AGENDA

Audit Committee

Thursday, 08 December 2022 AT 10:00
In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG

A training session for members of the Committee will commence at 9:15am in the Flensburg Room.

APOLOGIES FOR ABSENCE

To receive apologies for absence and notification of substitutions

DECLARATIONS OF INTEREST

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any items on the agenda at this stage.

PUBLIC AND PRESS

To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private.

MINUTES OF PREVIOUS MEETINGS   5 - 10

To note that Council, on 8 November 2022, received and adopted the minutes of the meeting held on 24 September 2022. The Chair will sign the minutes. [Copy minutes in Minute Book 49(3)].

The Chair will move the minutes of the Special meeting held on 10 November 2022 as a correct record.
(Copy minutes herewith).

PART A

To be considered when the Public and Press are present

The Corporate Director of Finance and Resources to submit a report providing the regular quarterly summary of Treasury Management Transactions. The matter was considered by the Executive on 21 November 2022.
(Copy Report RD.43/22 and Minute Excerpt herewith)

A.3   **<u>STATEMENT OF ACCOUNTS 2022/23</u>**   161 - 180

The Corporate Director of Finance and Resources to submit a report regarding the 2022/23 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed.
(Copy Report RD.45/22 herewith)

PART B

To be considered when the Public and Press are excluded from the meeting

- NIL -

<u>Members of the Audit Committee</u>

Conservative - Mrs Finlayson (Vice Chair), Lishman, Mrs Mitchell, Collier (sub) McKerrell, (sub), Shepherd (sub)
Labour – Birks, Patrick, Alcroft (sub), Dr Tickner (sub)
Independent and Liberal Democrat - Bomford (Chair), Pickstone (sub)
Independent - Betton

Enquiries, requests for reports, background papers etc to:
democraticservices@carlisle.gov.uk

Audit Committee

Date: Thursday, 10 November 2022 **Time:** 10:00

Venue: Flensburg Room

Present: Councillor Robert Betton (from 10:10am), Councillor Pamela Birks, Councillor Jeffrey Bomford, Councillor Mrs Christine Finlayson, Councillor Neville Lishman, Councillor Mrs Linda Mitchell, Councillor Dr Les Tickner (for Councillor Lucy Patrick)

Also Present: Councillor Ellis - Finance, Governance and Resources Portfolio Holder

Officers: Head of Financial Services (Deputy S.151)
Director, Audit (Grant Thornton)
Public Sector Audit Senior Manager (Grant Thornton)
Senior Lead Lawyer (Commercial Property and Regeneration)

AUC.55/22 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Patrick.

AUC.56/22 PUBLIC AND PRESS

It was agreed that the items in Part A be dealt with in public and the items in private be dealt with in Part B.

AUC.57/22 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

AUC.58/22 DRAFT AUDIT FINDINGS REPORT 2021-22 FOR CARLISLE CITY COUNCIL

The Director, Audit (Grant Thornton) presented the Draft External Audit Findings Report for 2021/22 for Carlisle City Council. Overall, the External Audit work was substantially complete and the Director anticipated that the audit report opinion would be unmodified and noted the Annual Governance Statement and Narrative Report was of a high standard.

The statutory deadline for the completion of the External Audit process was 30 November 2022, the Director, Audit stated that the work would not be completed by then due to a national auditing issue in relation to infrastructure assets which may have a material impact on the Council's Financial Statements. A statutory override mechanism would come into force on 25 December 2022, accordingly, the formal sign off of the Council's accounts would not take place until January 2023. The Director emphasised that the matter was a national issue and not a reflection on the Council's processes or performance.

The Director, Audit, gave an overview of the external auditor's work in preparation for Local Government Organisation and responded to a question from a Member regarding the Minimum

Revenue positions of the sovereign Councils that would be superseded by Cumberland Council.

In relation to the financial statements external audit findings, six adjustments had been identified and accepted by management which had resulted in a £0.724M increase in the Council's Comprehensive Income and Expenditure Statement. Appendix C detailed each of the adjustments recommend by Grant Thornton, with the follow up recommendations from the previous year's audit set out in Appendix B.

The Director, Audit advised that Grant Thornton continued to lease an area within the Civic Centre to provide office space for those conducting external audit work, he did not consider the arrangement fettered the work of external audit. The Director further advised that his tenure as external auditor to the City Council had been extended so that he would remain in the role until the completion of the 2022/23 external audit process. Generally external auditors were appointed for a five year term, however, given the imminent reorganisation of local government in Cumbria, it had been agreed that he remain in the role to ensure a consistent audit quality. The matter would be included in the final external audit report.

The Public Sector Audit Senior Manager drew Member's attention to and summarised the following areas of the report: Management Override of Controls; Financial Statements - Significant Risk; Financial Statements - new issues and risks; Financial Statement - key judgements and estimates: Financial Statements - Internal Controls; Financial Statements - matters discussed with management; and Financial Statements - other responsibilities under the Code. Furthermore, she thanked Officers for their assistance in the external audit work.

The Value For Money aspect of the External Audit was not yet complete, an audit letter explaining the reasons for the delay was reproduced in the report (Appendix G refers). Resultantly, Grant Thornton had not been in a position to issue its External Auditor's Annual Report, it was expected that the Report would be issued in December 2022 which remained in accordance with the National Audit Office's requirement that the Report be published within three months of the publication of the External Auditor's opinion on the Council's Financial Statements.

In considering the Draft Audit Findings Report, Members raised the following questions and comments:

- In relation to the valuation of land and buildings and investment property, a Member sought clarification on the level of valuation for The Lanes and The Market Hall individually.

The Public Sector Audit Senior Manager undertook to incorporate the individualised valuations in the final report.

- Responding to a question from a Member, regarding the valuation of rents, the Head of Financial Services advised that the Council used a different types of valuation bases, depending upon the nature of the asset. For example, depreciation valuation costs would vary by type of asset.

The Public Sector Audit Senior Manager noted that there had been two queries in respect of investment properties which the Council was to respond to in order for the work in that area to be complete.

The Head of Financial Services (Deputy S.151) advised that a response on those matters had been received from the Council's valuers that morning: he would review the content of the response before circulating it to the external auditors.

- A Member sought clarification on the position of the valuation of pension fund net liability.

The Public Sector Audit Senior Manager explained that the Local Government Pension Scheme Auditors (for the national scheme) had identified a number of errors including: the opening position not being correct which had led to an overstatement of the pension fund net assets being identified and subsequently confirmed by independent valuation. The net impact of the overstatement was a £0.373M pension liability understatement.

- A Member asked why management had decided not to implement IFRS16?

The Head of Financial Services (Deputy S.151) explained that the IFRS16 related to the accounting of leases. Given that upcoming transition to unitary authority in Cumbria and the different positions of the sovereign councils on the matter, it had been considered prudent to not early adopt the practice. Cumberland Council would pick up the matter prior to the implementation date of 1 April 2024.

The Member proposed that the Panel recommend that the City Council implement IFRS16.

Another Member responded that he appreciated and agreed with the Officer's explanation on the matter. He stated that the role of Members of the Committee was to address audit matters relating to Carlisle City Council, not Cumberland Council.

The Chair agreed with the Member noting that the Officer's response had provided assurance that the decision taken was appropriate.

- Regarding the 44 of the 148 assets with a nil net book value that had been identified, the Chair asked what type of assets they were.

The Head of Financial Services (Deputy S.151) explained that they were primarily vehicles, plant and equipment, with some IT assets. The assets may have been kept for longer than originally intended but remained in use. The work to update the register was significant and would be completed by 31 March 2023.

The Chair responded that in relation to vehicles, would using vehicles kept longer than planned impact on the organisation's carbon footprint?

The Head of Financial Services advised that such assets were not retained as part of the operational fleet but were used to support service delivery capacity, for example a vehicle would in the event of a vehicle in the operational fleet going to be serviced.

RESOLVED - That the Audit Committee welcomed the unqualified external audit opinion and looked forward to receiving the Value For Money audit opinion in due course.

AUC.59/22   STATEMENT OF ACCOUNTS 2021/22

The Head of Financial Services (Deputy S.151) reported (RD.39/22) that the Council's Statement of Accounts 2021/22 had been subject to an audit process which commenced in July and was required to be completed by the end of November in line with amended statutory regulations.

With reference to the preceding item of business: Draft Audit Findings Report 2021-22 for Carlisle City Council, all adjustments identified therein where incorporated into the Statement. As a result of the outstanding matter regarding asset valuations it was likely that the

Statement would require amendment. The bulk of the work in relation to that matter was complete, no material or significant issues had been identified that were likely to necessitate an adjustment to the values in the financial statements. However, it was feasible that the Narrative Report may require amendment once the work had been finalised.

The report recommended that the Committee approve the 2021/22 Statement of Accounts including the Annual Governance Statement. Given the issue of asset valuations set out above, the Head of Financial Services (Deputy S.151) suggested that the Committee consider: whether it was minded to approve the Statement of Accounts subject to the completion of the work on asset valuations, with the updated Statement being submitted to the Committee at its December 2022 meeting; or, that authority be delegated to the Chair of the Committee and the Corporate Director of Finance and Resources to approve and sign-off the Statement of Accounts once the asset valuation work was complete.

In considering the Statement of Accounts 2021/22 Members raised the following questions and comments:

- With reference to the Key Risks section (page 68 refers), was it possible that were the Carlisle Southern Link Road (CSLR) not to be realised that the City Council would require to take out a loan of £5M to meet its liability to Cumbria County Council?

The Head of Financial Services (Deputy S.151) advised that the £5M was included in the existing Medium Term Financial Plan as a cost. The timeline of the project extended beyond Vesting Day for Cumberland Council, therefore the matter would be addressed by that authority and was not a significant issue for Carlisle City Council.

Another Member asked whether it was known that Cumbria County Council had the relevant funding earmarked?

The Head of Financial Services (Deputy S.151) responded that at the time the costs of the CSLR project were agreed, both City and County Councils agreed to a £5M contribution, however, given the creation of unitary local authority, the matter would be dealt with by Cumberland Council.

- Had all the Council's civic regalia been valued?

The Head of Financial Services (Deputy S.151) confirmed that all the City Council's civic regalia were valued and registered for insurance purposes.

The Finance, Governance and Resources Portfolio Holder noted that Council at its meeting of 8 November 2022, had approved a proposal that civic regalia items were, upon the termination of Carlisle City Council, to come under the charge of a Charter of Trustees the membership of which would be determined by parliament.

Members considered the recommendations presented by the Head of Financial Services (Deputy S.151) in respect of the Statement of Accounts 2021/22.

RESOLVED - That the Audit Committee delegate authority to approve the Statement of Accounts 2021/22 including the Annual Governance Statement to the Chair of the Committee following consultation with the Corporate Director of Finance and Resources subject to the completion of work in relation to asset valuations.

AUC.60/22   LETTER OF REPRESENTATION 2021/22

The Head of Financial Services (Deputy S.151) reported (RD.40/22) submitted the Letter of Representation 2021/22 which set out the adjustments made to the accounts and confirmed the Council's fulfilment of its auditing obligations. Members were asked to approve the Letter of Representation 2021/22.

RESOLVED – That the Audit Committee approved the Letter of Representation for 2021/22.

The Meeting ended at: 11:18

Report to Audit Committee

CARLISLE CITY COUNCIL
www.carlisle.gov.uk

Meeting Date:	08 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	INTERNAL AUDIT PROGRESS 2022/23 (OCTOBER-NOVEMBER)
Report of:	CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number:	RD.44/22

Purpose / Summary:

This report provides an overview of the work carried out by Internal Audit between October and November of 2022/23. The report also includes information on progress against the agreed audit plan, performance indicators and previous audit recommendations.

Recommendations:

The Committee is requested to

i)   note the progress against the audit plan for 2022/23;
ii) receive the final audit assignments as outlined in paragraph 2.3;
iii) note the progress made on audit recommendations to date outlined in Appendix 2.
iv) Approve the amendment to the Internal Audit plan outlined in paragraph 5.3

Tracking

Audit Committee:	**08 December 2022**
Scrutiny Panel:	**Not applicable**
Council:	**Not applicable**

1. BACKGROUND INFORMATION

1.1   Management is responsible for establishing effective systems of governance, risk management and internal controls. It is the responsibility of management to establish appropriate arrangements to confirm that their systems are working effectively, that all information within them is accurate and that they are free from fraud or error.

1.2   Internal Audit's role is to provide independent assurance to senior management and the Audit Committee over the adequacy and effectiveness of management's arrangements for governance, risk management and internal control.

2. PROGRESS AGAINST AUDIT PLAN

2.1   Progress against the 2022/23 audit plan is detailed at **Appendix 1**.
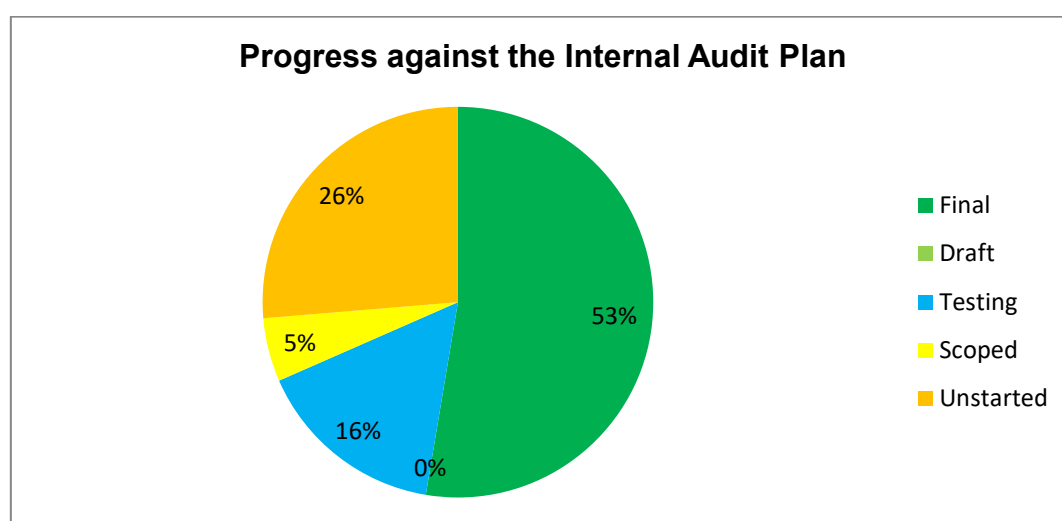
2.2   53% of planned reviews have been finalised and a further 21% of planned audits are underway, indicating good progress against the audit plan.

2.3   Seven planned pieces of work were finalised in the period.

Review Area	Assurance Level
Corporate Internal Controls	Substantial
Risk Management	Reasonable
Fleet Management Strategy	Reasonable
Sustainable Warmth Grant	Partial
Financial Services Governance Arrangements	Reasonable
Bereavement Services	Reasonable
Treasury Management	Substantial

Cumulative assurance levels 2021/22

Assurance Level	Count
Substantial	2
Reasonable	5
Partial	1
Limited	0
N/A	2
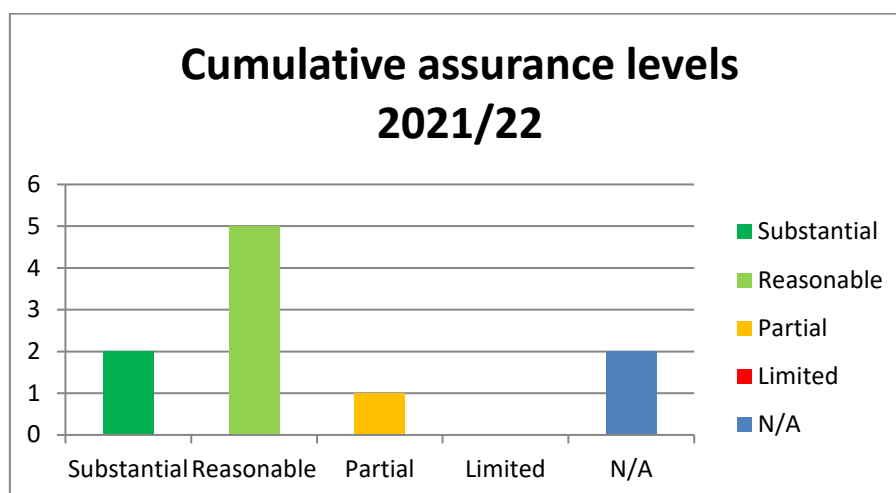
2.4   Audit resource was also utilised in the period on the following:

- Attendance at various LGR meetings and workshops;
- Audit advice in relation to fraud checks and risk registers for Regulatory Services in relation to the Sustainable Warmth Grant.
- Ongoing work in relation to a confidential fraud investigation.

3   PERFORMANCE INDICATORS

3.1   To provide an effective internal audit service, there needs to be a measure of the performance it achieves. The table below shows progress against indicators agreed for 2022/23.

Indicator	Target (YTD)	Performance	Comments
Planned Audits Completed	60%	53%	74% completed/underway
Timely Draft Reports (within 3 months of fieldwork starting)	80%	100%	
Timely Final Reports (within 8 days of client response)	90%	100%	
Recommendations Agreed	95%	100%	
Assignments completed within 10% of allocated resource)	60%	60%	
Chargeable time	80%	78%	
Recommendations implemented first time	80%	42%	

4   AUDIT RECOMMENDATIONS

4.1   **Appendix 2** shows a summary position of outstanding audit recommendations and progress made against implementing these. Once the agreed implementation date has passed, internal audit will ask the responsible officer for an update of progress. The responses will then be reported to the next available Audit Committee meeting and, if implemented, will then be removed from the list so that only outstanding recommendations remain. Where the recommendations relate to a partial assurance audit, these will be subject to a formal follow up and will be reported back to Audit Committee separately. New recommendations will be added to the list once final reports are agreed.

4.2   At the March 2022 committee Internal Audit reported a partial audit in relation to the payment of Covid-19 grants. No further grant schemes have been scheduled or are planned, so it is felt a formal follow-up of this audit would not add significant value. The recommendations will still be followed up as part of Internal Audits follow-up procedure and in the event of any further relevant future events, Internal Audit will remind relevant managers of the findings of the previous report.

4.3   30 recommendations out of 84 followed up were found to have been fully implemented (18 in line with original agreed timescales) and 9 further recommendations have been closed for transfer to Cumberland Council, as they will not be actioned until after LGR (These actions are being retained for transfer as part of the transition process). There are a further 43 recommendations not due for follow up, all of which will be followed up in the next review.

Analysis of outstanding recommendations

- Not implemented - replaced
- Not implemented - Revised Date agreed
- Closed - LGR
- Not implemented - no response
- Closed - Actioned
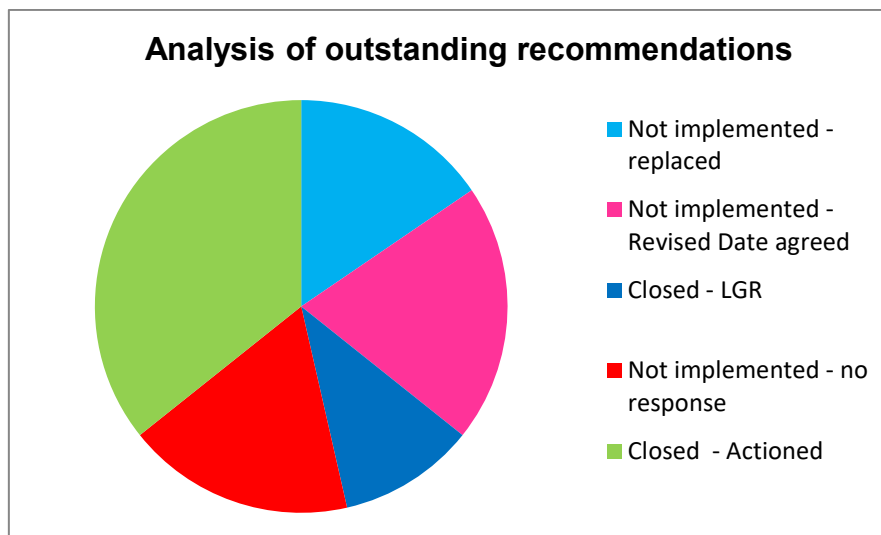
4.4   The rate of completed actions and limited responses to audit requests for updates is of significant concern, with 15 recommendations remaining open due to a lack of response. This issue has been raised by Internal Audit with Senior Management.

4.5   Internal Audit intend to utilise time in the plan through meeting regularly with responsible managers for all remaining outstanding actions to maximise the number of actions to be resolved in the final quarter of 2022/23, emphasising the importance in addressing outstanding issues, including the potential impact on Annual Head of Internal Audit opinion.

5.   **Amendments to Internal Audit Plan**

5.1   The 2022/23 Internal Audit plan includes a 20 day allocation for ICT services. The plan also includes a 10 day follow up of previous ICT recommendations, including the 2021/22 review of cyber security (partial assurances).

5.2   Discussions with ICT Services indicated any further reviews of ICT would not add significant value, as Internal Audit have already identified key areas of concern and the team are under pressure to deliver Local Government Re-Organisation. It is felt greater focus is needed on reviewing progress against the outstanding recommendations.

