing Revenue Account

The medium term funding gap for the Housing Revenue Account (HRA) is £500k. The HRA is limited in terms of scope for cost reductions and very limited in the scope to generate income.

There is a Housing Services Review Working Group (Officers, Members and a Tenant representation) identifying and assessing areas for saving. At the Housing Management Forum on 2nd November, 2017, reported that £264k has been identified and should be included in the proposed revenue budget.

There are a couple of areas outside of this saving that I am reviewing with the Assistant Director – Housing, but these may not achieve the £500k required.

Once the budget proposals are complete, the savings package will be incorporated into the HRA medium term finances.

The current proposals are:

- £57k from general expenses
- £100k from staffing – an establishment review is underway
- £107k from maintenance – reductions in non-dwelling headings

#### Closure of Accounts 2017-2018

On 15th November, 2017, the Council and the External Auditors had a meeting to reflect on the 2016-2017 and highlight any lessons learned for the shorter closedown period for 2017-2018.

The key themes from the meeting were:

- Communication – this is felt to be good but we must work closely before and during the closedown and the audit to achieve the deadlines.
- File sharing – explore Sharefile as an electronic tool to share working papers as this is also available off-site.
- Availability – sharing the availability of key staff both during the closedown and the audit.
- Issues log – for questions or queries raised and answered; a common reference number will be used and working papers cross-referenced.
- Interim work – sampling at the interim stage will be maximised.
- External valuations – include External Audit in the engagement meeting.

The particular issues to address for 2017-2018 are the accounting of embedded lease vehicles and the review of high value assets. The Council has retained the services of Lambert Smith Hampton for asset valuations.

Once the 2018-2019 budget process has reached a final draft, work on the timetable and tasks for closing 2017-2018 will begin.

#### Business Rate Retention Pilot Pool

The Council is currently a member of the Cumbria Business Rates Pool. This enables the County to retain additional business rate income which contributes to balancing revenue budgets. Each year the members of the Pool have to consider the risks and rewards of the Pool and consider whether the Pool should continue. The decision on membership of the pool is delegated to the Director of Resources.

From April 2020 the Government is intending to introduce 100% retention of business rates which will see the replacement of Revenue Support Grant and Rural Services Delivery Grant funded by the 50% of business rates currently paid to Government. Adjustments would be made to tariffs and top-ups to equalise nationally the amounts of business rates retained compared to need and ability to generate income from council tax.

Cumbrian authorities have worked together to assess the feasibility and desirability of a pilot for Cumbria. Overall it is estimated that there would be additional income retained by Cumbrian authorities compared to the current arrangements but the actual amount will be dependent upon the level of business rate income for 2018-2019 and is therefore not certain. Initial estimates suggest the additional income could be between £1.1m and £9m.

The Cumbria bid has been submitted to Government and the successful pilots will be announced with the financial settlement later in December 2017.

#### Audit of Housing Benefit Subsidy

The audit of the housing benefit subsidy from April 2018 is separate from the main audit service procured through the Public Sector Audit Appointment sector-led body approach. The Council has the option of procuring this service in conjunction with other authorities or appointing alone. These arrangements will be in place by the next meeting and will be dealt with through the Executive Committee. I will ensure that the principals of value for money are applied to the procurement of these services.

The 2016-2017 DWP claim was subject to a Qualification Letter which was agreed between the Council and the External Auditor ahead of the claim deadline. The DWP and I exchanged the required letters, ultimately resulting in the claim being closed on 28th November (deadline is 30th November) with no extra testing require. These claims have remained open into March/April in previous years and working to an agreed process between the Council and the External Auditor has facilitated a smoother claim audit process.

#### Care Leavers Council Tax Exemption

The Council is currently working on a Cumbria-wide policy to provide Council Tax exemption to care leavers. The exact policy is not yet available, but in principle recognises that young people leaving care are unlikely to have the support that families or extended families can provide when becoming financially independent. It is recognised that care leavers need additional support which may not be met by Council Tax Support or other schemes. The policy would come to Members through the Executive Committee to Full Council for resolution. It is anticipated that the policy will be introduced from April 2018.

#### Background Papers

Nil