5.3   The following amendments are therefore proposed to the internal audit plan:

- Remove the proposed review of ICT Services (20 days)
- Increase ICT follow-up scope (10 days)
- Increase general contingency (10 days)

6.   **RISKS**

6.1   Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

7.   **CONSULTATION**

7.1   not applicable

8.   **CONCLUSION AND REASONS FOR RECOMMENDATIONS**

The Committee is requested to

i)   note the progress against the audit plan for 2022/23;

ii)   receive the final audit assignments as outlined in paragraph 2.3;

iii)   note the progress made on audit recommendations to date outlined in Appendix 2.

iv)   Approve the amendment to the Internal Audit plan outlined in paragraph 5.3

9.   **CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

9.1   To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

Contact Officer: **Michael Roper**   **Ext: 7520**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:
• **None**

CORPORATE IMPLICATIONS/RISKS:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider a summary of internal audit activity and summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

CARLISLE CITY COUNCIL
PROGRESS AGAINST REVISED AUDIT PLAN 2022/23

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Financial Services	MFS	Internal Control Questionnaires - Non Audited Systems	2	2	Final	July 22	N/A	
Council-Wide	MFS	Good Governance Principles / Local Code of Conduct	5	5	Final	July 22	N/A	
Human Resources	Follow-Up	Absence Management	5	5	Final	Sep 22	Reasonable	
Council-Wide	Governance	Corporate Internal Controls	5	9	Final	Dec 22	Substantial	
Council-Wide	Corporate	Risk Management	15	16	Final	Dec 22	Reasonable	
Neighbourhood Services	Directorate	Fleet Management (inc Strategy)	20	20	Final	Dec 22	Reasonable	
Regulatory Services	Directorate	Sustainable Warmth Grant	10	10	Final	Dec 22	Partial	
Financial Services	MFS	Financial Services Governance Arrangements	5	6	Final	Dec 22	Reasonable	
Health & Well-Being	Directorate	Bereavement Services	20	27	Final	Dec 22	Reasonable	
Financial Services	MFS	Treasury Management	15	19	Final	Dec 22	Substantial	
Revenues and Benefits	MFS	National Non Domestic Rates	20	12	Testing			
Financial Services	MFS	Car Parking Income	20	8	Testing			
Regeneration	Directorate	Town Deal - Business Assurance Framework	20	8	Testing			
Neighbourhood Services	Follow-Up	Neighbourhood Services (Culture)	5	0	Scoping			
ICT Services	Directorate	ICT Service Provision	20	0				
Property Services	Directorate	Building Maintenance	20	0				
Council-Wide	Counter-Fraud	Annual fraud review	5	0				
ICT Services	Follow-Up	ICT Recommendations	10	0				

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Property Services	Follow-Up	Property Income	5	0				
		Follow-up contingency	30	0				
		Counter Fraud Contingency	20	0				
		Advice & Guidance Contingency	10	6				
		Contingency	40	46				
		LGR Contingency	25	6				
		Audit Committee	20	0				
		Planning & Management	48	18				
		OVERALL TOTAL	**404**	**223**				

Ass Code	Uni Code	Audit	Directorate	Recommendation	Priority	Risk Exposure	Agreed action	Responsible Manager	Original Completion Date	Uni Ref (if diff)	Revised Completion Date (if applicable)	No.	Due	Status
A1802	3.1	Smarter Service Delivery (Reasonable)	Corporate Support	A process should be developed to archive and/or delete personal information held within both Salesforce and My Account, in line with suitable retention periods.	M	Council in possession of unnecessary personal information. Risk of breaching data protection legislation. Risk of fines and sanctions.	Scheduled deletion and disposal report tool is currently being configured. MyAccount specific privacy policy is being introduced with appropriate retention schedules applied.	Customer Services Manager	31 August 2018		1 March 22 (Review date)	9	Y	Due to continued resource issues within the ICT Application team and LGR representing a significant workload for both Customer Services and ICT has resulted in further delay. The groundwork is complete in identifying the content types that should be deleted but in order to make some progress focus will be given on deleting the straight forward records.
B1804	6.2	Casual, Interim & Agency (Reasonable)	Community Services	A process should be developed to ensure HR are aware of all new agency, casual and intermediary staff to ensure relevant employment checks and processes can be performed	M	There is a risk of reputational damage to the Council due to a failure to manage the contract appropriately	A new process will be implemented to ensure that the recommendations are met.	HR Manager	30 April 2019		30 September 2022 (review)	7	Y	Working group meeting held in June 2022 to review and refresh historic actions. Shared spreadsheet in place. Neighbourhood Services hold regular meetings with Agencies and update HR on employment checks. Closed as actioned.
A1801	5	Information Governance (Reasonable)	Governance & Regulatory Services	Recommendation 9 – Further work is required to ensure the Council stores and disposes of records in line with what is stated in its retention schedules, including particular work required from an ICT perspective.	M	Council retains unnecessary information	The Council's ICT systems will be reviewed to enable and support the deletion of electronic data. A review of the retention schedules and disposal logs will be added to the Information Governance Inspection Checklist.	ICT Services Manager/ Information Governance Manager	02 August 2019	3.2/5	30 September 2022 (review)	4	Y	This is a significant task that will not be achieved prior to vesting day (1 April 2022). Internal Audit will continue to liaise with responsible officers to ensure risks are considered in relevant workstreams and will continue to request Carlisle City Council officers review information governance risks. Closed (LGR)
A1903	5	Information Security (N/A - Memo)	Governance & Regulatory Services	R1. - A joint ICT and Information Governance document detailing planned and ongoing action to implement Information Security improvements should be created and managed.	M	Required improvement actions are not adequately recorded and managed resulting in reduced efficiency and inability to achieve the desired outcome.	A joint ICT and Information Governance Action Plan detailing planned and ongoing action to implement Information Security improvements will be created and managed.	Lead ICT Officer Infrastructure Management/ Information Governance Manager	31-Aug-21	5/3.2	30 September 2022 (review)	3	Y	This is a significant task that will not be achieved prior to vesting day (1 April 2022). Internal Audit will continue to liaise with responsible officers to ensure risks are considered in relevant workstreams and will continue to request Carlisle City Council focus on information governance risks.
A1903	5	Information Security (N/A - Memo)	Governance & Regulatory Services	R2. - The development and implementation of an Information Asset register should be included within a joint ICT and Information Governance action plan.	M	Information assets are not adequately identified or recorded.	Development of a corporate Information Asset Register will be added to the joint ICT and Information Governance action plan and will take into consideration existing lists of assets and information processing, with the potential to link them together.	Information Governance Manager	31-Aug-20		31 March 2022 (review)	3	Y	This is a significant task that will not be achieved prior to vesting day (1 April 2022). Internal Audit will continue to liaise with responsible officers to ensure risks are considered in relevant workstreams and will continue to request Carlisle City Council focus on information governance risks.
A1903	5	Information Security (N/A - Memo)	Governance & Regulatory Services	R3. – Corporate risks relating to Information Governance and Information Security should be formally identified, recorded, assessed and managed.	M	Exposure to unidentified/uncontrolled risks.	A review of existing risks and identification of other potential risks will be undertaken to ensure the Council's risk exposure is accurate and up to date.	ICT Lead Officer Infrastructure/ Information Governance Manager	31-Aug-21	5/3.2	31 March 2022 (review)	3	Y	There is another recommendation (ICT follow-up) in relation to updating risk registers for the service. Closed as replaced.
D1901	2.1	Tullie House (Reasonable)	Community Services	Recommendation 8 – The Council should obtain assurances that performance information represents value for money and continuous improvement	M	Failure to ensure delivery of VFM.	To be discussed at next contract monitoring meeting and actions agreed and recorded	Health & Well-Being Manager	26-Feb-20		31 March 2021	4	y	Started, but was on hold as both organisations need to prioritise response to Covid-19 pandemic. Revised date agreed. Revised date agreed.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 1 – A review of the procedure notes should be undertaken.	M	Procedural changes are not formally recorded and a lack of service continuity in the absence of staff.	Procedure notes will be reviewed and updated where necessary.	Bereavement Services Manager	30th Nov 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 2 – Management should ensure that the identified team priorities are addressed.	M	Identified critical factors which hinder the service are not addressed.	Once R3 is implemented a new appraisal will be completed and team priorities addressed.	Bereavement Services Manager	30th June 2020		30 July 2022	5	Y	Review completed. Closed as actioned.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 4 - The Provision of Crematoria Mutual Aid agreement should be reviewed and updated to ensure that it complies with legislation.	M	Exceeding budget with the use of casual staff.	Discussions will be held with Copeland Council and Legal Services to update the agreement to ensure it is covering the necessary legislation	Bereavement Services Manager	30th April 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 5 – The retention schedule and privacy statement should be reviewed to ensure the same retention period is applied.	M	Non-compliance with GDPR legislation resulting in service user details being shared without permission.	The retention schedule will be updated to reflect the current practices and the privacy statement. Discussion will be held with the Information Governance Manager.	Bereavement Services Manager	30th April 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 7 – The memorial forms should be reviewed so that service users are aware their data is being sent to a third-party provider.	M	Non-compliance with GDPR legislation.	Memorial forms will be reviewed and updated accordingly.	Bereavement Services Manager	30th April 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.

Ref	No.	Service Area	Directorate	Recommendation	Priority	Risk	Management Response	Responsible Officer	Target Date		Revised Date	Rating	Y/N	Status
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 10 – The premises handbook should be completed in full.	M	Non-compliance with Council procedures.	Full review of the premise's handbook will be completed.	Bereavement Services Manager	30th Nov 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.
D1902	2.1	Bereavement Services (Reasonable)	Community Services	Recommendation 12 – The Surveillance Camera Operating Procedure should be completed, and the signage updated in line with the procedure.	M	Non-compliance with Council procedures.	The Surveillance Camera Operating Procedure will be completed and implemented.	Bereavement Services Manager	30th April 2020		30 July 2022	5	Y	Confirmed as still outstanding as part of recent review of Bereavement Services (B2201). New recommendation included. Closed as replaced.
D2002	2.1	City Centre (Reasonable)	Community Services	Recommendation 7: Delegated authority / responsibility for issuing pavement café licences should be included in the relevant Scheme of Delegation.	M	Pavement café licences may be granted / rejected without proper authorisation which may lead to reputational damage to the Council.	Health and Wellbeing Services Manager to include pavement café licences in the relevant Scheme of Delegation.	Health and Wellbeing Services Manager	29-Jan-21		30 August 2021	5	Y	No response to follow up request.
G2005		Payroll (Reasonable)	Community Services	Recommendation 1 – Review of staff procedure notes, and wider suite of policies, guidance documents and forms on the intranet to ensure alignment to financial regulations, clarity for new members of staff, and regular update.	M	Service cannot wholly demonstrate that they have interpreted and applied the financial regulations that relate to payroll. / New staff are unclear on how to run payroll at short notice./ Key forms and documents are not current.	Ensure that there are clear procedure and guidance documents for payroll staff, that align to financial regulations. Ensure that documents and forms are updated on the intranet and dated so that all staff know they are using/viewing the most update version.	HR Manager /Payroll & i-Trent Supervisor	31-Mar-22		30 September 2022	3	Y	Review ongoing.
G2005		Payroll (Reasonable)	Community Services	Recommendation 2 – Review the critical service recovery arrangements to ensure that there are fully tested and documented planning arrangements in place for all key scenarios, that can be actioned at short notice.	M	Payroll unable to be run. Comprehensive planning not in place for alternative arrangements.	Review the critical service recovery arrangements and agree on a plan and ensure it is documented.	Deputy TC & CE /HR Manager /Payroll & i-Trent Supervisor	31-Dec-21		20 September 2022	3	Y	Relevant discussions and updates not taken place to date. Review delayed.
G2005		Payroll (Reasonable)	Community Services	Recommendation 6 – Personal data to be retained and disposed of for the Authority and Community Centres in line with the corporate records management policy.	M	Carlisle City Council may not comply with UK GDPR and could be subject to legal challenge.	To dispose of payroll filing in line with retention and disposal rules. Ensuring that the disposal log is updated correctly.	HR Manager / Payroll & i-Trent Supervisor	31/03/22 (depending on Covid 19 & access to the office)		30 September 2022	3	Y	Disposal has now started and disposal log is being completed. Close as actioned.
G2005		Payroll (Reasonable)	Community Services	Recommendation 7 – Management to keep a record of the availably of software releases and document the reasons if IT rent is not updated with a release.	M	Reasons for not updating IT rent available software releases not fully transparent.	To create and keep an update a log of i-Trent system updates.	HR Payroll & i-Trent Supervisor Manager/ Lead ICT Officer	30-Jun-21		30 September 2022	3	Y	Log in place and updated regularly. Closed as actioned.
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 2 – Guidance documents to be regularly reviewed and updated with consideration given to DWP good practice.	M	Content of key documents not current or align to DWP good practice guidance.	Documentation to be reviewed in accordance with DWP circulars and relevant good practice guidance	Revenues and Benefits Operations Manager	31st December 2021			4	Y	No response received
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 4 – Staff training requirements to be regularly assessed with outcomes recorded.	M	Staff are not fully trained to carry out their role.	All staff training requirements to be captured and documented.	Revenues and Benefits Operations Manager	31st January 2022			4	Y	No response received
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 5 - Collection and Recovery Policy to be finalised and published.	M	Service priorities are unclear to staff.	Documentation to be reviewed and formally approved for publication.	Recovery Team Leader	31st December 2021			4	Y	No response received
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 6 – Update the current arrangements in place with the Authority's collection agent.	M	Level of service of Collection Agent is not formally agreed and falls below expectations.	Agreement to be reviewed with monitoring arrangements and information reviews to be re-instated.	Recovery Team Leader	30th September 2021			4	Y	No response received
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 8 - The Systems Support Team should apply the archiving tool provided to the Academy system to ensure historic records no longer required are deleted on a timely basis.	M	Authority may not be fully compliant with UK GDPR	Archiving processes to be commenced and appropriate records removed.	Systems Support and Control Manager	31st March 2022			4	Y	No response received
G2006		Housing Benefits (Reasonable)	Finance & Resources	Recommendation 11 – Clear recovery targets to be set for Overpayment Recovery staff in line with DWP good practice guidance.	M	Overpayment recovery is not efficient and effective	Target performance to be determined, based on previous years collection performance.	Recovery Team Leader	31st October 2021			4	Y	No response received
E2003		Electoral Services (Reasonable)	Governance & Regulatory Services	Recommendation 1 – A review of all responsibilities for electoral services should be conducted across the Council and assurances should be obtained that arrangements are in place to cover these responsibilities (named substitutes and formal procedures). In addition, local procedural notes should be formalised and made available to all officers.	M	Lack of guidance for City Council specific tasks.	Electoral Services Officer will formalise their procedure notes and will consult Director on review of responsibilities.	Electoral Services Officer / Corporate Director Governance & Regulatory Services	30-Nov-21		30.12.22	4	y	Following an agreed process put in place for LGR, the need to further update procedure notes has been superseded by LGR. Closed (LGR)
E2003		Electoral Services (Reasonable)	Governance & Regulatory Services	Recommendation 2 – The Electoral services team should be involved in completing and reviewing the relevant operational risk register.	M	Failure to identify and mitigate all relevant risks.	Will prepare document to be amended/updated when necessary.	Electoral Services Officer	30-Nov-21			4	y	Risk register updated including Electoral Risks. Closed as actioned.
E2003		Electoral Services (Reasonable)	Governance & Regulatory Services	Recommendation 3 – Risk registers for individual elections should be presented to Senior Management to provide assurances that appropriate actions are in place to manage risk.	M	Failure to identify and mitigate all relevant risks.	Will prepare a risk register and make available for SMT.	Electoral Services Officer	30-Nov-21			4	y	No election since previous audit. Unlikely to be until after vesting day. Closed (LGR)
E2003		Electoral Services (Reasonable)	Governance & Regulatory Services	Recommendation 4 – Individual election plans should include an evaluation section and further documentation should be complete such as Activity Plans and Engagement Strategies, in line with recognised best practice.	M	Failure to adhere to all relevant statutory requirements.	Add this to the planner already used in Electoral Services, however time constraints in the weeks leading up to an election may limit the content.	Electoral Services Officer	30-Nov-21			4	y	No election since previous audit. Unlikely to be until after vesting day. Closed (LGR)

Ref		Area	Service	Recommendation	Pr	Risk	Management Response	Officer	Original Date	Revised Date		Y/N	Status
E2003		Electoral Services (Reasonable)	Governance & Regulatory Services	Recommendation 6 – The Electoral Services privacy statement should be updated to include reference to the National Fraud Initiative.	M	Breach of data protection legislation through failing to adequately notify individuals on how data will be processed.	Consult with Information Governance Manager and put in place.	Electoral Services Officer	30-Nov-21		4	y	Privacy statement updated. Closed as actioned.
G2003		Debtors (Substantial)	Finance & Resources	Recommendation 1 – To implement an Annual Review & Sign-off by Team Leader on Debtors process to provide assurances no significant changes have taken place within the service in the past year	M	Inaccurate/inefficient/inappropriate debt recovery due to failure to adhere to agreed process	Set up a reminder to review and sign off current procedure manual annually (as documented per 5.2.1).	Financial Services Manager	30-Jun-21	02 January 1900	1	y	Due to current resourcing issues, the current processes and procedures have been required to provide cover and have proved to be detailed and accurate. LGR has superseded the requirement to sign off the current procedures annually (but may be subject to review if sovereign Debtors system is to continue). However, the requirement for updated unitary procedures and annual sign off has been highlighted in the relevant workstream. Closed as actioned.
C2002		Major Funding Streams - Ec Dev (Reasonable)	Economic Development	Recommendation 5 – Review and update the project management handbook.	M	Projects do not follow best practice or achieve positive outcomes.	Review and update the project management handbook.	Project and Performance Manager in consultation with project managers.	31-Dec-21	30 June 2022	2	y	Corporate Review of Project Management Handbook delayed due to LGR and other pressures. Focus has been on APM training for project managers / PMO staff and the creation of new project proformas. In light of LGR a new Project Management approach will need to incorporate learning from the four merging Councils in April 2023. Closed (LGR)
C2002		Major Funding Streams - Ec Dev (Reasonable)	Economic Development	Recommendation 6 – Review the use of SharePoint Repository.	M	Project decisions delayed through availability of project documentation.	Review use of SharePoint repository. / Assign responsibility for management of repository. Regularly update major projects group on missing content.	Project and Performance Manager in consultation with service managers	31-Jul-21	30 June 2022	2	y	SharePoint site for Econ Dev PMO established June 2022. All Towns Fund programmes included as well as UKSPF and REPF as other funding streams become live. Closed as actioned.
D2001		Community Centres (Reasonable)	Community Services	Recommendation 2 - To develop a training program to provide updated Trustee training for elected members and appointees who have roles on the various Charitable Trust Boards	M	Risk of inappropriate and inconsistent Governance arrangements across the Community Centres	Contact APSE to arrange Trustee training for elected members and appointees who have roles on Charitable Trust Boards.	Healthy City Team Manager	30/12/21	30 September 2022	3	Y	Initial contact made with Organisational Development, but more time required to enable training to be devised and delivered.
D2001		Community Centres (Reasonable)	Community Services	Recommendation 4 – Reinstate Annual Agreements with Community Centres	H	Unclear funding arrangements, and reputational risk to The Authority	Reinstate annual agreements.	Healthy City Team Manager	01/04/22	30 September 2022	3	Y	Agreements in place. Closed
D2001		Community Centres (Reasonable)	Community Services	Recommendation 7 – To ensure that updated lease agreements are put into place with appropriate maintenance and improvement criteria clauses incorporated.	M	Risk of Council Assets not being utilised and managed in an appropriate manner as set out in the SLA and funding arrangements	Work with the property team to ensure that update lease agreements are in place. /Implement monitoring of lease to under lease expiry dates.	Property Services Manager	01/04/22	01 July 2022	3	Y	Tasked to Property Services. Work ongoing.
H2101		Third Party Grant Payments - VFM (Reasonable)	Community Services	Recommendation 3 – Reinstate annual agreements with third sector organisations.	M	Third sector organisations unclear on the best value standards to be achieved.	New grant funding agreements being drafted by Legal to be signed by all third sector organisations	Healthy City Team Manager	30/09/21	30 September 2022	3	Y	Annual agreements now in place. Closed.
H2101		Third Party Grant Payments - VFM (Reasonable)	Community Services	Recommendation 6 – Regular monitoring of third sector organisation performance.	M	Third sector organisation does not meet the required performance standards and management unaware.	Performance of grant agreements to be monitored on a quarterly basis.	Healthy City Team Manager	09/07/21	30 September 2022	3	Y	Monitoring reports now prepared and presented. Closed.
A2103		Corporate Internal Controls (Reasonable)	Community Services	Recommendation 1 – A process should be established to ensure responsible officers check all course content on a regular basis (annually) to verify it is still up to date and relevant.	M	Training out of date and does not cover latest requirements (including legal or legislative changes)	Process to be put in place to check compliance of regulatory modules with appropriate lead officer	Workforce Development Manager	01 February 2022		1	Y	Tested as part of recent review of corporate controls. Confirmed as actioned.
A2103		Corporate Internal Controls (Reasonable)	Community Services	Recommendation 2 – A review of the coding structure and assignment of modules within Skillsgate should be undertaken to maximise efficient and consistent allocation of modules.	M	Officers do not get assigned relevant training.	OD to review current structure for ease of use, accuracy and efficient use.	Workforce Development Manager	01 January 2022		1	Y	Tested as part of recent review of corporate controls. Confirmed as actioned.
A2103		Corporate Internal Controls (Reasonable)	Community Services	Recommendation 3 – Regular analysis of non compliance with mandatory training should be undertaken to identify areas of the Council that are not engaging with the mandatory training programme.	M	Officers exposed to risks due to not undertaking mandatory training.	OD currently provide reports to SMT these will be delivered more frequently (quarterly) with additional request for support highlighting risk.	Workforce Development Manager	01 January 2022		1	Y	Tested as part of recent review of corporate controls. Confirmed as actioned.
A2102		Environmental Strategy (Reasonable)	Community Services	Recommendation 7 - Set a timetable for completion of communication and engagement planning.	M	Loss of Council reputation and partner engagement.	Finalise communication and planning alongside a new action plan (Rec.1).	Policy and Communications Manager	01 January 2022	31 April 2023	2	Y	Communication of activities is ongoing, with evidence of planned events. Delays necessary due to LGR, but combined action plan will be required.
M2002	2.6	Partnership VFM (Reasonable)	Community Services	Recommendation 2 – Once an approved strategy with agreed shared objectives and priorities has been established a framework for measuring progress against objectives should be designed and monitored by the Partnership on a regular basis, using a combination of narrative and quantitative measures	M	Failure to ensure suitable progress being made to achieve priorities.	Options to be discussed as part of preparation of Strategy, including potential Task and Finish Group and further consultation with Internal Audit.	Partnership Manager	31 June 2021		3	Y	Actions identified to achieve partnership objectives now monitored on a regular basis using RAG monitoring process. Task and finish group work to identify KPI with further feedback provided by Internal Audit at last meeting. Development ongoing.
M2002	2.6	Partnership VFM (Reasonable)	Community Services	Recommendation 3 – Once the Partnership's strategy has been agreed the risk register should be reviewed to ensure it includes all risks relevant to the achievement of agreed shared objectives.	M	Emergence of unexpected and unmitigated risks.	Task and finish group to be established to review existing register and then become regular agenda item at a future meeting	Partnership Manager	30-Jun-21		3	y	Risk reviewed at quarterly meeting. Closed.
M2002	2.6	Partnership VFM (Reasonable)	Community Services	Recommendation 4 – The register should be owned, assessed, monitored and updated collectively by the full Partnership Executive on a regular basis.	M	Failure of Partnership to take joint responsibility of achievement of shared objectives.	Register currently reviewed by Partnership on a quarterly basis. Identify a co-chair who can support / lead on risk and assist with regular checks / updates.	Partnership Manager	30-Jun-21		3	y	Ownership of risk register established. Closed

Ref	No.	Area	Service	Recommendation	Pri	Risk	Management Response	Responsible Officer	Target Date		Revised Date		Y/N	Update
G2004	6.1	Income (Reasonable)	Finance & Resources	Recommendation 2 – Arrangements, authorisation and limits for holding income within individual service areas should be formalised and documented.	M	Inadequate governance leading to non-compliance with Financial Procedure Rule requirements resulting in inconsistent practices and increased exposure to the risk of theft and fraud.	Scheme of Delegations to be updated to include arrangements, authorisation and limits for holding income.	Financial Services Manager	30-Sep-21		31 March 2022	3	y	A change in personnel has led to the identification that all procedures and process notes should be moved over to a designated SharePoint site which would also allow for: easy access, modification, periodic review and sign-off. It would also provide greater resilience due to the staffing risks surrounding LGR. Progressing but best way forward still being reviewed as part of LGR.
G2004	6.1	Income (Reasonable)	Finance & Resources	Recommendation 3 – PCI-DSS non-compliance should be subject to formal risk assessment activity to identify and facilitate implementation of required controls, action planning and sources of assurance (both short and long-term).	H	Failure to comply with Payment Card Industry (PCI) Security Standards leading to loss or compromised data and resulting in fines or sanctions.	A risk assessment be completed for PCI-DSS non-compliance and added to the Corporate Risk Register	Financial Services Manager / Customer Services Manager	31-Dec-21		01 June 2022		y	The risk has been added to the Corporate Risk Register. In summary: Following the introduction of new telephony systems, we are working with suppliers to understand the integration possibilities between the telephony and payment platforms. This will be difficult to introduce in the current climate with LGR vesting day being so close. However, the operational risk assessment flags the importance of PCI compliance for future transformation, specifically when reviewing governance framework
G2102		Fin Services Gov (Reasonable)	Finance & Resources	Recommendation 1 – Financial Services should prioritise progress of plans to utilise available funding and salary savings to support the increasing pressures on the service.	M	Additional workload pressures impact service delivery through limited capacity.	Funding is available through the PMO for increasing resources in finance. Plans will be made as to how best to utilise this funding.	Head of Financial Services	30 June 2022				Y	Further staff changes resulted in Financial Services restructuring and amending roles. Closed as actioned.
G2102		Fin Services Gov (Reasonable)	Finance & Resources	Recommendation 2 – A more formalised risk identification process should be put in place, supported by use of appropriate analysis techniques and involving other Council officers on a regular basis.	M	New risks are not formally identified and mitigated.	The process for risk identification will be examined to ensure all risks are appropriately considered	Head of Financial Services	30 June 2022				Y	A structured approach to risk identification was evidenced. Closed as actioned.
G2102		Fin Services Gov (Reasonable)	Finance & Resources	Recommendation 3 - Mitigating actions need reviewed to ensure they are concise, complete and represent actual risk management processes in place	M	Risk register provides false assurances in relation to controls in place to mitigate risk.	The Risk Register is reviewed quarterly and the next review will ensure mitigating actions are appropriately recorded	Head of Financial Services	30 June 2022				Y	Cyclical review in 2022/23 identified action still outstanding. Closed as replaced.
G2102		Fin Services Gov (Reasonable)	Finance & Resources	Recommendation 4 – Staff should be reminded of good practice in relation to protecting sensitive information.	M	Fines and reputational damage incurred as a result of a data breach	A reminder has been issued to all staff on 14/01/22	Head of Financial Services	14 January 2022				Y	Cyclical review in 2022/23 identified action still outstanding. Closed as replaced.
G2102		Fin Services Gov (Reasonable)	Finance & Resources	Recommendation 5 – Management should prepare an action plan assigning responsibility and timescales for a review of paper and electronic records held by the service.	M	Fines and reputational damage incurred as a result of a data breach	Consideration will be given to the appropriate methods of ensuring all records are reviewed	Head of Financial Services	30 December 2022				Y	Cyclical review in 2022/23 identified action still outstanding. Closed as replaced.
J2104		Covid-19 Grants - Counter Fraud (Partial)	Finance & Resources	Recommendation 1 – Use the post-payment assurance process to demonstrate that eligibility criteria has been met; and that error and fraud has been minimised.	H	Payments made to ineligible or fraudulent claimants, or in error.	Eligibility and evidence for a sample of payments aligned to the review of likely incidence of fraud and error to be reviewed, with results documented / Independence and size of sample reviewed to be agreed with Corporate Director for Finance and Resources	Head of Revenues & Benefits Services / Revenues Team Leader / Head of Administration and Performance Management	30th Sept 2022				Y	Formal follow up to be undertaken.
J2104		Covid-19 Grants - Counter Fraud (Partial)	Finance & Resources	Recommendation 2 – Review the likely incidence of fraud and error that may have occurred for all schemes and investigate findings as part of the post-payment assurance assessment.	H	Payments made to fraudulent claimants or made in error.	Review of likely incidence of fraud and error for all schemes to be conducted	Revenues Team Leader / Head of Administration and Performance Management	30th Sept 2022				Y	Formal follow up to be undertaken.
B2101		Sands Centre Development	Neighbourhood Services	1 - Review reasons for overdue actions	M	Actions not reviewed on a timely basis	Actions recorded (with agreed deadlines) using the MS Planner will be reviewed at the start of each SCRIPT meeting.	DCEO	10th May 2022 onwards				y	First informal follow-up scheduled.
B2101		Sands Centre Development	Neighbourhood Services	2 – Record acceptance of assigned responsibilities by the Project Board and wider project team members.	M	Reduced accountability and transparency of individual and group performance	A review of the 'assigned responsibilities' will be undertaken and a record of acceptance will be made.	DCEO	24th May 2022				y	First informal follow-up scheduled.
B2101		Sands Centre Development	Neighbourhood Services	3 - Project Board members to formally record regular review and agreement of the project risk register	M	Key risks escalate and Project Board members are unaware	A review of the project risks will be undertaken quarterly (or at more frequent intervals if necessary) and recorded at SCRIPT.	DCEO	24th May 2022				Y	First informal follow-up scheduled.
B2103		Recycling (Perf Info)	Neighbourhood Services	Recommendation 1: Guidance should be documented for all tasks relating to recycling performance information and should include relevant records management metadata (review date, version control and author).	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur that may lead to inaccurate information or reputational damage to the Council.	Most of this has already been completed. There is just the Waste Data Flow procedure left to complete.	Team Manager – Technical Services	30 June 2022				y	Work ongoing on waste data-flow procedure.

Ref	Area	Service	Recommendation	Priority	Risk	Management Response	Responsible Officer	Target Date	Revised Date		y	Update
B2103	Recycling (Perf Info)	Neighbourhood Services	Recommendation 2: Guidance should be documented in relation to targets and the calculation methodologies used for each of the performance standards reviewed.	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur that may lead to inaccurate information or reputational damage to the Council.	The existing guidance will be reviewed and updated to provide greater clarity on targets and the calculation methodologies used for each of the performance standards.	Policy & Communications Manager	30 September 2022	30 January 2023		y	Guidance not prepared to date due to secondments to team member secondments to LGR roles. Anticipated to be completed in January 2023.
B2103	Recycling (Perf Info)	Neighbourhood Services	Recommendation 3: A note should be included in the quarterly performance report when reported figures include projections rather than actuals due to unavoidable time lags.	M	Inaccurate assurances over current performance, as management unaware of extent of estimation in place.	Figures that are estimates or projections, or include a component of either, will be marked with a footnote in the Quarterly Performance Reports.	Policy & Communications Manager	06 May 2022			y	Formal checks for predictions now performed quarterly. Closed as actioned.
D2101	Development Management (Complaints)	Economic Development	Recommendation 1 - The SharePoint complaints tracker for development management complaints should be set up along with documented guidance for both staff and public to use.	H	If processes and procedures are not clearly set up and documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur that may lead to inaccurate information or financial or reputational damage to the Council.	Set up the Share Point system and train relevant staff on the procedures along with guidance	Head of Development Management	31 June 2022			y	A SharePoint site with Development Control Complaints tracker has been designed and created. Implementation and training of staff still to take place. Progress with this during Q3 2022/23.
D2101	Development Management (Complaints)	Economic Development	Recommendation 2 - Development Management should publish their complaints document retention information in the Council's Document Retention Schedule and in their privacy notice which should be published on the Council's website as soon as possible.	M	Failure to adhere to all relevant statutory requirements and breach of data protection legislation through failure to adequately notify individuals on how data will be processed.	Draft policy requires revisions and uploading to website in liaison with the Council's DPO	Head of Development Management	31 August 2022			y	To follow implementation of the SharePoint site.
D2102	FHSF	Economic Development	Recommendation 1 – Periodic review and acceptance of terms of reference.	M	Reduced level of accountability of key governance group members.	FHSF Programme Manager to review and update the Terms of Reference for project / programme governance groups at appropriate stages in the programme to ensure roles and responsibilities accurately reflect the activity and decision-making required (i.e., transition from project development to implementation)	Head of Regeneration	Ongoing			y	Review taken place in line with current programme status. Closed as actioned.
D2102	FHSF	Economic Development	Recommendation 2 – Put a documented arrangement in place with physical and virtual PMO's.	M	Potential for reduced level of service.	The PMO team to provide support to the FHSF Programme Manager and project governance groups in terms recording minutes, decisions and actions.	Head of Regeneration / Head of Administration and Performance Management	01 July 2022			y	PMO support to FHSF, use of PMO SharePoint repository, meetings support and preparation of M& E returns to DLUHC. Closed as actioned.
D2102	FHSF	Economic Development	Recommendation 3 – Put a documented arrangement in place to demonstrate risk register review, agreement and attendance.	M	Risks escalate with management unaware.	The individual SROs and project governance groups will report / update risks to the FHSF Programme Manager, who will provide them to the PMO. The PMO will then collate these into a highlight report / risk register that will be considered by the FHSF Programme Steering Group. This will be a stranding item on the Programme Steering Group agenda.	Head of Regeneration / Head of Administration and Performance Management	Ongoing – but with review of systems and processes by July 2022			y	All FHSF project updates collated by the PMO, incorporated within the Highlight Reports. Closed as actioned.
D2102	FHSF	Economic Development	Recommendation 4 – Programme Steering Group to regularly record review and decisions taken on project milestone and financial reporting.	M	Milestones are not met and costs escalate with Programme Steering Group unaware.	Establish a SharePoint site repository for the EcDev regeneration programmes where key FHSF project / programme information is to be held. Set up a process and timetable for reviewing and where necessary updating key information so that the repository remains up-to-date.	Head of Regeneration / Head of Administration and Performance Management	01 August 2022			y	Programme Steering Group - Economic Major Projects Board has been in operation for several years. They receive highlight reports and discuss progress on programmes / projects including risk / issues. PMO SharePoint site established June 2022. Incorporates all Towns Fund programme information and returns. Closed as actioned.
G2105	Creditors	Finance & Resources	Recommendation 1 – Review process in place to verify that segregation of duties is maintained.	M	Orders placed which are outside the scope of service requirements and/ or fraudulent.	A reminder will be issued to all staff to advise that all orders must be appropriately authorised either manually or electronically	Head of Financial Services	31 July 2022			y	Email sent by Steven Tickner to VAR Management Briefing Attendance on 18/07/2022 'Ordering and Paying for Goods and Services and Petty Cash'. Closed as actioned.
G2105	Creditors	Finance & Resources	Recommendation 2 – Remind officers of their responsibilities and flag any non-compliance with management.	M	Cash spent which is not subject to scrutiny and/ or outside the scope of service requirements and/ or fraudulent.	A reminder will be issued for the appropriate use of petty cash	Head of Financial Services	31 July 2022			y	Email sent by Steven Tickner to VAR Management Briefing Attendance on 18/07/2022 'Ordering and Paying for Goods and Services and Petty Cash'. Closed as actioned.
G2105	Creditors	Finance & Resources	Recommendation 3 – Introduce document management arrangements to demonstrate regular review and update.	M	Staff directed to carry out processes that are no longer fit for purpose and do not reflect current practice.	Version control will be added to the purchase order procedure manual and the manual will be reviewed	Head of Financial Services	31 July 2022			y	LGR has superseded the requirement to introduce document control. However, the requirement for updated unitary procedures and annual sign off has been highlighted in the relevant workstream. Closed due to LGR.
G2105	Creditors	Finance & Resources	Recommendation 4 – Periodic management oversight of financial system access.	M	Segregation of duties not maintained and/ or staff access which is outside the scope of duties.	Starters and leavers are notified via HR and removed from the system. A review will be undertaken every 6-months to check system users	Finance Officer (Systems Controls and Development)	30 September 2022			y	User access is dictated by the starter / leaver notifications. A periodic review has been diarised. Closed as actioned.

Ref	Area	Directorate	Recommendation	Priority	Risk	Action	Responsible Officer	Target Date				Agreed	Update
G2105	Creditors	Finance & Resources	Recommendation 5 – Review the effectiveness of current processes in place to detect duplicate invoices	M	Controls in place are not robust enough to detect duplicate payments for the same goods/ services.	A review of the current process will be undertaken to see if any improvements can be made	Finance Officer (Systems Controls and Development)	30 September 2022				y	The current process in place is robust and a daily 'Possible Duplicate Creditor Invoices' report is automatically generated and reviewed. The results of the recent NFI submission should validate that the current process is effective. Closed as actioned.
G2105	Creditors	Finance & Resources	Recommendation 6 – Oversight of bank detail changes to verify the robustness of checks carried out.	H	Controls in place are not robust enough to detect fraudulent payments.	A review of the process for bank detail changes will be undertaken	Finance Officer (Systems Control and Development)	30 September 2022				y	Process to be reviewed December 2022.
G2104	MAS	Finance & Resources	Recommendation 1 – Further align resource transfers to the financial procedure rules	M	Inappropriate virements are made without suitable consideration and authorisation.	Further details will be provided on budget adjustments to ensure they align to a relevant Financial Procedure Rule	Head of Financial Services	30 September 2022				y	Financial Procedure Rules are being reviewed for new Cumberland authority and as such will include changes to virement and budgetary adjustment rules. Closed due to LGR
G2104	MAS	Finance & Resources	Recommendation 2 – Review document management arrangements for the financial guide	M	Staff error due to lack of direction on how to carry out financial processes.	Any policies and procedures that are used in finance will be reviewed but consideration of resource requirements and potential moves to new processes under LGR will be taken	Head of Financial Services	31 March 2023				y	Policies and procedures are being reviewed as part of the LGR work. There will be new policies and procedures for the new Cumberland authority systems and processes. Closed due to LGR
G2104	MAS	Finance & Resources	Recommendation 3 – Reinstate the monthly bank reconciliation supervisory review and authorisation	M	Bank reconciliation errors may not be identified in a timely manner.	The monthly bank reconciliation review will be reinstated	Head of Financial Services	30 September 2022				y	Review process to be reinstated. In progress.
G2104	MAS	Finance & Resources	Recommendation 4 – Review the journal authorisation process	M	Journal errors may not be identified in a timely manner.	The current journal authorisation process will be reviewed to determine whether email authorisation provides greater control than attaching electronic signatures	Head of Financial Services	30 September 2022				y	Journals are authorised via email authorisation. Closed as actioned.
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 1 – The Council should ensure Contract Procedure Rules are updated on a regular basis.	Medium	CPRs do not reflect processes in place.	Contract Procedure Rules will not be updated for the City Council due to LGR. New CPR's for Cumberland Council will be developed in line with a new constitution. Issues identified in audit will be passed to officers responsible for preparing new rules.	Head of Financial Services	31 March 2023				y	CPR's for Cumberland are in the process of being established as part of the wider constitution. Closed due to LGR
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 2 – The Council should regularly review all relevant policies and procedures against current developments within the procurement fraud risk environment.	Medium	No policy to manage contemporary issues within risk environment.	A review process will be established to ensure any risks that are highlighted for procurement fraud can be measured	Head of Financial Services	30 September 2022				y	New policies and procedures are currently being developed for Cumberland so updates are unlikely to the Carlisle procedures. Closed due to LGR
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 3 – Training and/or information should be provided to budget holders to help maintain awareness of current procurement fraud issues	Medium	Responsible officers unaware of current developments and issues within risk environment.	A process will be investigated to determine how best to disseminate information of current procurement fraud issues to service managers	Head of Financial Services	30 September 2022				y	Procurement Fraud will be included in the annual procurement training. Progress to be checked when training next provided.
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 4 – A process should be put in place to ensure the procurement fraud risk environment is closely monitored and consideration should be given to including management of this risk within the Council's operational risk registers	Medium	Limited awareness and failure to manage new and emerging risks	Inclusion of procurement fraud in the operational risk register for finance will be considered	Head of Financial Services	30 September 2022				y	Will be included in the finance operational risk register under the Procurement Risk at the next update
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 5 – Recruitment processes should be adhered to, including the collection of appropriate references.	Medium	Council employs individual previously engaged in unethical or fraudulent behaviour.	To revisit process with team and instigate monitoring with immediate effect. Additional resourcing to be identified to support role.	Head of HR and Payroll	25 May 2022				Y	First informal follow-up scheduled.
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 6 – The Council should consider whether posts attracting a degree of fiscal responsibility should be subject to disclosure checks.	Medium	Council employs individual previously engaged in unethical or fraudulent behaviour.	All new employees offered roles from 1st June will be subject to basic disclosure checks as minimum.	Head of HR and Payroll	01 June 2022				Y	First informal follow-up scheduled.
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 7 – Adherence to contract procedure rules should be monitored and challenged on a regular basis.	High	Value for money not attained / challenge from competitors / failure to meet legal & regulatory obligations	A process will be put in place whereby aggregated spend with suppliers is monitored on a regular basis and compared to the contracts register. Where no contract exists, the manager will be informed and asked to consider whether a formal procurement process is required	Head of Financial Services	30 September 2022				y	Procurement and Insurance Officer has started carrying out monthly spend analysis. Closed as actioned.
J2104	Procurement (Counter-Fraud)	Finance & Resources	Recommendation 8 – A Regular reminder should be issued to all staff with fiscal responsibility to declare potential conflicts of interest to their line manager	Medium	Conflicts of interest	A reminder will be issued to all staff with budget responsibility to report any conflicts of interest to their line manager	Procurement and Insurance Officer	30 June 2022				Y	Reminder issued. Closed as actioned.

Recommendation evidenced as actioned (Closed)	(green)
Recommendations evidenced as part actioned and replaced by new recommendation (Closed)	(light green)
Recommendation no longer relevant due to change in circumstances (Closed)	(blue)
Rec will not be implemented by Carlisle City Council. #Move to schedule of recommendations to be considered during transition.	(light blue)
Formal Audit follow up scheduled	(orange)
Management Statement scheduled to request evidence of implementation	(yellow)
Recommendation not actioned - revised timescales for implementation agreed (or rec replaced)	(pink)
Follow up scheduled for recommendation previously identified as unactioned	(purple)
Recommendation reviewed and not confirmed as actioned (no response/revised timescales have passed)	(red)

Carlisle City Council
Report to Audit Committee

Item A.1(i)

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Corporate Internal Controls
Report of:	Corporate Director Finance & Resources
Report Number:	RD.46/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Corporate Internal Controls.

Recommendations:

The Committee is requested to

(i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of Corporate Internal Controls was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides substantial assurances and includes 1 medium-graded recommendation.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

 Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Corporate Internal Controls– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Corporate Internal Controls (Appraisals, E-Learning & Intranet)

Draft Report Issued: **16 September 2022**
Director Draft Issued: **28 September 2022**
Final Report Issued: **30 September 2022**

Audit Report Distribution

Client Lead:	Workforce Development Manager
Chief Officer:	Chief Executive Deputy Chief Executive Corporate Director of Governance & Regulatory Services Corporate Director of Finance & Resources Corporate Director of Economic Development
Others:	Head of Policy & Performance
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Corporate Controls (Appraisals, E-Learning & Intranet). This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 23rd March 2022.

1.2. Due to the number of recommendations being made in internal audit reviews relating to limited uptake of annual appraisals and mandatory e-learning it was agreed that an annual audit of the associated processes would add greater value being conducted at a corporate level. Due to Internal Audit concerns about intranet content, this was also included within the scope of the review.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was the Workforce Development Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Failure to achieve business objectives due to insufficient embedding of agreed corporate governance controls.

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Corporate Internal Controls (Appraisals, E-Learning & Intranet) provide **substantial assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	-
3. **Information** - reliability and integrity of financial and operational information (N/A)	-	-
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	**-**	**1**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**
An appropriate and concise appraisal process is established. Recent updates to the process have been introduced to ensure more one to one appraisals are performed and that completion of appraisals is monitored. Suitable guidance and training have been provided to managers, who were expected to complete appraisals by January 2022.

At the time of the audit testing 41% of officer appraisals had been undertaken, this is an improvement since the previous audit; however, it is apparent that not all managers have bought into the process. It is assumed that additional pressures around Local Government Re-Organisation has impacted the completion rate.

The Council has a robust e-learning system in place, that ensures all officers receive appropriate mandatory training, including key risk areas such as information governance and cyber security.

Compliance with mandatory training is relatively high; however, there is a need to analysis further and identify those areas of the Council where improved engagement is required.

All three recommendations from the previous audit have been actioned.

Historically there has been limited progress in engaging Members in e-learning modules. However, further initiatives from Organisational Development have improved engagement, though as with officers there is still room for further improvements.

The new intranet on SharePoint was launched to officers on 01/06/2022, content continues to grow as services upload their relevant data.

Comment from the Deputy Chief Executive

It is good to see the dedicated work of the OD Team reflected in this report and the findings / recommendation. Progress has been made on the previous recommendations and the team have good controls in place to ensure officers and members have access to excellent organisational support for learning and development.

5.0   Audit Findings & Recommendations

5.1   Management – Achievement of the organisation's strategic objectives

5.1.1 The City Council has an established appraisal process for all employees. Following a corporate survey and consultation exercise with relevant stakeholders the process has been reviewed and updated to address the following:

- Limited development requests or requests for training information being provided to Organisational Development (OD).
- Limited one to one appraisals being delivered rather than team appraisals, meaning staff may not have an opportunity to fully engage in the appraisal process.

5.1.2 The process was also reviewed and streamlined. Proposed changes were reported to both SMT and the Transformation Board prior to approval.

5.1.3 Changes to the process were presented to managers in October 2021's management briefing, followed by a corporate communication providing guidance and instructions on how to follow the new process. Managers have been asked to conduct appraisals between October 2021 and January 2022. Where appraisals have already been recently performed managers have been asked to revisit and ensure all new requirements have been covered.

5.1.4 Guidance is also available to Managers within a dedicated SharePoint site, which includes a record of appraisals undertaken that managers are required to complete. Access to the SharePoint site and the record of completion were both up to date and access controlled.

5.1.5 Guidance is concise and appropriate. The appraisal guidance does not contain the relevant meta-data, particular author, version control and a review date to ensure timely updates are performed.

5.1.6 OD also arranged additional training for managers and staff to attend in relation to the appraisal process, only a small number of managers attended. However, eLearning via Skillgate provides appraisal training and links are available on the SharePoint site to the relevant Skillgate modules.

5.1.7 The Council utilises the web-based software Skillgate to deliver a programme of mandatory e-learning for all Council officers with a network account. Those officers without an account also have the option to access the facility using their private e-mail accounts, while mitigating controls are in place to ensure officers without access receive

key training on relevant areas (such as information governance) through alternative channels such as toolbox talks.

5.1.8 There are currently up to sixteen mandatory courses for officers (depending on position). These were determined by an initial consultation and ongoing review of the risk environment and appear reasonable. In addition, two new declarations were sent out to officers in May 2022.

5.1.9 Modules are compiled by Skillgate and a process has been implemented so that these are regularly reviewed by a responsible/experienced officer within the Council to tailor content to include specific City Council information. Skillgate also update modules on a regular basis.

5.1.10 Regular updates are issued reminding staff to complete mandatory e-learning, including automatic e-mails from Skillgate and regular reminders from OD. Additionally, completion of e-learning has been incorporated into the new appraisal process and OD have provided briefings and guidance to Managers on how to monitor completion of mandatory training.

5.1.11 Employees are assigned a code within Skillgate based on their role, which will assign appropriate modules (for example, only managers are required to undertake attendance management training). Managers are responsible for selecting the relevant modules from a list of regulatory modules identified by OD. This coding structure and assignment of modules has been reviewed and streamlined since the previous audit review.

5.1.12 A review of coding application indicated the process is generally appropriate, but some minor issues were noted:

- It is not clear why certain positions are assigned training on professional boundaries (CCA3), whereas other positions that would be expected such as Project Managers, Building Surveyors, Auditors & Finance Officers have not been assigned the training even though it relates to avoiding corruption. This was highlighted in the previous audit and appears to have been missed from the refresh exercise.
- Not all officers with network access have been given access to cyber-security training (this is essential for any officer with network access).

Recommendation 1 – A review of the assignment of modules within Skillgate should be undertaken to maximise efficient and consistent allocation of modules.

5.1.13 A review of new starters identified that all new starter posts tested other than driver/loader are included in Skillgate. (These roles are not included in e-learning)

5.1.14 A review of new posts added to the City Council structure identified that not all new posts are included within Skillgate. New posts are only added once someone is in post as Skillgate charge for them.

5.1.15 Historically all Members were given access to Skillgate. However, due to limited usage Members were given the option of rescinding the account to save Council the additional license costs.

5.1.16 OD have continued to pursue alternative strategies to ensure Members receive appropriate training, including preparing presentations to give prior to Council meetings and short support videos.

5.1.17 There is an outstanding audit recommendation that all Members undertake cyber-security training, as Members are considered a high risk area due to the larger volume of external e-mails they receive. Internal Audit continue to advocate mandatory training is required in this area but note progress has been made with over 81% members accessing a short training video provided by OD.

5.1.18 The new intranet SharePoint site was launched to officers via email in the Staff & Members Briefing on 1 June 2022. The site is accessed via a link in the email or within Microsoft Teams. The new intranet will also default to the homepage for Microsoft Edge. Audit testing confirmed that all these links work.

5.1.19 The new intranet includes access to key documents (such as policies), links to corporate systems and other useful information. The content is increasing as departments upload their data.

5.1.20 Training sessions are available on the OD training page and additional work is in progress to create more training for users.

5.1.21 Feedback will be obtained from the Departmental Management Team (DMT) in October 2022 to establish what still needs to happen, department by department prior to the old intranet being switched off.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 Completion of appraisals is monitored via completion of a spreadsheet within the appraisal SharePoint site. The spreadsheet was found to accurately reflect the Council's workforce and is updated based on starter and leaver information received by the department.

5.2.2 As at 19 July 2022, 279 appraisals have been delivered, this is an increase of 217 from the previous audit review of October 2021, so improvements have been made; however, there does remain a considerable number of appraisals outstanding. It is noted the majority of the Council's Senior Management Team have delivered their appraisals, setting a positive example. It is thought additional pressures from LGR will have had an impact on completion rates.

5.2.3 Some team appraisals are still to be undertaken, these include the refuse and gardening teams. The Development & Wellbeing Officer works with and supports these teams.

5.2.4 Several reminders to managers have been issued by OD regarding completion of appraisals and they have also had reminders at management briefings. The Senior Management Team (SMT) are also regularly updated on progress.

5.2.5 Once an appraisal has been completed the manager is required to advise OD of any training and development needs if any action / support is required by OD and they maintain a record of this. A copy of this was provided and was up to date. Managers received a reminder of this at the Management Briefing in May 2022.

5.2.6 E-learning modules are generally put together and updated by Skillgate. Council officers also review and update the modules to reflect Council specific elements.

5.2.7 Following on from the previous audit there is now routine and regular checking of course content to ensure they are up to date. Managers with relevant expertise have been asked to review the relevant Skillgate course content. This will now be completed on a regular basis and a timetable for the checking of course content is now maintained by OD.

5.2.8 Completion of mandatory e-learning modules is recorded within Skillgate, including completion of refresher training at set time periods (usually three years). Compliance with mandatory training is generally high with most modules showing completion rates above 80%. Only three modules showed lower than this. (71%, 75% and 79%)

5.2.9 While compliance levels are reasonably high, a review of the actual figures of non-completion indicate what could be considered as elements of non-compliance, for

example over 86 officers (13 are members) have not completed Data protection – Compliance training following GDPR and 61 (13 are members) have not completed cyber-security training, potentially exposing the Council to respective risks in these areas, as staff do not have the appropriate training. It should be noted that improvements have been made since the previous audit.

5.2.10 Responsibility for enforcing compliance has shifted to Managers and quarterly automatic reminder emails are now sent from Skillgate to those managers who are showing non-compliance in their teams. An update at management briefing, included how managers can review team progress against mandatory training.

5.2.11 OD do still perform some monitoring of compliance and issue reminders and managers are also now required to confirm all mandatory e-learning is up to date as part of the new appraisal process. OD now also completing quarterly reports to SMT and the first report, entitled 'Training Activity Report – 1st Quarter (January 2022 – March 2022) was issued on 5 May 2022.

5.2.12 Benchmarking was an advisory comment in the previous audit report however a decision was made not to complete this. Instead, OD has spoken to other people in similar roles / authorities and during North West Employers events and 80% completion rate for trainings appears to be good for non-Health & Safety requirements.

5.2.13 Skillgate also offers a wide range of other non-mandatory courses – these are communicated to staff via regular communication. Take up of non-mandatory courses is significant and it is clear officers utilise the training available.

5.2.14 In addition, Skillgate can be used to log 1:1 reports, and this has been highlighted to managers, however most managers prefer to use a different approach.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 - A review of the assignment of modules within Skillgate should be undertaken to maximise efficient and consistent allocation of modules.	M	Officers do not get assigned relevant training.	Managers are responsible for selecting the relevant modules from a list of regulatory identified by OD. The OD team will prompt selection of appropriate modules to ensure compliance. Changes have already been made to include those highlighted within this report.	Julie Kemp	Actioned - 09/22

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.5	It is advised that Appraisal guidance documentation should include meta-data, particularly author, version control, date of review and date of next review.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.1(ii)

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Risk Management
Report of:	Corporate Director Finance & Resources
Report Number:	RD47/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Risk Management.

Recommendations:

The Committee is requested to

(i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of Risk Management was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides reasonable assurances and includes 1 high and 3 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

 Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Risk Management– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Risk Management

Draft Report Issued: 3rd November 2022
Director Draft Issued: 10th November 2022
Final Report Issued: 21st November 2022

Audit Report Distribution

Client Lead:	Chief Executive's Office Manager
Chief Officer:	Deputy Chief Executive Chief Executive
Others:	Corporate Director of Finance and Resources Corporate Director of Economic Development Corporate Director of Governance and Regulatory Services
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Risk Management. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 23rd March 2022.

1.2. Risk management is the planned and systematic approach to identifying, evaluating and controlling risk. Its objectives are to secure Council assets and to help ensure continual financial and organisational well-being.

1.3. The Council's Financial Procedure Rules and Risk Management Assurance Framework provide direction on Council risk management arrangements. The Framework's strategic aim is to establish sustainable and effective risk management arrangements that identify, assess, control and manage major risks to the Council's objectives.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was Chief Executive's Office Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Risk Management Assurance Framework is inaccurate, incomplete and does not align to other relevant corporate guidance or best practice
- Risk is not managed in line with the Risk Management Assurance Framework
- Risk is not reviewed in a timely and transparent manner
- Council's risk management approach is not subject to continuous improvement

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Risk Management provide **reasonable assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	3
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (N/A)	-	-
3. **Information -** reliability and integrity of financial and operational information (see section 5.2)	-	-
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.3)	-	-
Total Number of Recommendations	**1**	**3**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**
The Corporate Risk Management Group (CRMG) and Risk Management Sub-Group (RMSG) have met recently with minutes recorded and actions assigned, although the CRMG did not meet between March 2021 and September 2022 and the RMSG did not meet between July 2021 and August 2022 to review Council risk.

The Transformation Board which oversees major Council Projects has not met for a significant length of time. In lieu of a formal Corporate risk review in February 2022, and prior to submission of a twice-yearly risk report to Scrutiny, comments and observations were requested from Group members.

There is a clear, recent example where the Council's risk management arrangements have not identified a major project with escalating risks. This has resulted in a single high-level recommendation.

The Risk Management Task and Finish Group has an opportunity to use recommendations from the Zurich Municipal report and this audit, to influence the development of a robust Unitary Authority risk management process.

Comment from the Deputy Chief Executive:

Thank you for the helpful recommendations contained in this report. We will address these through our Corporate and Operational Risk Management groups.

We accept the comments made concerning the frequency of meetings between the group, but would also like to note that our ongoing, everyday relationships between group members have also given us the opportunity to monitor risks and escalate any that may have required management attention.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 The Financial Procedure Rules in the Council's Constitution detail that a monitoring process regularly reviews the effectiveness of risk reduction strategies and the operation of these controls. The Financial Procedure Rules also require that the risk management process is conducted on a <u>continuing basis</u>.

5.1.2 Responsibility for monitoring delivery of the Risk Management Assurance Framework sits with the Corporate Risk Management Group (CRMG). The CRMG are also responsible for continual review of the Council's Corporate Risk Register.

5.1.3 The CRMG met recently in September 2022. Minutes were recorded, actions were assigned to individuals and a full review of the Corporate Risk Register was undertaken. The Risk Management Assurance Framework alludes to a quarterly meeting requirement for the CRMG, although archived minutes indicated that the previous formal CRMG meeting was held some 17 months earlier in March 2021.

5.1.4 Significant risks to Council objectives during the group's hiatus include the global pandemic, Local Government Reorganisation and major Council projects. If a full review of the Corporate Risk Register is not carried out on a continuing basis, the likelihood that informed decisions are being taken on escalating risks, is significantly reduced.

5.1.5 In lieu of a formal Corporate risk review in February 2022, and prior to submission of a twice-yearly risk report to Scrutiny, comments and observations were requested from Group members, although only one email response has been verified.

5.1.6 The reduction in formal Corporate risk reviews is mitigated to an extent through having a small and experienced Senior Management Team, although regular, formal, recorded corporate risk reviews are recommended.

5.1.7 The Risk Management Assurance Framework details that the CRMG provides twice yearly reports to Scrutiny. It is noted that while CRMG was not meeting on a regular basis during 2021, only one report was provided to Scrutiny.

Recommendation 1 – Corporate Risk Management Group to formally review and agree the Corporate Risk Register on a <u>continuing basis,</u> in line with the Council's Financial Procedure Rules.

5.1.8 The Risk Management Sub-Group (RMSG) met recently in August 2022. Minutes were recorded and actions assigned to individuals. The Risk Management Assurance Framework details that the Group meets on a 4 to 6 weekly basis. Archived minutes indicate that the previous meeting was held some 12 months earlier in July 2021.

5.1.9 Historically, the RMSG has carried out a detailed review of individual operational risk registers on a cyclical basis, demonstrating continual improvement. Standing agenda items also included Insurance, Audit, Safety, Health and Environment Risks.

5.1.10 The Risk Management Assurance Framework details that it is the Corporate Risk Management Group's responsibility to monitor delivery of the Framework. Historically, minutes of the RMSG have been reviewed by the CRMG to verify the effectiveness of the RMSG. Due to the reduction in formal meetings of both groups, the review was not undertaken between March 2021 and September 2022.

Recommendation 2 – Corporate Risk Management Group to formally review and agree the effectiveness of the Risk Management Sub-Group, on a <u>continuing basis</u>.

5.1.11 The Risk Management Assurance Framework details that project risks should be reviewed by the wider project team. The Council's Risk Officer regularly contacts major Council Project Managers to ask if there are any escalating project risks. It is advised that in addition, management may wish to consider seeking demonstratable evidence that project risks have been regularly reviewed by wider project teams.

5.1.12 The Risk Management Assurance Framework details that project risks fall within the remit of the Transformation Board. Audit were informed that the Transformation Board has not met for a considerable length of time. Minutes of the last meeting held were not available. The reduction in oversight arrangements has significantly increased the risk that major project risks could escalate with Senior Management unaware. There is a very clear, recent example where the Transformation Board was unable to make informed decisions on escalating major project risks because it was in hiatus and the Council's risk management arrangements had not identified that the project required Senior Management intervention. This significantly increased the risk of both financial loss and reputational damage to the Council.

5.1.13 It is noted that there is limited Project risk management direction available in either the Risk Management Assurance Framework or Project Managers' Handbook.

5.1.14 A risk management task and finish group has been set up to aid the transition of risk management arrangements ready for Local Government Reorganisation vesting day and beyond. The Group may wish to consider further robust direction for Unitary Authority projects including review regularity, evidence of wider project team review and clear oversight/ reporting arrangements to evidence that Council project risk management is working effectively.

Recommendation 3 – Corporate Risk Management Group to formally review and agree the effectiveness of major project risk management arrangements on a <u>continuing basis</u>.

5.1.15 The Council's Risk Officer regularly contacts Operational risk Managers, reminding them to update their operational risk registers in line with the Risk Management Assurance Framework. A recent review of the Operational risk registers identified that 5 registers had not been updated for that quarter.

5.1.16 Zurich Municipal issued a report on Council Operational Risk Management in November 2020. The report recommended that all key personnel within the Service area should be involved in the process of undertaking risk assessments and reviewing the operational risk register. The aim is to provide broader risk insights and help embed understanding of the risk management process within the wider team. It is advised that management may wish to consider seeking demonstratable evidence that operational risks have been regularly reviewed by wider key service personnel.

5.1.17 It is noted that some operational risk registers include a significant number of low scoring risks. To help maximise added value to the Council, Operational Managers may wish to consider recording only <u>key</u> risks to not achieving operational objectives. (max 7 to 10 risks). This will also help ensure proportionality of the operational risk management process.

Recommendation 4 – Risk Management Sub-group to formally review and agree the effectiveness of operational risk management arrangements, on a <u>continuing basis</u>.

5.1.18 Documenting terms of reference helps to increase transparency of governance group activities and accountability for decision making. Terms of reference for key risk management governance groups were found to be either unavailable or requiring review and update to align with current practice.

5.1.19 It is advised that the Risk Task and Finish Group may wish to further consider the purpose, authority, responsibility and regularity of Unitary Authority risk governance groups, and how this will be captured in terms of reference.

5.2 Information – reliability and integrity of financial and operational information

5.2.1 The Council's Risk Management Assurance Framework describes the Council's approach to risk, its strategic aim and objectives surrounding risk management. It also describes how the framework will be put in to practice with performance measured and evaluated.

5.2.2 The Framework details that it is owned by the CRMG and will be reviewed at least annually. Audit found that The Framework has not been reviewed for a significant length of time and there are several examples that demonstrate reduced alignment to current practice. Lack of regular, formal review significantly reduces Framework robustness and is likely to erode confidence in those tasked with risk management responsibility.

5.2.3 Under normal circumstances, regular formal review in line with the Risk Management Assurance Framework would be recommended. Given the impending Local Government Reorganisation, this is not now considered likely to now add significant value. It is advised that the task and finish group consider putting an arrangement in place to verify that current practice remains aligned to the new Unitary Authority framework on a <u>continuing basis</u>.

5.2.4 The Council's Risk Management Assurance Framework is a comprehensive document. There is an increased risk with a document of this size that key risk messages become lost in the detail. It is advised that the task and finish group may wish to consider reducing the Framework size in the new Unitary Authority.

5.2.5 It is noted that the Framework specifies meeting regularity for the Risk Management Sub-Group, but not for the Corporate Risk Management Group or Transformation Board. It is advised that the task and finish group may wish to consider if the Unitary Authority Risk Management Assurance Framework should specify meeting regularity for all Risk Governance groups.

5.3 Value – effectiveness and efficiency of operations and programmes

5.3.1 The Zurich Municipal report (5.1.16) detailed 9 recommendations on improvements to Council operational risk management. Although there is some evidence that an action plan to progress the Zurich recommendations was reviewed historically, there is insufficient evidence that all recommendations have been regularly reviewed and fully implemented. This is largely due to the lengthy RMSG hiatus, although action plan progress was revisited at the group's recent meeting in August 2022.

5.3.2 Periodic 'Corporate Risk Management – Policies and Processes' training is provided to interested Councillors, Managers and Officers. The evidence provided to Audit indicated that attendance is low and only three training sessions have been held in the last five years.

5.3.3 There is an increased risk that those tasked with managing corporate, operational and major project Council risks cannot do so effectively without clear direction through training attendance. Management may wish to consider making risk management training compulsory for Service and Major Project Managers and use of alternative delivery platforms such as Skill Gate.

5.3.4 An enterprise risk assessment framework provides a systematic way to assess internal and external risk factors. It is advised that the Risk Management Task and Finish Group may wish to consider which of the following frameworks identified by the Institute of Internal Auditors, may be applicable as a basis for organisational risk management planning in the new Unitary Authority.

- The Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework
- International Standard for Organisation (ISO) 31000 framework (referenced in the current Risk Management Assurance Framework).
- Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (Turnbull Guidance)

It is further advised that the Risk Management Task and Finish Group may wish to consider how best to embed the chosen risk assessment framework, ensuring it is actively applied on a <u>continuing basis</u> throughout the new Authority.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – Corporate Risk Management Group to formally review and agree the Corporate Risk Register on a <u>continuing basis,</u> in line with the Council's Financial Procedure Rules.	M	Risks to Corporate objectives escalate and management unable to make informed decisions on corrective action.	Regular meetings of the CRMG to be scheduled up until Vesting Day. Corporate Risk owners to be e-mailed monthly checking for any escalations/ identification of new corporate level risks. Special meeting of the CRMG can be called when required. The City Council's current corporate risk register is part of discussions at an LGR Task & Finish Group, this will ensure that the relevant risks migrate to the new Cumberland authority. It will also ensure examples of best practice from across the districts can be best utilised going forward.	Chief Executive's Office Manager	November 2022 November These meetings are taking place regularly as of October 2022

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 2 – Corporate Risk Management Group to formally review and agree the effectiveness of the Risk Management Sub-Group, on a <u>continuing basis</u>.	M	Risk Management Sub-Group is not operating effectively with reduced oversight of risks to operational objectives.	RMSG minutes to be a standing item on the CRMG agenda. The RMSG has agreed the need to continue to meet beyond Vesting Day CRMG to have a discussion as to how best carry out the review and identify actions/timescales	Chief Executive's Office Manager	November 2022
Recommendation 3 – Corporate Risk Management Group to formally review and agree the effectiveness of major project risk management arrangements on a <u>continuing basis</u>.	H	Risks to major Council projects escalate and management unable to make informed decisions on corrective action.	Project Managers to continue to be requested to identify escalating risks and flag these with the Chief Executive's Office to arrange necessary escalation routes. A discussion to take place at CRMG around adding this to the role of that Group.	Chief Executive's Office Manager	On-going

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 4 – Risk Management Sub-group to formally review and agree the effectiveness of operational risk management arrangements, on a <u>continuing basis</u>.	M	Risks to service objectives escalate and management unable to make informed decisions on corrective action.	This process is about to re-commence with the consideration of the HR operational risk register at the November meeting of the RMSG. At the end of the RSMG the next operational risk register for consideration will be identified and agreed and the penholder invited to attend the next meeting to present.	Chief Executive's Office Manager	On-going

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.11	Seek demonstratable evidence that project risks have been regularly reviewed by wider project teams.
5.1.14	Task and Finish Group to consider further robust direction for Unitary Authority projects including review regularity, evidence of wider project team review and clear oversight/ reporting arrangements to evidence that Council project risk management is working effectively.
5.1.16	Seek demonstratable evidence that operational risks have been regularly reviewed by wider key service personnel.
5.1.17	To help maximise added value to the Council, Operational Managers may wish to consider recording only <u>key</u> risks to not achieving operational objectives. (max 7 to 10 risks).
5.1.19	Task and finish group to consider the purpose, authority, responsibility and regularity of Unitary Authority risk governance groups, and how this will be captured in terms of reference.
5.2.3	Task and finish group to consider putting an arrangement in place to verify that current practice remains aligned to the new Unitary Authority framework on a <u>continuing basis</u>.
5.2.4	Task and finish group may wish to consider reducing the Framework size in the new Unitary Authority.
5.2.5	Task and finish group may wish to consider if the Unitary Authority Risk Management Assurance Framework should specify meeting regularity for all Risk Governance groups.
5.3.3	Management may wish to consider making risk management training compulsory for Service and Major Project Managers and use of alternative delivery platforms such as Skill Gate.
5.3.4	Task and Finish Group may wish to consider which of the risk assessment frameworks identified by the Institute of Internal Auditors may be applicable as a basis for organisational risk management planning in the new Unitary Authority. Task and Finish Group may wish to consider how best to embed the chosen risk assessment framework, ensuring it is actively applied on a <u>continuing basis</u> throughout the new Authority.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

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Carlisle City Council
Report to Audit Committee

Item A.1(iii)

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Fleet Management Strategy
Report of:	Corporate Director Finance & Resources
Report Number:	RD48/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Fleet Management Strategy.

Recommendations:

The Committee is requested to

    (i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of the Fleet Management Strategy was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides reasonable assurances and includes 5 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer:　　　　Michael Roper　　　　　　　　　　Ext:　7520

Appendices attached to report:

- **Internal Audit Report – Fleet Management Strategy– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Fleet Management Strategy

Draft Report Issued: 7th September 2022
Director Draft Issued: 21st October 2022
Final Report Issued: 3rd November 2022

Audit Report Distribution

Client Lead:	Neighbourhood Services Manager Fleet and Depot Manager
Chief Officer:	Deputy Chief Executive Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Fleet Management Strategy. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.

1.2. The Fleet Management Strategy (published in September 2020) details that a safe, reliable, modern efficient and flexible fleet is essential to support staff to provide cost effective, good quality services for the people of Carlisle in support of the Carlisle Plan, its vision and priorities.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Leads for this review was the Head of Neighbourhoods and the Fleet and Depot Manager. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Informed cost/ benefit decisions have not been taken on procuring fleet (including challenge on the need to purchase at all)
- Fleet strategy does not align to the Council's wider environmental objectives
- Safety of fleet, drivers and operators is not considered
- Compliance with the strategy is not monitored effectively
- Driver and Vehicle Services Agency (DVSA) guidance and legislation is not followed

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2   From the areas examined and tested as part of this audit review, we consider the current controls operating within Fleet Management Strategy provide **reasonable assurance**. *Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

4.0   Summary of Recommendations, Audit Findings and Report Distribution

4.1   There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	3
3. **Information** - reliability and integrity of financial and operational information (N/A)		
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.3)	-	1
Total Number of Recommendations	**-**	**5**

4.2   Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3   **Findings Summary (good practice / areas for improvement):**

A comprehensive Fleet Management Strategy is in place.

Fleet vehicles are maintained to a good standard in line with the planned servicing and inspection schedule.

Fleet Management pro-actively monitor driver behaviour (telematics).

Fleet is purchased in line with the Council's Procurement Strategy.

Operator tachographs are recorded by drivers and periodically reviewed by management to determine compliance with regulations.

Operators' Certificate of Professional Competency is managed effectively.

Positive outcomes of key strategic objectives can be further demonstrated through seeking regular, verifiable, documented evidence.

Compliance with all relevant legislation and DVSA general guidance may benefit from further review.

Increasing the regularity of random vehicle pre-journey safety checks will enhance the checks already undertaken by drivers.

A full review of the recording, timeliness and accuracy of driving assessments will be beneficial.

Oversight arrangements for vehicle licence checks may benefit from further review.

Documenting proportional supporting evidence for both fleet challenge and service fleet replacement reviews may be beneficial.

Comment from the Deputy Chief Executive:

Thank for this review of the Fleet Management Strategy implementation and future improvements. It is encouraging to see that the recommendations are already being acted upon and we are grateful to the Fleet and Depot Manager for such a timely response.

5.0   Audit Findings & Recommendations

5.1   Management – Achievement of the organisation's strategic objectives

5.1.1   The Fleet Management Strategy is a comprehensive document. There is an increased risk with a strategy of this size that key service objectives will become lost in the detail. For example, there is a key objective to ensure all fleet vehicles are fit for purpose and roadworthy. Significant detail on servicing and testing frequencies for each class of vehicle is also provided, although this may be too much information for the target audience. When the strategy is next reviewed, it is advised that management may wish to consider streamlining the content with an increased focus on positive outcomes for a reduced number of <u>key</u> service objectives.

5.1.2   The Strategy directs management to carry out an annual review, although the copy provided for audit purposes is version 01, dated September 2020. It is advised that management carry out an annual review or change the review period stated in the strategy to reflect current practise.

5.1.3   There are a significant number of objectives in the Fleet Management Strategy with assigned roles and responsibilities. The Strategy details that Fleet Management carry out secondary checking to ensure robust compliance to meet Operator Licence and sector best practice. To further increase accountability and transparency of secondary checking, it is recommended that Fleet Management put an arrangement in place to demonstrate positive outcomes of <u>key</u> strategic objectives through seeking regular, verifiable, documented evidence.

5.1.4   Management may wish to consider developing an action plan to track <u>key</u> strategic objectives, using specific, measurable, assigned, realistic and time-bound (SMART) criteria.

Recommendation 1 – Put an arrangement in place to demonstrate positive outcomes of <u>key</u> strategic objectives through seeking regular, verifiable, documented evidence.

5.2   Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1   The Fleet Management Strategy refers to legislation and Driver and Vehicle Services Agency (DVSA) general guidance on fleet operations and maintenance, in relation to the individual driver's responsibilities as well as those of the operator. Guidance on maintaining roadworthiness for commercial goods and passenger carrying vehicles was provided,

although Audit were not able to establish the full extent of legislation and guidance alluded to in the Strategy.

Recommendation 2 – Put an arrangement in place to verify compliance with relevant legislation and DVSA general guidance.

5.2.2   The Fleet Management Strategy and Carlisle City Council 'Drive Safely Handbook' require that there is an annual driving licence check, helping to ensure staff are suitably licenced to drive the category of vehicle in question and that there is no history of motoring offences. Service managers are regularly requested by Fleet Management to submit licence checks for their staff, although oversight arrangements require further development to verify the level of compliance.

5.2.3   An arrangement is in place to verify licence checks prior to pool car use and use of a small number of vehicles hired from Gates travel. There is also an arrangement in place to regularly sample a small number of licence checks where staff use cars on Council business. Results of the sample tested identified that some licence checks had not been undertaken.

5.2.4   It is recommended that management review the oversight arrangements in place to confirm through seeking regular, verifiable, documented evidence that service managers are undertaking all required staff licence checks.

Recommendation 3 – Review oversight arrangements for vehicle licence checks.

5.2.5   All HGV drivers have a statutory duty to carry out pre-journey safety checks on vehicles and this is reiterated in Council induction training. The driver pre-journey checks for refuse vehicles over 3.5 tons are recorded electronically by the driver, from the cab. Pre-journey checks for other vehicle classes are manually recorded by the driver and retained by Fleet Management.

5.2.6   The comprehensive Fleet Management approach to vehicle safety includes a further layer of focused management vehicle checks, alternating weekly between street cleaning/ grounds vehicles and refuse vehicles.

5.2.7   Driver pre-journey checks were found to have been carried out for four of the five vehicles tested. The vehicle found not to have undertaken a vehicle check was a tractor. It is advised that management may wish to consider if the level of pre-journey checks carried out on this class of vehicle is of concern.

5.2.8 Six focused management vehicle checks were found to have been carried out for the month tested. The checks were found to be operating effectively, identifying where further guidance and training for driver pre-journey checks is required.

5.2.9 The Fleet Management strategy details a schedule for vehicle servicing, inspection and testing which is recorded either electronically on R2C for vehicles >3.5 tonnes or manually on job cards for other vehicles. Recording of servicing, inspection and testing confirmed that fleet vehicles are maintained to a good standard. Electronic recording was comprehensive, timely and certified by the mechanic and Fleet Manager. Manual recording of servicing inspection and testing is less detailed. For example, the visual inspection job card confirms that an inspection has been carried out but does not detail what has been inspected, unlike R2C.

5.2.10 It is advised that management consider if job cards for inspections provide sufficient detail to verify the quality of inspection. It is also advised that management may wish to consider regular, proportionate sample checking of Job cards to verify accuracy and completeness.

5.2.11 The Fleet Management strategy and Council Drive Safely Handbook detail that formal driving assessments will be undertaken. Audit were not able to give assurance over the accuracy, timeliness and recording of driving assessments because the relevant manager was unavailable to be interviewed.

Recommendation 4 – Fleet Management to carry out a thorough review of driving assessment management.

5.2.12 In February, Fleet Management pro-actively requested that key information should be collated for all drivers, including for driving assessments. At the time of the audit (August), a proforma had been drafted but not populated. It is advised that Fleet Management investigate the reasons why the requested information has not been provided.

5.2.13 Fleet Management pro-actively monitor driver behaviour (telematics) to compare driver performance and challenge wasteful practice and poor driving standards. An example of screen shots from vehicles were provided. It was explained that due to PC constraints, demonstrating a job list for telematics to verify regularity of checking and recording was not possible. It is advised that management verify that there is an arrangement in place to demonstrate regular telematics checking and recording.

5.2.14 The Council's Procurement Strategy 2021-23 aims to ensure that the Council obtains optimum value for money in all its procurement and commissioning activities. Fleet purchases tested were found to have been procured in line with the Strategy. One sample

used a separate competitive procurement process and the other was purchased from an existing supplier framework using a procurement agency.

5.2.15 Digital tachograph data is periodically reviewed by fleet management to determine compliance with regulation driving hours and rest periods. Due to the nature of the work undertaken at the Council, this is not considered a high-risk area by Fleet Management.

5.2.16 The Strategy details that Fleet Management carry out secondary checking on compliance to performance standards, although Audit could not establish the full extent of the performance standards alluded to. It is advised that when the Strategy is next reviewed, management consider if reference to performance standards should be removed.

5.3 Value – effectiveness and efficiency of operations and programmes

5.3.1 The Council's Local Environment (Climate Change) Strategy (LECCS) was agreed by Executive in February 2021 with the aim of reducing carbon emissions at Carlisle City Council and the Carlisle District which it serves, to net zero by 2037. There is a pro-active Fleet Management LECCS action to consult with the Energy Saving Trust with a planned outcome to receive advice and recommendations on improving energy efficiency. The Energy Saving Trust report was received in April 2022.

5.3.2 The report assesses the efficiency of Council fleet in terms of green-house gas (GHG) emissions, energy consumption and operating cost, as well as considering opportunities for and implications of implementing low-emission vehicles. Section 2 of the report includes a summary of 9 recommendations. It is advised that management further consider how the report recommendations can be used to improve energy efficiency. It is also advised that carbon emissions data provided is utilised to quantify current and predicted reduction in Fleet carbon emissions through to 2037.

5.3.3 When services request vehicle purchases, management pro-actively conduct a 'fleet challenge', helping to determine genuine business need in support all fleet decisions and reduce the size of fleet. The challenge also forms part of the LECCS actions to reduce carbon emissions.

5.3.4 There is also a LECCS action to carry out regular vehicle replacement reviews for each service area as part of the wider fleet replacement programme, although the planned outcome focuses on cost rather than carbon reduction.

5.3.5 Neither the fleet challenge nor service reviews are documented which increases the difficulty in verifying positive outcomes.

5.3.6 Documenting proportional supporting evidence for both the fleet challenge and service review will further demonstrate their positive impact on fleet, cost and carbon emission reduction.

Recommendation 5 – Proportional supporting evidence to be documented for fleet challenge and service reviews.

5.3.7 Drivers with operator licences are required to keep their certificate of professional competence (CPC) up to date by carrying out 35 hours of training every 5 years. For permanent staff, this process is monitored by Organisational Development (OD) and all training was found to be current. Monthly licence checks confirm that Agency drivers have also maintained their CPC. It is advised that Fleet Management may wish to consider further alignment with OD on the CPC process, to increase their influence on the type of training undertaken.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – Put an arrangement in place to demonstrate positive outcomes of key strategic objectives through seeking regular, verifiable, documented evidence.	M	Key service objectives are not being achieved and management are unaware.	Fleet Management Strategy to be refreshed. Core KPI to be identified. Quarterly internal reporting of performance against core KPI to be established.	Fleet + Depot Manager Fleet + Depot Manager Fleet + Depot Manager	**Actioned:** 21 Oct' 2022 31 Dec' 2022 31 March 2023
Recommendation 2 – Put an arrangement in place to verify compliance with relevant legislation and DVSA general guidance.	M	Possible sanctions through non-compliance with relevant legislation.	Monthly check-sheet to be developed. Wider reporting of performance to be picked up as part of quarterly internal reporting above.	Fleet + Depot Manager	31 Dec' 2022 31 March 2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 3 – Review oversight arrangements for driving licence checks.	M	Possible sanctions through non-compliance with relevant legislation.	Reminder to be sent to all managers to reinforce their responsibilities for managing road risk for their staff in line with current policy, and to reference further information and advice eg Driver Handbook. Driving licence checks is identified on the delivery / risk plan for LGR.	Fleet + Depot Manager LGR work theme (Fleet / HR)	**Actioned:** 21 October 2022 31 March 2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 4 – Fleet Management to carry out a full review of driving assessment management.	M	Staff or member of the public suffers loss due to driver not operating Council vehicle effectively.	Trained assessors conduct driving assessments and document their findings. Upon completion, such documents are delivered to the Fleet Office within 24 hours for evaluation. Fleet engage with the relevant service manager to confirm a successful assessment or discuss further action, if required.	Fleet + Depot Manager	**Closed**
Recommendation 5 – Proportional supporting evidence to be documented for fleet challenge and service reviews.	M	Financial loss and reputation damage to the Council because management are unable to demonstrate fleet, cost and carbon reduction in line with the planned Strategy.	Template issued to client / user department in relation to fleet replacement.	Fleet + Depot Manager	**Closed:** September 2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	Management may wish to consider streamlining the Strategy content with an increased focus on key service objectives.
5.1.2	Carry out an annual review of the Strategy or change the review period stated to reflect current practise.
5.2.7	Management may wish to consider if the level of pre-journey checks carried out on vehicle class which includes tractors, is of concern.
5.2.10	Consider if job cards for inspections provide sufficient detail to verify the quality of inspection. Consider regular, proportionate sample checking of Job cards to verify accuracy and completeness.
5.2.12	Investigate why Officers have been unable to collate the information requested.
5.2.13	Verify that there is an arrangement in place to demonstrate regular telematics checking and recording.
5.2.16	When the Strategy is next reviewed, consider if reference to performance standards should be removed.
5.3.2	Consider how the Energy Saving Trust report recommendations can be used to improve energy efficiency. Utilise carbon emissions data provided to quantify current and predicted reduction in Fleet carbon emissions through to 2037.
5.3.7	Consider further alignment with OD on the CPC process, to increase influence on the type of training undertaken.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

www.carlisle.gov.uk

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Sustainable Warmth Grant
Report of:	Corporate Director Finance & Resources
Report Number:	RD49/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Sustainable Warmth Grant.

Recommendations:

The Committee is requested to

    (i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of the Sustainable Warmth Grant was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides partial assurances and includes 1 high and 3 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Sustainable Warmth Grant– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Sustainable Warmth Grant

Draft Report Issued: 15th September 2022
Director Draft Issued: 17th October 2022
Final Report Issued: 26th October 2022

Audit Report Distribution

Client Lead:	Corporate Director of Governance and Regulatory Services
Chief Officer:	Chief Executive
Others:	Sustainable Warmth Project Manager
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Sustainable Warmth Grant. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 23rd March 2022.

1.2. Carlisle City Council applied for and subsequently offered £19.955M of grant funding on behalf of the Cumbrian Sustainable Warmth consortium of district councils. The City Council assumes the role of Accountable Body for the grant funding and its use across Cumbria.

1.3. The aim of the grant is to address fuel poverty and carbon reduction by improving energy efficiency through retrofitting a planned target of 1310 mainly private sector homes with energy efficient measures.

1.4. A Memorandum of Understanding (MoU) was agreed with the Department for Business, Energy and Industrial Strategy (BEIS) in November 2021. The MoU requires upgrades to be delivered by March 2023, although an extension can be determined at the Secretary of State's discretion.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was Head of Regulatory Services and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Non-compliance with the BEIS memorandum of understanding
- Key project milestones have not been met
- Robust Accountable Body arrangements are not established

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0   Assurance Opinion

3.1   Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2   From the areas examined and tested as part of this audit review, we consider the current controls operating within Sustainable Warmth Grant provide **partial assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0   Summary of Recommendations, Audit Findings and Report Distribution

4.1   There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	1
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. **Information -** reliability and integrity of financial and operational information (see section 5.3)	-	1
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	**1**	**3**

4.2   Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**

The sustainable warmth project has faced significant delays with difficulties recruiting staff into key project positions. Senior Management have not been made aware of key concerns in a timely manner until the risk of project delay and associated Council reputation damage has escalated. BEIS have now requested the return of £707k unspent grant.

The August 2022 delivery plan to BEIS indicates that there is a significant underspend with no capital expenditure on household upgrades to date.

Despite the delays, the delivery plan indicates that nearly £19M of the original £19.955M is still planned on upgrades to nearly 2000 households. This is considered an ambitious revised target given the timescales to complete upgrades and requires close monitoring to reduce the risk of further grant money being returned. The measure mix has been adjusted to remove interventions that are unable to be completed in the remaining time available.

BEIS are currently working with Deloitte to provide and external assessment of the revised plans to develop a deeper understanding of the challenges faced.

Project risk management requires improvement. Significant escalating risks should be identified as such and reported to the Council's risk Officer in a timely manner.

MoU sub-agreements with Districts have been issued but not yet finalised.

An arrangement is required to further demonstrate robust compliance with the BEIS MoU terms.

Documenting regular review of performance against key milestones and reporting progress to Senior Management on a regular basis will further increase transparency and accountability.

Comment from the Corporate Director of Governance and Regulatory Services:
The Audit Report is helpful, it having been requested due to concerns regarding this area of the Council's work. Beyond the agreed actions in this Report, new management arrangements are now in place to assist in the resolution of the issues identified.

5.0   Audit Findings & Recommendations

5.1   Management – Achievement of the organisation's strategic objectives

5.1.1 Sustainable Warmth is a major Council project aimed at improving the energy efficiency and carbon emissions of local households. The Business Case was approved by Executive on 25th October 2021, a MoU agreed with BEIS in November 2021 and a substantial grant of £19.955M received.

5.1.2 Work on the project is required to be completed by March 2023 although an extension can be determined at the Secretary of State's discretion. The August 2022 delivery plan to BEIS indicated that there had been no capital expenditure on the project to date.

5.1.3 There have been significant project delays with difficulties recruiting staff in a timely manner, including the key position of Project Manager. The Home Improvement Agency (HIA) within the Council has attempted to keep the project moving forward with the help of a small number of casual staff, although resource capacity within the team has not allowed them to do so successfully.

5.1.4 Despite project delays, the August 2022 delivery plan indicates that nearly £19M of the original £19.955M is still planned on upgrades to nearly 2000 households. This is considered an ambitious revised target given the issues faced by the project to date and timescales to complete upgrades. Close monitoring of the revised plan is advised. The mix of improvements to households has been adjusted to remove interventions that can no longer be completed in the time available. Following the Council's mid-term review submission, BEIS are currently working with Deloitte to provide external assessment of the revised plans to develop a deeper understanding of the challenges faced.

5.1.5 The Business Case details that regular risk reviews should be conducted and reported to the internal Transformation Board and Regional Steering Group. Although there is some evidence that project risks have been considered by HIA, Audit have been unable to verify that project risk has been systematically reviewed, agreed and recorded by the project team on a regular basis. Evidence of regular risk review reporting to the Regional Steering Group is unavailable. It is noted that the Transformation Board has not met for a considerable time, although alternative risk reporting arrangements for the project have not been developed.

5.1.6 The likelihood and impact of delay to project delivery have not been communicated effectively to Senior Management or BEIS and the grant is significantly underspent. For example, minutes to the June meeting with BEIS detail that the risk from a lack of internal capacity (delaying project progress) has been mitigated by recruiting on a casual basis. A number of project roles, including the key position of Project Manager, were still not filled

at that time, suggesting that the risk of further delays remained significant and should have been highlighted as such. It is noted that project updates have not been provided as part of the Project Status Board Report. Details of escalating project risks have not been regularly communicated to the Council's Risk Officer.

5.1.7   It is recommended that an arrangement is put in place for the project management team to regularly review, agree and document <u>key</u> risks for the remainder of the project. It is advised that this exercise is proportionate with the aim of managing <u>key</u> risks only (max 7 to 10 risks) that could have a major impact on planned outcomes. Significant escalating risks such as project delay should be highlighted to the Council's Risk Officer at the earliest opportunity so that Senior Managers are able to make informed decisions on corrective action.

Recommendation 1 – An arrangement should be put in place to document regular review of <u>key</u> project risks, with significant escalating risks highlighted to the Council's Risk Officer.

5.1.8   The Business Case details that a Project Steering Group will be set up with lead officers from each of the districts. Audit was informed that the Steering Group has been meeting on a regular basis, although prior to July 2022 there has been no documentation to confirm decisions taken or actions assigned. To increase transparency and accountability of the Steering Group, It is advised that agreement on terms of reference is documented. It is further advised that all actions are assigned to individuals, timebound with conclusions recorded at subsequent meetings.

5.1.9   The Business Case assigns broad project responsibilities to Departments, although accountability will be significantly increased by clarifying specific requirements. It is advised that all responsibilities assigned to Departments and individual Project Team members are reviewed for clarity, with acceptance of those responsibilities clearly documented.

5.1.10 Carlisle City Council is the lead applicant for the grant and assumes the role of Accountable Body for grant funding across Cumbria. The project business case details that there will be a MoU sub-agreement between the Council and other district authorities based on the MoU issued by BEIS. There have been significant delays to the drafting of the District Council sub-agreements. At the time of the audit (August 2022) the sub-agreements have recently been issued to District Councils for agreement.

Recommendation 2 – Finalise the Memorandum sub-agreements with the District Councils.

5.1.11 Regular monthly reporting has been provided to BEIS although updates on overall delivery confidence (a MoU requirement) have not been included. It is advised that assessment of delivery confidence is included in future updates to BEIS.

5.1.12 Regular monthly meetings have been held with BEIS with minutes documented by BEIS.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 A MoU for the Sustainable Warmth Project was signed with BEIS in November 2021. Although compliance with specific clauses can be demonstrated, Audit have not been able to verify a systematic risk assessment of MoU content to determine robust compliance.

Recommendation 3 – Put an arrangement in place to demonstrate robust compliance with the BEIS Memorandum of Understanding.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 Under the terms of the MoU, BEIS may request repayment of all or any proportion of the Grant, together with interest. On 12th October 2022, BEIS requested that £707k of unspent grant is returned to them by 11th November 2022.

5.3.2 Accounting treatment of government grants with conditions depend on the likelihood of those conditions being met. To enable the Council's Finance team to correctly account for the grant and to assist Treasury Management planning, it is advised that the Head of Financial Services is kept regularly informed on the likelihood of grant conditions being met and further grant repayment, along with the provision of regular planned spending profiles.

5.3.3 A project plan (Gantt Chart) has been documented although audit have been unable to verify regular review and update. It is noted that the project plan is incomplete and does not track milestones through to project completion in a systematic manner. It is recommended that progress towards all key project milestones through to project completion is documented, subject to regular review by the project team, then regularly reported to Senior Management.

Recommendation 4 – Progress towards all key project milestones regularly reported to Senior Management.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – An arrangement should be put in place to document regular review of <u>key</u> project risks, with significant escalating risks highlighted to the Council's Risk Officer.	H	Project risks escalate and Senior Managers are unaware.	Regular, documented risk review, update and agreement with key project staff. Risk Officer and Project Sponsor to be kept informed about any escalating project risks.	Sustainable Warmth Project Manager	30.11.22
Recommendation 2 – Finalise the Memorandum sub-agreements with the District Councils	M	Decreased accountability of District Councils.	All memorandums with district councils to be finalised.	Sustainable Warmth Project Manager	31.10.22
Recommendation 3 – Put an arrangement in place to demonstrate robust compliance with the BEIS Memorandum of Understanding.	M	BEIS request return of funding due to non-compliance with terms of the MoU.	Memorandum of understanding to be risk assessed with robust compliance of key clauses demonstrated.	Sustainable Warmth Project Manager	30.11.22

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 4 – Progress towards all key project milestones regularly reported to Senior Management.	M	Decreased accountability and transparency for project performance.	Gantt Chart to document key milestones through to project completion. Project Sponsor to be regularly updated on progress against key milestones with slippage clearly highlighted.	Sustainable Warmth Project Manager	31.10.12

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.4	Progress against the revised target should be closely monitored.
5.1.7.	Project risk management to be proportionate with the aim of managing <u>key</u> risks only (max 7 to 10 risks) that have a major impact on planned outcomes.
5.1.8	Agreement on Steering Group terms of reference should be documented. All actions should be assigned to individuals, timebound and conclusions recorded at subsequent meetings.
5.1.9	All responsibilities assigned to Departments and individual Project Team members reviewed for clarity, with acceptance of those responsibilities clearly documented.
5.1.11	Assessment of delivery confidence to be included in future updates to BEIS.
5.3.1	Head of Financial Services is kept regularly informed on the likelihood of grant conditions being met and further grant repayment, along with the provision of regular planned spending profiles.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.1(v)

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Financial Services Governance Arrangements
Report of:	Corporate Director Finance & Resources
Report Number:	RD50/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the cyclical risk-based Internal Audit review of Financial Services Governance Arrangements.

Recommendations:

The Committee is requested to

(i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of the Financial Services Governance Arrangements was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides reasonable assurances and includes 2 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

 Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Financial Services Governance Arrangements– Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report

Equality - None
Information Governance- None

Audit of Financial Services Governance Arrangements

Draft Report Issued: 8th November 2022
Director Draft Issued: 10th November 2022
Final Report Issued: 10th November 2022

Audit Report Distribution

Client Lead:	Head of Financial Services Accountancy Services Manager
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0   Background

1.1.   This report summarises the findings from the audit of Financial Services Governance Arrangements. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.

1.2.   The Internal Audit plan includes a three-yearly cycle of Main Financial Systems audit reviews, the majority of which are managed by the Council's Financial Services Team.

1.3.   Good financial services governance refers to how financial information is collected, managed, monitored and controlled by the Financial Services Team, in a transparent and accountable manner.

2.0   Audit Approach

Audit Objectives and Methodology

2.1   Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2   A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3   The Client Leads for this review was Head of Financial Services and Accountancy Services Manager. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Failure to achieve business objectives due to insufficient governance
- Loss or breach of information/ fines and sanctions/ reputational damage due to failure to securely process, retain, share and dispose of records and information

2.4   There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0   Assurance Opinion

3.1   Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Financial Services Governance arrangements provide **reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. **Information** - reliability and integrity of financial and operational information (see section 5.3)	-	-
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.4)	-	-
Total Number of Recommendations	**-**	**2**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**
A good standard of governance arrangements was found in Financial Services. Some issues have been raised without recommendation where it was felt significant value would not be added prior to local government reorganisation. This has resulted in an overall grading of reasonable, rather than substantial.

It is recognised that Financial Services have successfully addressed issues raised in the previous audit, such as reassessing team priorities, implementing succession planning and action to re-enforce home-working confidentiality, resulting in new guidance being issued to all staff.

Some of the key findings in the report have arisen at least partially due to a reduction in corporate focus on controls around service planning, risk management and UK GDPR compliance, whilst the Council is under increased pressure to implement local government reorganisation.

A suitable Financial Services staff structure is in place, supported by job descriptions.

The latest unqualified accounts for 2021/22 were confirmed by Grant Thornton in November 2022.

Regular financial performance reports are provided to Senior Management and the Executive.

A high level of compliance with internal GDPR and Cyber-security training was found within Financial Services.

Staff succession planning can be demonstrated. Annual appraisals are undertaken for the Finance Team.

Verifying that all required documents have been disposed of in line with Financial Procedure Rules and Data Protection Legislation will further enhance the regular disposal processes already in place.

An operational risk register is in place which is complete, reviewed by the wider management team on a regular basis and a structured approach to risk identification has been evidenced. An opportunity exists to further improve narrative for mitigating actions.

A service plan has not been documented for 2022/23 although objectives are unlikely to have changed significantly since 2021/22.

Comment from Director of Finance and Resources:

Thanks to the Auditor for this useful audit review which highlights the good standard of governance arrangements found in Financial Services. Especial thanks to the Head of Financial Services and the Accountancy Services Manager, who both have operational responsibility for the Finance Team, and who both provide effective and sound management of the service.

The recommendations are accepted and will be implemented in accordance with the agreed timescales.

5.0   Audit Findings & Recommendations

5.1   Management – Achievement of the organisation's strategic objectives

5.1.1   A suitable Financial Services staff structure is in place, supported by job descriptions which are mostly reviewed for accuracy within a five-year time scale. Three job descriptions were last reviewed in 2017 and one outlier (a supervisory role) in 2011. Under normal circumstances review of job descriptions within a five-year time scale is recommended. Full review is now unlikely to add significant value prior to local government reorganisation (LGR), although review of the supervisory job description is advised due to the length of time that has elapsed.

5.1.2   Vacancies are being effectively managed with recent recruitment filling two posts in the Finance Team.

5.1.3   A recent informal team structure review took place following internal staff appointments. The last formal review was undertaken in 2018 and the structure will not be further reviewed prior to LGR.

5.1.4   Individual service plans detail key objectives, business change projects and workforce plans. They demonstrate how the service contributes to successful outcomes of the wider Carlisle Plan. The last service plan available was for financial year 2021/22. Although objectives are unlikely to change significantly from year to year within Financial Services, annual, documented review of service objectives demonstrates informed management review and decision making. Review of service objectives for 2022/23 is not now considered to add significant value prior to LGR, although it is advised that management confirm the arrangements in place for 2023/24.

5.1.5   An operational risk register is in place for the service, which was found to be complete and reviewed by the wider management team on a regular basis. A structured approach to risk identification was evidenced.

5.1.6   The previous Financial Services Governance Arrangements audit in 2021/22 recommended review of mitigating actions. The current audit identified similar opportunities for improvement including:

- Making mitigating actions more specific
- Ensuring there is demonstratable evidence that the risk mitigation has operated effectively
- Removing unnecessary narrative
- Not re-stating risks as mitigating actions

Recommendation 1 - Review narrative for operational risk mitigating actions

5.1.7 There are a significant number of risks in the operational register (19) and 11 are considered to have a 'marginal' or 'negligible' impact, should the risk escalate. To help ensure that operational risk management process remains proportionate whilst adding the most value to the service, consideration should be giving to streamlining the register with a focus on risks with a 'high' impact on achieving operational objectives.

5.1.8 All risks are currently assigned to the Head of Financial Services. Management may wish to consider further delegation of individual risk assignment to relevant managers with appropriate, specialist knowledge.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 The Information Commissioner's Office website details that it is a key requirement under UK GDPR to be open about how personal data is used. Financial Services comply with this requirement by publishing a Privacy Notice on the Carlisle City Council Website.

5.2.2 A high level of compliance with internal GDPR and Cyber-security training was found within Financial Services.

5.2.3 A records retention schedule and separate disposal log is in place for Financial Services. Audit were informed that the team follows the requirements detailed in the Council's Financial Procedure Rules. The Rules detail business records retention periods, along with a requirement to ensure that proper arrangements are maintained with regard to Data Protection Legislation. The records retention schedule was found to focus on business record retention, rather than data protection.

5.2.4 Evidence of regular records disposal is evidenced by named officers in the disposal log, although there isn't a single point of accountability to verify that <u>all</u> required documents have been disposed of in line with the Financial procedure rules <u>and</u> Data Protection Legislation.

Recommendation 2 – Verify that <u>all</u> required documents are disposed of in line with the Financial Procedure Rules <u>and</u> Data Protection Legislation

5.3 Information – reliability and integrity of financial and operational information

5.3.1 A recent audit review of the main accounting system found that the electronic staff financial guide which had been developed to direct staff on specific financial processes, would benefit from regular review and update. If a key member of the Financial Services team were to leave at short notice, the lack of current documented guidance would significantly increase the difficulty of business continuity. Under normal circumstances, robust document management arrangements would be recommended, demonstrating accountability for regular review and update. Further review and update of the electronic staff financial guide is not now considered to add significant value prior to LGR.

5.4 Value – effectiveness and efficiency of operations and programmes

5.4.1 Financial services have a small and experienced Accountancy Team that communicate with each other on a regular basis. The latest unqualified accounts for 2021/22 were confirmed by Grant Thornton in November 2022.

5.4.2 Succession planning can be demonstrated with several team members undertaking relevant supported study for professional qualifications.

5.4.3 Regular, informal Departmental Team meetings are held every four to six weeks. Informal team meetings are held on an ad hoc basis when required.

5.4.4 Annual appraisals have been undertaken within the Finance Team on a regular basis, in line with Corporate requirements. At the time of the audit, Organisational development had not been provided with details of appraisal completion for the Service Support Team. It is advised that confirmation of appraisal completion is sought.

5.4.5 The corporate performance report reviewed by the Executive on a quarterly basis, includes two financial indicators. The first is actual net spend year to date, as a percentage of annual net budget, which is on target. The profiling of budget is a significant factor in results of this indicator and without further narrative it may be difficult for the reader to make an informed decision on performance. Positive performance is indicated when actual year to date spend is below an annual budget target percentage, although significant underspend could also be problematic. For example, budget profiling indicated that 12.8% of the budget should have been spent by the end of Q1, although only 7.4% had actually been spent. It is advised that management may wish to consider adjusting the report trend indicator to demonstrate a positive outcome for actual spend within a predetermined range either above or below the target budget percentage.

5.4.6 The second performance indicator is the percentage of all invoices paid within 30 working days which was also found to be on target.

5.4.7 Financial Services budget monitoring is regularly reviewed. Net spend for the service at September 2022 indicated a significant favourable variance of £788k. This was largely due to Treasury Management savings of £650k on borrowing interest, savings on minimum revenue provision and savings on interest received on money market deposits.

5.4.8 Council financial performance is regularly reviewed by the Senior Management Team on a monthly basis, and by Executive on a quarterly basis.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Review narrative for operational risk mitigating actions	M	Risks escalate because mitigating actions are ineffective	Risks will be reviewed at the next update of the Operational Risk Register	Head of Financial Services	31/03/23
Verify that <u>all</u> required documents are disposed of in line with the Financial Procedure Rules <u>and</u> Data Protection Legislation	M	Service is not compliant with Financial Procedure Rules or Data Protection Legislation	Disposal log will be updated and guidance given to the team on ensuring documents are disposed of in line with the guidance	Head of Financial Services	31/03/23

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	Further review of Supervisor job description.
5.1.4	Confirm service plan arrangements in place for 2023/24.
5.4.4	Confirm Service Support Team appraisals have been completed in line with corporate requirements.
5.1.7	Streamline operational risk register with a focus on risks with a 'high' impact on achieving operational objectives.
5.1.8	Delegation of individual risks to relevant managers with appropriate, specialist knowledge.
5.4.5	Adjust the report trend indicator to indicate a positive outcome for actual spend within a limited range either above or below the target budget percentage.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	**Rating Reason**
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Bereavement Services
Report of:	Corporate Director Finance & Resources
Report Number:	RD51/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Bereavement Services.

Recommendations:

The Committee is requested to

    (i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of Bereavement Services was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides reasonable assurances and includes 12 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Bereavement Services**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Bereavement Services

Draft Report Issued: **21st October 2022**
Director Draft Issued: **15th November 2022**
Final Report Issued: **23rd November 2022**

Audit Report Distribution

Client Lead:	Bereavement Services Manager Head of Communities and Wellbeing
Chief Officer:	Deputy Chief Executive Chief Executive
Others:	Infrastructure and Service Desk Manager Safety, Health and Environmental Manager Data Protection Officer
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0   Background

1.1.   This report summarises the findings from the audit of Bereavement Services. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.

1.2.   The Council has a statutory duty to make provision for the committal of the deceased and is responsible for the three cemeteries and one crematorium in the city. Bereavement services is part of the Health and Wellbeing team, under the Head of Communities and Wellbeing, within Community Services Directorate.

2.0   Audit Approach

Audit Objectives and Methodology

2.1   Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2   A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3   The Client Leads for this review were the Bereavement Services Manager and the Head of Communities and Wellbeing and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Failure to achieve business objectives due to insufficient governance and inadequate embedding of risk management controls.
- Council unable to deliver efficient service due to lack of service continuity and none compliance with legislation.
- Loss or breach of information / fines and sanctions / reputational damage due to failure to securely process, retain, share and dispose of records and information.
- Council unable to deliver efficient service due to faulty / ageing equipment.
- Theft/damage to assets due to a failure to properly safeguard against loss.

2.4   There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Bereavement Services provide **reasonable assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	4
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	5
3. **Information -** reliability and integrity of financial and operational information (see section 5.3)	-	-
4. **Security** - safeguarding of assets (see section 5.4)	-	3
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	**-**	**12**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**

The recent service restructure has set a clear direction for the service. The team should be commended for their hard work during the Covid-19 pandemic and have worked well under pressure, while under-staffed. The team have retained their Gold standard award for both burials and cremations.

The audit does highlight actions that the team need to implement to strengthen the controls within the service and several outstanding recommendations from the previous audit review have been included within this report.

Controls are in place for data security, but there is a need for further controls to be in place to comply with data protection legislation, including document retention and standardising the retention schedule and privacy statement, ensuring that contracts with 3rd parties are in line with legislation and informing service users when their data is shared with providers.

The ICT system works well for managing the daily operations at the Crematorium and recording information relating to burials. The responsibility for system support and backups lies with the provider and works well.

Procedures, risk assessments and safe working practices need to be reviewed and updated where appropriate.

Equipment is well serviced, and a contingency plan is in place to ensure that service delivery would continue in the event of failure.

Assets are properly safeguarded. There is a need to complete corporate documentation such as the Premises handbook and the CCTV operating procedure.

Comment from the Deputy Chief Executive

We welcome this audit report and the helpful recommendations. Our team will implement and monitor the success of these recommendations.

5.0   Audit Findings & Recommendations

5.1   Management – Achievement of the organisation's strategic objectives

5.1.1 The Bereavement Services Manager post was vacant from April 2021 following a long term absence. The post has been appointed to from December 2021 through an internal promotion. Following a review of service provision, a structure has been agreed with 7FTE posts. Three posts are currently vacant, but action is being taken to fill these.

5.1.2 Job descriptions are in place and the purpose and responsibilities of the roles within Bereavement Services are appropriately defined.

5.1.3 The team is working towards multi-functional roles with all officers taking responsible for front office arrangements.

5.1.4 Procedures are in place for the service; however, they are out of date and incomplete. It would be good practice to review them periodically to ensure that current practices are reflected in the notes. A contents list of all procedures would also be useful.

Recommendation 1 – All procedures should be reviewed and brought up to date where appropriate. They should include version control, date, author, and a review date.

5.1.5 A Service Plan is in place for Bereavement Services which sets out five key service objectives for 2022-23. There are no KPIs or performance indicators for the service, but benchmarking exercises have been undertaken to measure performance (See 5.5.1).

5.1.6 Risks have been clearly identified and documented along with mitigating actions, the risks were last reviewed in February 2022.

Recommendation 2 – Risks should be regularly reviewed in line with the Corporate Risk Management and Assurance Framework.

5.1.7 Budget monitoring is in place and monthly meetings are held between the budget manager and relevant finance officer. A monthly budget monitoring report is produced by Finance to detail the variances in actual and budgeting spend. The latest report up to 31/08/2022 shows an income shortfall for the crematorium of £50,889, this is due to a reduced number of cremations and variations in the mortality rate; this is being monitored. An additional charge has been levied for the live-streaming and recording of cremations as this was free during the covid-19 pandemic.

5.1.8 The approved fees and charges for Bereavement Services as per the budget reports 2022/23 was compared to the fees and charges downloaded from the website on 5th July 2022 this identified that these fees & charges are for April 2021 to March 2022, and as a result these are incorrect as a 3% increase has been approved for 2022/23. This also results in the Council not being fully compliant with the Funerals Market Investigation Order 2021.

Recommendation 3 – The 2022/23 fees and charges for Bereavement Services should be uploaded to the Council's Website.

5.1.9 Senior Managers are kept up to date with any issues arising within Bereavement Services and monthly meetings are in place alongside additional catch ups, organised as necessary.

5.1.10 A replacement plan and funding are in place for the renewal of the cremators. This plan has been delayed due to the covid-19 pandemic and will need to be considered and approved by the new Cumberland Council. The cost is being achieved from a residual draw on income from cremations. The fund is regularly monitored and reported. Provision for full cremator replacement and enhancements to the crematorium are included in the Council's approved capital programme.

5.1.11 Electric cremators are being considered to replace the existing gas ones, this is considerably cheaper and more environmentally friendly to run; however, it is more expensive (The funding allocated in the capital programme allows for upgrades to electric cremators). There should be no service interruption during the cremator renewal process, however a decision will need to be made as to whether cremations will be undertaken onsite or at an alternative site.

5.1.12 There is a contingency plan in place in the event of system failure with the cremators to ensure that service delivery is continued. There is an agreement in place for the Provision of Crematoria Mutual Aid between Carlisle City Council and Copeland Borough Council for short-term delivery and use of the cremators at each other's sites. This agreement was signed in 2016 and has no cessation date. A review of this agreement highlighted that there was no reference to the sharing of personal data even though documentation would mention the next of kin.

Recommendation 4 – In light of the upcoming Local Government Reorganisation (LGR) it is recommended that an appropriate action plan be agreed by both service managers to cover how sensitive information will be securely shared if required.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 A privacy statement is in place for the Bereavement Services, published on the City Council's website. The statement generally includes relevant information, however the document retention practices do not align with the retention schedule nor the information provided by ICCM (Institute of Cemetery & Crematorium Management). In addition, there is no document destruction / disposal log in place.

5.2.2 Paper and electronic records are in place for every cremation, burial and interment carried out by bereavement services. Records include personal information in relation to next of kin. Management were unsure how long these records are / should be retained for.

5.2.3 Paper documentation is not always stored securely in locked cabinets. The key fob access to the building reduces the risk but does not totally mitigate against it. It would be good practice to ensure that there is a clear desk policy overnight to ensure that all personal data is kept securely out of hours.

5.2.4 A review of documentation identified that not all of the forms completed by members of the public accessing services include notification to the individual that their personal data will be shared with a third party. It was also noted that there are no data sharing agreements in place with any of the third party suppliers.

Recommendation 5 – The following should be completed to ensure compliance with GDPR legislation:
- **Both paper and electronic document retention should be reviewed by the service to ensure compliance with current regulations. The documentation retention schedule and privacy statement should be aligned to this. A document destruction / disposal log should be introduced.**
- **All documentation containing personal data should be stored securely.**
- **Due to LGR it is recommended that the service contacts Information Governance for guidance as to how best to cover the Council when sharing data with third parties to ensure compliance with GDPR legislation.**
- **A review of all forms used by the service should be undertaken to ensure that all documentation covers the Council in relation to GDPR and data sharing.**

5.2.5 The service uses the software 'BACAS' (Burial & Cremation Administration System) which is owned by ClearSkies and is a cloud based system. This system provides the facilities which are needed to manage and control the Crematoria and Cemeteries in line with legislative requirements.

5.2.6 Codes are used to ensure everything is in place to meet legislative requirements prior to completing a burial or cremation. Checks include ensuring all paperwork is in place, including death certificate (counter signed by a medical referee if a cremation) and ensuring music is in place. A second officer confirms the documentation is correct.

5.2.7 The Council pays ClearSkies for BACAS support, bookings & hosting support. Automatic updates are completed on the system, if the team have any system issues, they contact ClearSkies.

5.2.8 There is no data sharing agreement in place between the Council and ClearSkies and it was unclear whether the information recorded in the BACAS Support and Licence Agreements is adequate to comply with GDPR legislation. *(See Recommendation 5)*

5.2.9 Failure of software is a risk on the operational risk register, historically there have been system downtime problems; however, the backup of data has been significantly improved since the last audit review. At the time of the audit, it had not been possible to establish where the ClearSkies datacentre is and where the data is stored (geo location).

Recommendation 6 – ICT Services should be advised of the location of the datacentre and where the data is stored (geo location) for the BACAS system.

5.2.10 The system access is controlled through user permissions and three members of the team have access to the system, each having their own individual user ID and password. At the time of the audit review the Bereavement Services Manager did not have access or knowledge of the system, so is unable to monitor and supervise work undertaken on the system.

Recommendation 7 – The Bereavement Services Manager should be set up with a user ID for BACAS and complete system training in order to be able to use the system efficiently to support the team when required.

5.2.11 Wesley Music is the music system that is used by the service. It also has the flexibility to provide virtual access (virtual attendance) to a service if this is required. Wesley also provides an online link to funeral directors and the service can be watched up to a week after the live service. The agreement with Wesley is out of date and audit was advised that this contract will need to be reviewed as part of LGR.

5.2.12 The five year memorial safety inspection contract for 2023 -27 is due to be reviewed and background for this has recently been started as it is site specific.

5.2.13 The team receive newsletters, information, and updates from ICCM. They also provide accredited education & training opportunities for members. The Bereavement Services Manager is enrolled to start the training. The ICCM develops and promotes best practice in cemeteries and crematoria and their aim is to raise standards for bereaved people through the promotion of above

5.2.14 The management team have had a meeting with an external training company to talk about a tailor made training course specifically for bereavement services officers.

5.2.15 A review of the teams' current training records showed that all of the team have undertaken the mandatory Skillgate GDPR training; however, not all of the team have received fire extinguisher training and the fire warden training has expired. The team would also benefit from training in dealing with difficult situations and emotional resilience.

Recommendation 8 – A review of the team's training should be completed to ensure that all relevant areas have been covered and that new team members received all the appropriate training to support them in their roles.

5.2.16 The health and safety risk assessments including lone working were out of date and in need of review as where the safe systems of working and the Premises Handbook.

Recommendation 9 – All health and safety risk assessments, safe systems of working and the Premises Handbook should be reviewed and brought up to date as appropriate.

5.2.17 A third party is contracted by the Council to ensure emissions from the cremators meet the specific standards set in the Council's Environmental Permit. Stack emission testing must be carried out on an annual basis and the findings reported to Environmental Health in order for cremations to be permitted. The last report was dated February 2022 and concluded that the emissions of all pollutants complied with the required standards.

5.2.18 All items are PAT tested accordingly and the lifting equipment is serviced regularly. Property Services team are involved in the PAT testing and ensuring that the relevant test is carried out within the legally required timescales.

5.2.19 It was noted during the audit review that some documentation was difficult for the team to locate therefore consideration should be given to setting up a SharePoint site to retain all the service documentation including risk assessments, equipment tests & services, procedures / guidance etc so that documents are readily available to the team and easily located.

5.3	Information – reliability and integrity of financial and operational information

5.3.1 Any complaints for Bereavement Services are dealt with via the Council's Corporate Complaints & Feedback Policy. Two recent complaints were reviewed and had been adequately resolved.

5.3.2 At the time of the audit there was no documented guidance / procedures for the process followed for handling informal complaints, such as a complaint about the grounds at the crematorium or in a cemetery. *(See Recommendation 1)*

5.3.3 The Media & Communications Officer deals with all news stories and communications. There have been no recent issues.

5.3.4 The BACAS system allows officers to manage the day to day tasks for Bereavement Services. It allows 24hr access for bookings to be made for services by the Funeral directors through the remote booking system.

5.3.5 Access is restricted so each Funeral director can only see their case load and the vacant slots. This enables the Funeral directors to confirm arrangements with service users out of office hours.

5.4	Security – Safeguarding of Assets

5.4.1 CCTV cameras are in place for the protection of staff, the premises, and visitors. There is no Surveillance Camera Operating Procedure in place for the cameras at the Crematorium, the signage at the Crematorium is not in compliance with the policy as the signs are in black and white and do not have the Council's Logo or Privacy Notice details in place.

Recommendation 10 – The Surveillance Camera Operating Procedure should be completed. The signage should be updated in line with the new Cumberland Council's Surveillance Policy.

5.4.2 A Premises handbook is in place and covers the operation of the building, this is retained within Bereavement Services. A review of the handbook needs to be undertaken to ensure its completeness and that the correct processes are followed. *(See Recommendation 9)*

5.4.3 The failure of the cremator equipment is a risk which is detailed in the operational Risk Register. To mitigate this risk equipment / machinery is tested and serviced appropriately

and the team complete daily checks to ensure that all the equipment / machinery is working.

5.4.4 Careline support is in place for lone working at the Crematorium. The lone working risk assessment needs to be reviewed and updated. *(See Recommendation 9)*

5.4.5 The medical referees have access to the premises out of hours; however, the team are unaware if they have an adequate lone working procedure in place.

Recommendation 11 –The medical referees should provide assurances that appropriate lone working procedures are in place when they are visiting Council premises out of hours.

5.4.6 Cash & cheque payments are made at the site office for services provided by the Council including additions to the book of remembrance and the bronze plaques. These payments are securely retained. The Bereavement Services Administrator confirmed that Kalamazoo is used for issuing receipts for payments. Currently there are no facilities for clients to pay for services via payment cards. Management confirmed that a review of payment methods will be undertaken after LGR.

5.4.7 All Memorial Masons & Funeral Directors are invoiced through the debtors system and members of the public who don't use cheques or cash.

5.4.8 A copy of procedures for cash payments, depositing & recording was also provided. A review highlighted that these procedures do not contain the date or date of review. It was also noted that the procedures do not include cash bank pay in collection. In addition, cash carrying procedures / risk assessments should be reviewed and updated as appropriate. *(See Recommendation 1 & 9)*

5.4.9 Audit testing confirmed that the cash payments received are minimal and infrequent. Cash is banked by Bereavement Services officers due to the low value. Cheques received are usually taken to the bank or Civic Centre to be banked. A secure collection service is available to the crematorium but has not been required for some time due to the low value of cash held on site.

5.4.10 Petty Cash is securely retained. The Bereavement Services Administrator manages the petty cash and completes the petty cash returns.

5.4.11 A review of the insurance levels and the cash held confirmed that the cash held is well within the limits.

5.4.12 At the time of the audit there was no record of any of the safes' contents. A record of all safe contents should be completed and maintained.

5.4.13 A signed key holder list is maintained and was up to date. A review of this highlighted a potential risk that could invalidate the Council's insurance/. However, this risk is minimal as no large volumes of cash are retained on site although management should closely monitor this.

5.4.14 The Crematorium has building security which includes an alarm system and fob access control. A review of this highlighted the following weaknesses:

- There is no procedures or guidance for opening and closing the premises. *(See Recommendation 1)*
- Several individuals have fob access to the crematorium that is no longer required. *(See Recommendation 12)*
- It was not possible to review the alarm users, this should be completed next time an alarm engineer is on site.

Recommendation 12 - The fob access report should be reviewed and anyone who no longer requires access should be removed.

5.5   Value – effectiveness and efficiency of operations and programmes

5.5.1 Annual benchmarking is undertaken across all the Crematoriums in the UK. The service is required to complete a self-assessment questionnaire for the government body for the industry, the ICCM. The Council has obtained the Gold standard award for both burials and cremations. Market comparison reviews have also been undertaken.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1: All procedures should be reviewed and brought up to date where appropriate. They should include version control, date, author, and a review date.	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur this may lead to complaints and reputational damage to the Council.	Review and agree a list of service procedures. Completed documented procedures in place for Bereavement Services with appropriate version control, date, author and review dates.	Bereavement Services Manager & Head of Communities and Wellbeing Bereavement Services Manager	16/01/2023 30/09/2023
Recommendation 2: Risks should be regularly reviewed in line with the Corporate Risk Management and Assurance Framework.	M	If risks are not regularly monitored there is a risk that Council priorities are not achieved / supported.	Risks reviewed on a quarterly basis in line with the Corporate Risk Management and Assurance Framework.	Head of Communities and Wellbeing	31/01/2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 3: The 2022/23 fees and charges for Bereavement Services should be uploaded to the Council's Website.	M	There is a risk of reputational damage to the Council and customer complaints if fees and charges on the website are not up to date.	IT contacted to request access & guidance to upload 2022/23 fees & charges.	Bereavement Services Manager	16/12/2022
Recommendation 4: In light of the upcoming Local Government Reorganisation (LGR) it is recommended that an appropriate action plan be agreed by both service managers to cover how sensitive information will be securely shared if required.	M	Non-compliance with GDPR legislation resulting in service user details being shared without permission.	Data sharing agreement completed by both service managers to cover how sensitive information will be securely shared if required prior to 1/04/2023.	Bereavement Services Manager	16/12/2022

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 5: The following should be completed to ensure compliance with GDPR legislation: -Both paper and electronic document retention should be reviewed by the service to ensure compliance with current regulations. The documentation retention schedule and privacy statement should be aligned to this. A document destruction / disposal log should be introduced. -All documentation containing personal data should be stored securely.	M	Non-compliance with GDPR legislation and failure to control records management.	-Document retention is reviewed and aligned to legislation and the retention scheduled and privacy statement updated accordingly. -Implement a document storage procedure.	Bereavement Services Manager Bereavement Services Manager	31/01/2023 31/01/2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 5 continued: -Due to LGR it is recommended that the service contacts Information Governance for guidance as to how best to cover the Council when sharing data with third parties to ensure compliance with GDPR legislation. -A review of all forms used by the service should be undertaken to ensure that all documentation covers the Council in relation to GDPR and data sharing.	M	Non-compliance with GDPR legislation and failure to control records management.	Meeting to be set up with Data Protection / Information Governance for guidance and actioning of this recommendation. All forms to be reviewed and updated to cover the Council in relation to GDPR and data sharing.	Bereavement Services Manager Bereavement Services Manager	16/12/2022 31/01/2022
Recommendation 6: ITC Services should be advised of the location of the datacentre and where the data is stored (geo location) for the BACAS system.	M	Non-compliance with GDPR legislation and failure to control records management.	Request information from ClearSkies and advise ITC of outcome to ensure that this is satisfactory.	Bereavement Services Manager	31/12/2022

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 7: The Bereavement Services Manager should be set up with a user ID for BACAS and complete system training in order to be able to use the system efficiently to support the team when required.	M	Customer Service may be impacted in the event of staff absence / shortages.	User ID set up and training undertaken by BACAS.	Bereavement Services Manager	30/11/2022
Recommendation 8: A review of the team's training should be completed to ensure that all relevant areas have been covered and that new team members received all the appropriate training to support them in their roles.	M	Failure to identify and act upon ways to improve service delivery.	Team training reviewed and a team training plan agreed for 2023/24.	Bereavement Services Manager	31/03/2023
Recommendation 9: All health and safety risk assessments, safe systems of working and the Premises Handbook should be reviewed and brought up to date as appropriate.	M	Failure to meet Council's procedures / guidance on health & safety for the service which may lead to staff and members of the public being put at risk.	Review and update health and safety risk assessments and safe systems of work. Review and update the Premises Handbook in conjunction with Property Services to clearly define roles and responsibilities.	Bereavement Services Manager Bereavement Services Manager	28/02/2023 31/03/2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 10: The Surveillance Camera Operating Procedure should be completed. The signage should be updated in line with the new Cumberland Council's Surveillance Policy.	M	Non-compliance with council procedures and GDPR legislation.	The Surveillance Camera Operating Procedure completed, documented and signage updated.	Bereavement Services Manager	28/02/2023
Recommendation 11: The medical referees should provide assurances that appropriate lone working procedures are in place when they are visiting Council premises out of hours.	M	Non-compliance with Council procedures and failure to be aware of all factors affecting the facilities.	A copy of the medical referees lone working procedures provided.	Bereavement Services Manager	31/01/2023
Recommendation 12: The fob access report should be reviewed and anyone who no longer requires access should be removed.	M	Unauthorised access to the Council premises.	Fob access report reviewed, and access removed for all individuals who no longer require access.	Bereavement Services Manager	30/11/2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.2.19	Consideration should be given to setting up a SharePoint site to retain all the service documentation including risk assessments, equipment tests & services, procedures / guidance etc so that documents are readily available to the team and easily located.
5.4.12	A list of all safe contents should be completed and maintained.
5.4.13	Management should monitor the levels of cash retained on site to ensure that the Council's insurance is valid.
5.4.14	The users for the alarm system at the Crematorium should be checked / review on the next site visit by the alarm company and any users who no longer require access should be removed. It would also be good practice to retain a list of alarm users for future reference.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Carlisle City Council

www.carlisle.gov.uk

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Treasury Management
Report of:	Corporate Director Finance & Resources
Report Number:	RD51/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Treasury Management.

Recommendations:

The Committee is requested to

    (i)   receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. **Background**

   1.1. An audit of Treasury Management was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides substantial assurances and includes 1 medium-graded recommendation.

2. **Risks**

   2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. **Consultation**

   3.1 Not applicable

4. **Conclusion and reasons for recommendations**

   4.1 The Committee is requested to
   i) receive the final audit report outlined in paragraph 1.1

5. **Contribution to the Carlisle Plan Priorities**

   5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper   Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Treasury Management**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of Treasury Management

Draft Report Issued: 18th November 2022
Director Draft Issued: 21st November 2022
Final Report Issued: 24th November 2022

Audit Report Distribution

Client Lead:	Head of Financial Services Accountancy Services Manager
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	Technical Finance Officer
Audit Committee:	The Audit Committee, which is due to be held on 8th December 2022 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0   Background

1.1.   This report summarises the findings from the audit of Treasury Management. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.

1.2.   Treasury management is described by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the management of an organisation'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.

1.3.   In practice, this means actively monitoring and managing the Council's banking transactions to ensure that cash is available to pay for debts as they fall due, while minimising borrowing costs as a result of debt and ensuring an acceptable balance is struck between security, liquidity and return, for any investments held.

1.4.   Council loans (debt) outstanding at the end of September 2022 totalled £12.6M of which £0.48M was due for repayment (short-term debt). Investments at the end of September 2022 including CCLA Property Fund (£3.9M) totalled £29.9M.

2.0   Audit Approach

Audit Objectives and Methodology

2.1   Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2   A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3   The Client Lead for this review was Head of Financial Services and Accountancy Services Manager. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Financial procedure rules, strategies, policies and procedures are not aligned to Treasury Management current practice.
- Cash balances, borrowing, lending and investing is not managed effectively.
- Transactions are not accurately and securely recorded in a transparent manner.
- Treasury management performance is not accurately monitored and reported in a timely manner.

2.4   There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0   Assurance Opinion

3.1   Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2   From the areas examined and tested as part of this audit review, we consider the current controls operating within Treasury Management provide **substantial assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0   Summary of Recommendations, Audit Findings and Report Distribution

4.1   There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. **Information -** reliability and integrity of financial and operational information (see section 5.3)	-	-
4. **Security** - safeguarding of assets (see section 5.4)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	**-**	**1**

4.2   Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3   **Findings Summary (good practice / areas for improvement):**

The Treasury management function was found to be operating effectively by experienced and qualified staff.

Clear direction is provided to the Treasury Management function by the Financial Procedure rules, Treasury Management Strategy Statement and Treasury Management Practices guidance.

The scheme of delegation was found to be working effectively, although evidence of formal authorisation and counterparty confirmation should be maintained for all investments.

Segregation of duties between dealing, accounting and authorisation is observed.

Cash flow forecasts and daily balance recording is accurately maintained.

All the required insurances are in place.

Appropriate security arrangements to protect Treasury Management evidence are in place.

Treasury Management performance is transparent and reported on a regular basis to the Executive.

Regular budget monitoring is undertaken for Financial Services which includes Treasury Management performance.

Treasury management documents are reconciled to the general ledger annually.

Comment from the Corporate Director of Finance and Resources:

A positive audit review highlighting the excellent work undertaken by the experienced and knowledgeable staff in the Treasury Function. Compliance with both internal policies and external guidance is of paramount importance given the level of funds which need to be managed on a daily basis. I am assured by the substantial rating and thank the auditors for their diligence in undertaking this review.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 Officers are directed on Council Treasury Management requirements by the Financial Procedure Rules, Treasury Management Strategy Statement and the Treasury Management Practices guidance, which incorporates relevant procedures.

5.1.2 The Treasury Management Practices and procedures document was recently updated in September 2022. The document largely reflects current practice, although some of the details may require fine tuning. For example, recording of training (see 5.5.1). Procedures for investment transactions that fall outside of the standard HSBC net process (see 5.2.1) are not currently documented. To further increase accuracy and robustness of the review already undertaken, document management arrangements would normally be recommended. This should include names of officers carrying out the review, further increasing accountability for content accuracy. Due to the impending Local Government Reorganisation, this is not now considered to add significant value.

5.1.3 The Council does not use specialist Treasury Management software and transactions are recorded using spreadsheets, documents and pdf files. Management may wish to consider if all routine tasks including file locations and update regularity are proportionately captured in Treasury Management procedures. This is considered important because of the technical nature of the service provided and the business continuation difficulties that may be encountered if the Technical Finance Officer was absent at short notice.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 The Scheme of delegation details Officers that can authorise release of funds for investment. One of the four Investment transactions tested was a transfer to an HSBC deposit account which did not follow the standard HSBC net authorisation process. The authoriser was aware of the transaction and copied into the investment negotiation, although formal authorisation could not be evidenced. It is also noted for this transaction that confirmation of the investment from the Counterparty has not been recorded in line with the Treasury Management Practices guidance.

Recommendation 1 – Formal authorisation and confirmation to be recorded for all Treasury management Investments

5.2.2 Segregation of duties was found to be observed in line with the Treasury Management Practices guidance, although coding advice has to be sought from the primary dealer by the Systems Team in order to accurately remove treasury transactions from suspense. The primary dealer is also responsible for posting interest accruals for investments and loans.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 A cash flow model is updated daily for known, significant income and expenditure cash movements. This spreadsheet is also populated with the actual daily bank balance and the variance between forecast and actual balance is recorded. The daily balance estimates were found to be accurate, with a variance of over £100k identified on only four occasions in the month tested. All the variances were favourable demonstrating forecast accuracy of expenditure. Variances can arise because the exact date of income deposits are not always known. On the few occasions where the variance is above £100k, management may wish to consider investigating and recording the reasons, further demonstrating continuous improvement of the service.

5.3.2 Daily balances files are generally found to be recorded regularly and accurately. One investment tested was found to be recorded as a single total investment with one counterparty, although the investment consisted of four smaller transactions, all with different rates of return.

5.4 Security – Safeguarding of Assets

5.4.1 The Treasury Management Practices document requires that Insurances are taken out for Fidelity, Professional Indemnity and Business Interruption. Audit were provided with evidence that all the required insurances are in place with Zurich Municipal. Where specific job titles are quoted in the insurance policy, one was found to be marginally inaccurate and the Insurance Officer queried this with Zurich.

5.4.2 A Treasury Management folder has been set up on the 'Accountancy' server which holds all Treasury Management related documents and spreadsheets. ICT provided evidence of Officers with security access to the files. As a result, one officer was removed from the security group, although this was not considered a significant risk.

5.4.3 A recommendation was made in a previous audit of the Main Accounting System to regularly check security access and it is advised that this regular review is maintained.

| | **5.5** | **Value – effectiveness and efficiency of operations and programmes** |

5.5.1 Key officers involved in Treasury Management were found to be experienced and have appropriate professional qualifications. Training requirements are reviewed for all Financial Services staff, in line with corporate appraisal requirements. The Treasury Management Practices documents details that Treasury management staff and members will go on courses provide by the Council's Treasury Management Consultants, CIPFA and money brokers. It also details that a record will be kept on all staff training received, although the training record could not be evidenced. It is advised that management consider if the Treasury Management Practices guidance should be updated to reflect current practice.

5.5.2 Link Asset Services Limited are the Council's Treasury Management Consultancy Services and they provide regular updates on approved Counterparty lists and associated credit ratings. This significantly reduces risk to the council that counterparties to transactions could default before final settlement. For one of the transactions tested, the correct credit rating was not accurately reflected on the investment spreadsheet. Although the Investment spreadsheet is maintained to a good standard, the counterparty sheet requires review and update. Management may wish to consider if approved counterparties and credit ratings can be demonstrated at the point of investment, without comprehensive transfer of all counterparty and credit rating updates from the LINK update to the Investment spreadsheet.

5.5.3 LINK asset services also provide regular, detailed investment review reports to the Treasury Management Team. These reports form the basis of regular quarterly performance reporting to the Executive in line with the Council's Financial Procedure rules; the Executive and Council also receive an Annual Strategy Statement and outturn report. To further increase transparency and accountability of Treasury Management reporting to 'the Council', It is advised that key governance groups are always specified and that reporting arrangements detailed in reports are checked for alignment to all other key Treasury Management guidance.

5.5.4 Regular Treasury Management budget monitoring is undertaken and at August 2022 there was a significant favourable variance of £650k. This is due to savings on net interest paid on new borrowing (£355k), Savings on minimum revenue provision (£200k) and surplus on interest received (£113k). The 650k makes up a significant part of the overall Finance and Resources favourable variance of £788k.

5.5.5 Reconciliations between the bank and general ledger were tested previously as part of the main accounting audit and found to be effective. For the Treasury Management audit, evidence of reconciliation between the recording of treasury management transactions and the general ledger was provided and this was also found to be effective.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – Formal authorisation and confirmation to be recorded for all Treasury management Investments	M	Financial loss through fraud or error.	A process will be put in place to ensure oversight of investments placed	Head of Financial Services	01/12/22

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.3	Consider if all routine tasks including file locations and update regularity are proportionately captured in Treasury Management procedures. Consider updating procedures for investment transactions that fall outside of the standard HSBC net process.
5.3.1	Consider investigating and recording the reasons for large cash flow variances, further demonstrating continuous improvement.
5.4.3	It is advised that a regular review of access rights is undertaken.
5.5.1	Consider if the Treasury Management Practices guidance should be updated to reflect current arrangements for attending approved training courses and maintaining a record of training.
5.5.2	Consider if approved counterparties and credit ratings can be demonstrated at the point of investment, without comprehensive transfer of all counterparty and credit rating updates from LINK to the Investment spreadsheet.
5.5.3	To further increase transparency and accountability of Treasury Management reporting to 'the Council', It is advised that key governance groups are always specified and that reporting arrangements detailed in reports are checked for alignment to all other key Treasury Management guidance.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.2

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT JULY TO SEPTEMBER 2022
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD43/22

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2022/23 was received by the Executive on 21 November 2022. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter. The Committee is otherwise asked to note the report.

Recommendations:

That the report be noted.

Tracking

Executive:	21 November 2022
Audit Committee:	08 December 2022
Council	n/a

1

Carlisle City Council
Report to Executive

Meeting Date:	21 November 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT JULY TO SEPTEMBER 2022
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD43/22

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

Recommendations:

That this report be received, and the Prudential Indicators noted as at the end of September 2022.

Tracking

Executive:	21 November 2022
Audit Committee:	08 December 2022
Council	n/a

1. **Introduction**

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

(i) **Appendix A** sets out the schedule of Treasury Transactions for the period to 30th September 2022 as follows:
- **Appendix A1 –** Treasury Transactions July to September 2022
- **Appendix A2 –** Investment Transactions July to September 2022
- **Appendix A3 –** Outstanding Investments at 30th September 2022

(ii) The Prudential Code and Prudential Indicators for 2022/23 are discussed at **Appendix B** as follows:
- **Appendix B1 –** Prudential Code background
- **Appendix B2 –** Prudential Indicators

2. **Risks**

2.1 The Council's Treasury Management function is responsible for investing the Council's surplus cash balances and managing cash flows appropriately. The Treasury Management Strategy Statement and the Treasury Management Practices are completed and approved in line with the CIPFA Code and include appropriate mechanisms for dealing with the Council's investments and borrowing needs.

3. **Consultation**

3.1 The Audit Committee will consider this report on 8 December 2022.

4. **Conclusion and reasons for recommendations**

4.1 That this report be received, and the Prudential Indicators noted as at the end of September 2022.

5. **Contribution to the Carlisle Plan Priorities**

5.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact details:

Contact Officer: **Emma Gillespie**   Ext: **7289**

Appendices attached to report:
- **Appendix A1 – Treasury Transactions July to 30 September 2022**
- **Appendix A2 – Investment Transactions July to 30 September 2022**
- **Appendix A3 – Outstanding Investments at 30 September 2022**
- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications
Legal – Treasury Management activities are delegated to the Corporate Director of Finance and Resources and Financial Procedure Rule 3.19 requires that she prepare an annual report on the topic. This Report fulfils that obligation.
Property Services – Not applicable
Finance – Included in the report
Equality - This report raises no explicit issues relating to the public sector Equality Duty
Information Governance – No implications

TREASURY TRANSACTIONS
JULY 2022 to 30 SEPTEMBER 2022

1.   LOANS (DEBT)

1.1   Transactions July to 30 September 2022

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		**237,500**	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. Procedures, adopted to map the cash flow more accurately, ensure better forecasting and limits the amount of short term/overnight borrowing which may be required.

1.2   Loans (Debt) Outstanding at 30 September 2022

	£
P.W.L.B.	8,325,000
P.W.L.B.	4,250,000
Short Term Loans	12,800
	12,587,800

1.3   Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at 30 September 2022	475,000	0	12,800	**487,800**

1.4   Interest Rates

Bank base rates for the period covered by this report increased from 1.25% to 1.75% (4th August 2022) and then to 2.25% (22nd September 2022). Both Link Group and Capital Economics are currently forecasting bank rate to rise to 5.00% by June 2023.

2   INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	14,940,000	1.63 - 3.15	14,650,000	0.91 - 1.35
	14,940,000		**14,650,000**	

A full schedule of short-term investment transactions is set out in **Appendix A2**. **Appendix A3** shows outstanding short-term investments at 30 September 2022.

3   REVENUES COLLECTED

To: 30 September 2022		Collected £	% of Amount Collectable %
2022/23	Council Tax	41,723,886	56.86
	NNDR	24,508,027	57.32
Total		**66,231,913**	**57.03**
2021/22	Council Tax	39,492,304	56.25
	NNDR	18,594,961	50.09
Total		**58,087,265**	**54.12**
2020/21	Council Tax	36,788,494	55.04
	NNDR	11,184,691	49.97
Total		**47,973,185**	**53.77**

4   BANK BALANCE

At 30 September 2022 £369,568.12 in hand.

This records the Council's bank balance at the end of the last day covered by the report.

5   <u>PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO 30 SEPTEMBER 2022</u>

April – 30 September 2022

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(99)	(212)	(113)
Interest Payable	443	105	(338)
Less Rechargeable	0	0	0
	443	**105**	**(338)**
Principal Repaid (MRP)	268	68	(200)
Debt Management	12	13	1
NET BALANCE	**624**	**(26)**	**(650)**

The profiled budget is to 30 September 2022

Interest receivable is ahead of expectations due to higher than forecast average cash balances and increased interest rates.

Interest payable is lower than expected as no new borrowing has been undertaken in this financial year.

The CCLA property investment saw a slight decrease in the capital value to the end of September. Dividends and yield levels are currently 3.40%.

Increases in interest rates will impact on the Council's investment income achieved in 2022/23, with the Council investing mainly with UK banks. The Council's external borrowing is on fixed rate interest, so is unaffected by changes in PWLB rates as a result of bank rate changes, however any future borrowing required may be at a higher level than anticipated when the MTFP was produced.

SHORT TERM INVESTMENT TRANSACTIONS JULY TO 30th SEPTEMBER 2022

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
HSBC	240,000.00		HSBC	3,700,000.00
Nationwide	1,000,000.00		Standard Chartered	1,000,000.00
Nationwide	1,000,000.00		HSBC	5,000,000.00
Nationwide	1,000,000.00		Standard Chartered	1,000,000.00
Nationwide	1,000,000.00		HSBC	3,850,000.00
HSBC	3,700,000.00		Federated Investors	100,000.00
Standard Chartered	1,000,000.00			
Standard Chartered	1,000,000.00			
HSBC	5,000,000.00			
TOTAL	**14,940,000**			**14,650,000**
			Bfwd	29,828,820
			Paid	14,940,000
			Repaid	14,650,000
			Total	**30,118,820**
			CCLA	**(172,741)**
			Total	**29,946,079**

Outstanding Investments as at 30 September 2022

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution		Total Interest Expected (£)
	MMF Federated Investors (UK)	3,900,000	1.88%			MMF			
	HSBC UK Bank Plc (RFB)	1,150,000	2.16%			Call1			
	Nationwide Building Society	1,000,000	1.63%	18/07/2022	28/10/2022	28			
	Standard Chartered Bank	1,000,000	1.48%	29/04/2022	28/10/2022	28	182		7,380
	HSBC UK Bank Plc (RFB)	5,000,000	1.75%			Call31			
	Nationwide Building Society	1,000,000	1.73%	18/07/2022	25/11/2022	56	130		6,162
	Standard Chartered Bank	1,000,000	1.59%	27/05/2022	25/11/2022	56	182		7,928
	Nationwide Building Society	1,000,000	1.87%	18/07/2022	22/12/2022	83	157		8,044
	Standard Chartered Bank	1,000,000	2.05%	24/06/2022	22/12/2022	83	181		10,166
	Nationwide Building Society	1,000,000	2.03%	18/07/2022	27/01/2023	119	193		10,734
	Standard Chartered Bank	1,000,000	2.23%	29/07/2022	27/01/2023	119	182		11,119
	Standard Chartered Bank	1,000,000	3.15%	26/08/2022	24/03/2023	175	210		18,123
	Santander UK	7,000,000	1.21%			Call180			
	Total Investments	**£26,050,000**	**1.72%**			**83**	**177**		**£79,656**

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) [1]	Initial Market Value (£)		Unrealised Growth (£)
CCLA Property Fund	**3,896,079**	**3.40%**	31/07/2014	3,000,000	(163,104)	2,836,896		**896,079**

1. Entry Costs were charged against Treasury Management Budget in 2014/15

Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	Weighted Average Dats to Maturity from Execution WAM at Execution	Risk Score for Colour (1 = Low, 7 = High)	Sep 2022	Jun 2022	Mar 2022	Dec 2021
Yellow	14.97%	3,900,000	100.00%	3,900,000	14.97%	1.88%	0	0	1	0.1	0.2	0.0	0.1
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0	2	0.0	0.0	0.0	0.0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0	3	0.0	0.0	0.0	0.0
Orange	23.61%	6,150,000	100.00%	6,150,000	23.61%	1.83%	25	25	4	0.9	1.5	1.8	1.5
Red	61.42%	16,000,000	43.75%	7,000,000	26.87%	1.64%	125	174	5	3.1	2.3	2.7	2.4
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0	6	0.0	0.0	0.0	0.0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0	7	0.0	0.0	0.0	0.0
	100.0%	26,050,000	65.45%	17,050,000	65.45%	1.72%	83	113		4.2	4.0	4.5	4.0

	LInk's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour

Portfolio Composition by Link's Suggested Lending Criteria

Yellow ☐ Purple ☐ Blue ☐ Orange ☐ Red ☐ Green ☐ No Colour
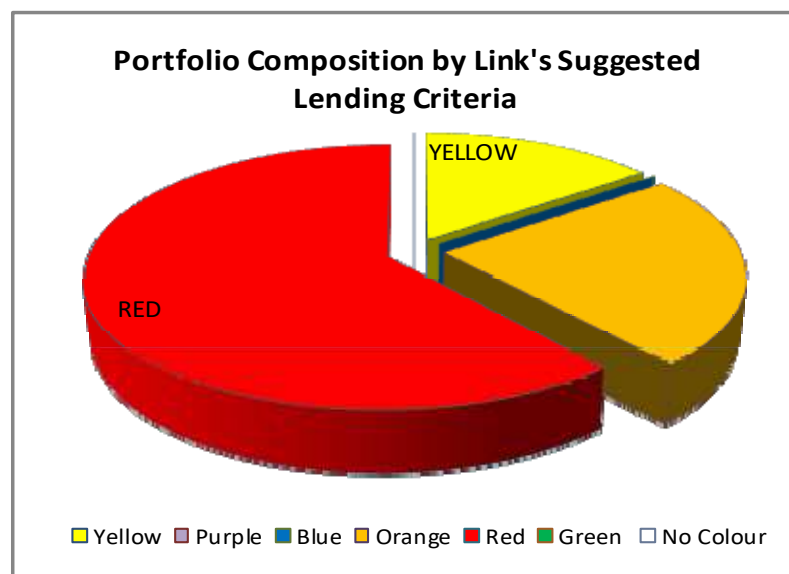
Normal' Risk Score	3.5	3.5	3.5	3.5

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1.   Introduction

1.1   The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.

1.2   The aim of the Code is to support local authorities when making Capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.

1.3   The key objectives of the Code are to ensure, within a clear framework, that the Capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2.   Prudential Indicators

2.1   To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.

2.2   Appendix B2 sets out the latest performance indicators for the current year.

3.   Prudential Borrowing

3.1   Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Following the introduction of the Prudential Code, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so long as they can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

<u>PRUDENTIAL INDICATORS</u>

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, Capital expenditure, and treasury management. Set out below are the indicators for 2022/23 to date as detailed in the Treasury Management Strategy Statement for 2022/23.

(a) **<u>Affordability</u>**

	2022/23 Original Estimate £	2022/23 Revised Estimate £
(i) Capital Expenditure	36,074,100	40,710,900
(ii) Financing Costs Total Financing Costs	1,049,900	(38,933)
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	14,309,000	14,309,000
(iv) Ratio of Financing Costs to Net Revenue Stream The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.	7.34%	(0.27%)
(v) Incremental Impact on Council Tax This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	8.85	8.85
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	52,100,000 41,106,000	52,100,000 41,106,000
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2022/23 Original Estimate £	2022/23 Revised Estimate £
(vii) Operational Borrowing Limit	47,100,000	47,100,000
Maximum Level of Borrowing and Other Long term Liabilities	41,106,000	41,106,000
The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.		
(viii) Capital Financing Requirement (CFR)	50,878,000	50,878,000
As at 31 March		
The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.		

(b)   Prudence and Sustainability

	2022/23 Original £
(i) New Borrowing to Date	
Long Term Borrowing has been taken in 2022/23 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing	
at September 2022	100%
(iii) Percentage of Variable Rate Long Term Borrowing	
at September 2022	0%
Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	
(iv) Minimum Level of Investments Classified as Specified	50.00%
Level of Specified Investments as at September 2022	100.00%
As part of the Capital Investment Strategy for 2022/23, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 21 NOVEMBER 2022

EX.152/22   TREASURY MANAGEMENT JULY TO SEPTEMBER 2022
(Non Key Decision)

Portfolio   Finance, Governance and Resources

Relevant Scrutiny Panel   People Panel

Subject Matter

The Finance, Governance and Resources Portfolio Holder submitted report RD.43/22 providing the regular quarterly report on Treasury Transactions including the requirement of the Prudential Code. (RD.43/22)

The Finance, Governance and Resources Portfolio Holder concluded by moving the recommendation set out in the report. The Leader seconded the recommendation.

Summary of options rejected none

DECISION

That Report RD.43/22 be received and the Prudential Indicators noted as at the end of September 2022.

Reasons for Decision

To inform the Executive of the Council's Treasury Management issues.

Carlisle City Council
Report to Audit Committee

Item A.3

Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Policy and Budget Framework	Yes
Public / Private	Public

Title:	STATEMENT OF ACCOUNTS 2022/23
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD 45/21

Purpose / Summary:

This report provides information regarding the forthcoming 2022/23 Final Accounts process. The report also includes the draft accounting policies that will be used in the closedown of the 2022/23 accounts.

Recommendations:

Members are asked to note the update on the 2022/23 accounts and to consider the draft accounting policies to be used in the preparation of the 2022/23 accounts.

Tracking

Audit Committee:	**08 December 2022**

1. **BACKGROUND**

1.1 The revised Accounts and Audit (Amendment) Regulations 2021 reflect the changes of the MHCLG (now DLUHC) consultation on revised dates for publishing and auditing the Statement of Accounts for 2022/23. The amended requirements changed the fixed period for public inspection to start on or before the first working day of August and therefore the unaudited accounts were to be published at the latest by 31 July. However, the amended regulations only applied to the financial years' 2020/21 and 2021/22 and therefore for 2022/23 the statutory deadline for public inspection reverts to the first 10 working days of June meaning the draft accounts are to be completed by 31 May 2023.

1.2 The audit must then be concluded by 30 September 2023. The Auditors will then submit its Annual Audit Findings Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its meeting at the end of September (unless notified otherwise). The Council's S151 Officer may provide a response report to that same meeting.

1.3 The Accounts must then be published and will be available in hard copy and on the Council's website.

1.4 In order to provide a set of Accounts by these deadlines which are also in accordance with relevant Codes of Practice, Regulations and Guidance, the final accounts process commences in January with the production of an internal timetable for the completion of the various tasks involved.   This timetable is monitored by Financial Services officers and progress reported to the Senior Management Team throughout the final accounts process as it is essential that a corporate approach be taken to achieve a set of Accounts which gives a true and fair view of the financial position of the Authority.

2. **CHANGES ARISING FROM THE 2022 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING**

2.1 There are no significant changes to the 2022 Code of Practice on Local Authority Accounting that affect the Council.

3. **ACCOUNTING POLICIES**

3.1 The existing Accounting Policies have been updated for the 2022/23 Statement of Accounts. However, at the time of writing, the 2022/23 Code of Practice Guidance notes have yet to be published showing the required changes in Accounting Policies for 2022/23. The updated policies are attached at **Appendix A**. Members are asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2022/23 Accounts. These will be prepared by Cumberland

Council on behalf of Carlisle City Council and will be signed off by Cumberland's S151 Officer. If there are any subsequent significant changes to the policies following publication of the Guidance Notes, these will be reported to the Committee at the next available meeting.

3.2   To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2022 Code of Practice, a training session will be proposed for Members in June/July.

4.   RECOMMENDATIONS

Members are asked to note the update on the 2022/23 accounts and to consider the draft accounting policies to be used in the preparation of the 2022/23 accounts.

Contact details:

 Contact Officer: Steven Tickner   Ext: 7280

Appendices attached to report:

- **Appendix A – Draft Accounting Policies 2022/23**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

LEGAL - The Audit Committee's terms of reference require it to consider the Council's compliance with its own and other published standards and controls and to consider whether appropriate accounting policies have been followed.

PROPERTY SERVICES - The statement of accounts include the valuations of the Councils assets. The Valuation process to provide the value of the assets is carried out by property services in conjunction with external expert valuers.

FINANCE – contained within body of the report

EQUALITY – none

INFORMATION GOVERNANCE – none

4.0   Accounting Policies

4.0.1   General Principles
The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 and the Accounts by the Accounts and Audit (amended) Regulations 2021, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, supported by International Financial Reporting Standards (IFRS).

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

4.0.2   Accruals of Income and Expenditure
Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

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

4.0.3   Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4.0.4   Exceptional Items
When items of income and expense are material and out of the ordinary, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

4.0.5   Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

4.0.6 Charges to Revenue for Non-Current Assets
Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:
- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its overall borrowing requirement. This is known as the Minimum Revenue Provision and is calculated as 3% of the Council's Capital Financing Requirement at the start of the financial year on a straight-line basis. Depreciation, impairment losses, revaluation losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

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

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement on the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that is within the scope of section 8.2 of the Code and IAS37 and involves the payment of termination benefits.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits
Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a defined benefit scheme, it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.

- Liabilities are discounted to their value at current prices using a real discount rate of 2.8%.

- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.

  - o quoted securities – current bid price
  - o unquoted securities – professional estimate
  - o unitised securities – current bid price
  - o property – market value

  Around 52% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into six components and recognised in the Statements as follows:

  Service Cost comprising:
  - o **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.

  - o **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

  - o **Net Interest on the defined pension liability (asset)** – i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account

any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:
- o **The return on plan assets –** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- o **Actuarial gains and losses –** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- o **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 4.42 to the Accounts.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision and accounted for using the same policies as are applied to the LGPS.

4.0.8   Events after the Balance Sheet Date
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

4.0.9   Financial Instruments

Financial Liabilities
Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are

carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

(i) **Borrowing**

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12-month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

(ii) **Creditors**

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

Financial Assets Measured at Amortised Cost

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

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost or either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit and Loss

Financial assets that are measured at Fair Value through Profit and Loss are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:
- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis.

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

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

4.0.10 Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:
- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

4.0.11 Heritage Assets
Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)
The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant, and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

Museum Collection

The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes, and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2018 - 2021 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

Statues, Monuments, and other historical buildings
The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost. This will be re-evaluated so that the most appropriate valuation basis is used, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

Heritage Assets – General
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.16 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant, and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

4.0.12 Inventories and Long-Term Contracts
Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction.

4.0.13 Investment Property
Investment properties are those that are used solely to earn rentals and for capital appreciation or both. The definition is not met if the property is used in the production or supply of goods or services or for administrative purposes or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line

in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

4.0.14 Leases

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

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

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

The Council as Lessee

Operating Leases

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

The Council as Lessor

Operating Leases

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

4.0.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non- Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

4.0.16 Property, Plant and Equipment

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

<u>Recognition</u>
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

De-minimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant, and equipment.
- £20,000 for expenditure on land, buildings, and other structures.

<u>Measurement</u>
Assets are initially measured at cost, comprising:
- the purchase prices.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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

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

Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure, community assets – depreciated historical cost
- assets under construction – historic cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. This includes assets such as Cemeteries and Crematoria, Leisure Centres, Museums, Community Centres, Hostels and Public Conveniences.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

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

Impairment

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

Asset Category	Rate	Basis
Dwellings & Other Buildings	Useful Life	Straight Line
Infrastructure Assets	Useful Life	Straight Line
Vehicles, Plant, furniture & Equipment	Useful Life	Straight Line
Intangible Assets	Useful Life	Straight Line

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Componentisation
The Council has a policy on componentisation where any asset with a Gross Book Value of more than £1million and is subject to depreciation will be considered for componentisation where a component is deemed to be more than 5% of the assets value. This will primarily apply to buildings and the major components to be considered will be:

Component
Heating and Ventilation System
Windows
Electrical
Roofing
Cremator

Disposals and Non-current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

4.0.17 Current and Fair Value Measurement
The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at current or fair value at each reporting date. Current or fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

4.018   Infrastructure Assets

Highways Network Infrastructure Assets
Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition
Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Measurement
Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums

borrowed as at 1 April [1994 England and Scotland], [1996 Wales] which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation
Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the valuer using industry standards where applicable

Disposals and derecognition
When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

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

Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

4.0.19 Provisions, Contingent Liabilities and Contingent Assets

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

4.0.20 Reserves

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

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

4.0.21 Revenue Expenditure Funded from Capital under Statute

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

4.0.22 VAT

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

4.0.23 Council Tax / Non-Domestic Rates (NDR) Income

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non- Domestic Rates (NDR). The Statutory Collection Fund (England) Statement is included as a supplementary statement in the accounts. In its capacity as billing authority the Council acts as an agent. During 2022/23 the Council collected and distributed NDR on behalf of itself, the Government and Cumbria County Council. Council Tax was collected and distributed on behalf of the City Council, the County Council, the Police and Crime Commissioner for Cumbria and local town and parish councils.

Council Tax accrued income for the year and Council Taxpayers debtors, creditors, and provision for bad debts at the 31 March are shared between the major preceptors and the Council based on their percentage share of the total demands/precepts for the year. Business rates accrued income

for the year as well as business ratepayers, debtors, creditors and provisions for bad debts and appeals are shared between the Council (40%), Government (50%) and Cumbria County Council (10%).

Collection Fund Debtors are reviewed collectively at the balance sheet date by debt type and provision is made for impairment based on the historical evidence of default in each category. The Council's share of the Collection Fund Debtors shown in the balance sheet is net of this bad debt provision.

In accordance with the current accounting code of practice the Council's Comprehensive Income and Expenditure Statement includes its share of accrued council tax and business rates income. Where this amount is more or less than the amount to be credited to the General Fund under statute, there is an adjusting transfer in the Movement in Reserves Statement, between the General Fund Balance and the Collection Fund Adjustment Account. This account holds the Council's share of the Collection Fund Surplus or Deficit at the 31 March. The Council's Balance Sheet includes the net creditor/debtor position with the Government and major preceptors for taxes collected on their behalf and not yet paid to them or taxes paid to them but not yet collected from taxpayers.