

Auditor's Annual Report on Barrow Borough Council

2020-21

September 2022



Contents



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

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



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Appendices

A – The responsibilities of the Council

B – Risks of significant weaknesses – our procedures and findings

C – An explanatory note on recommendations

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have identified significant Value for Money (VFM) weaknesses in the Council's arrangements for procurement and contract management and made 3 statutory recommendations. We have identified a number of opportunities for improvement, which are set out in detail within our report. We have no issues to report following a review of the Council's arrangements and ongoing response to COVID.

Note statutory and improvement recommendations raised have been written in the context of the upcoming local government reorganisation and may be appropriate to carry forward into the new Westmorland and Furness Unitary Council.

Criteria	Risk assessment	Conclusion
Financial sustainability	Risk of significant weakness identified in relation to financial sustainability	No significant weaknesses in arrangements identified, but 5 improvement recommendations made.
Governance	Risk of significant weakness identified in relation to procurement and contract management	Significant weaknesses in arrangements identified and statutory recommendations made. 2 further improvement recommendations made.
Improving economy, efficiency and effectiveness	Risk of significant weakness identified in relation to procurement and contract management	Significant weaknesses in arrangements identified and statutory recommendations made. 1 further improvement recommendation made.

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and statutory recommendations made.

Overall commentary

We have identified significant weaknesses in arrangements to secure economy, efficiency and effectiveness in its use of resources in relation to procurement and contract management.

We have also identified a number of other financial management and governance related improvement recommendations to further improve the Council's governance arrangements, which management has accepted and will implement.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment and will need to continue to plan with little certainty over funding in the medium term.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council. However, we have identified improvement recommendations on budget reporting. Further details can be seen on pages 9 to 17 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the progress that has been made to address the existing deficiencies.

We have identified significant weaknesses in governance arrangements for escalation of issues, specifically with regards to weaknesses in procurement and contract management. We have made statutory recommendations for improvement in relation to ensuring members and officers have robust assurance and reporting arrangements in place, for managing all ongoing contracts and escalation arrangements up to Full Council and Overview and Scrutiny Committee to ensure an adequate and timely response to address significant control environment weaknesses. We have also identified improvement recommendations to further enhance the Council's governance arrangements, in particular around risk management arrangements.

Further details can be seen on pages 18 to 22 of this report.



Improving economy, efficiency and effectiveness

We have identified significant weaknesses in procurement and contract management. We have made statutory recommendations for improvement in relation to the new procedures being implemented and management of ongoing contracts. One further improvement recommendation has been made.

We have found the Council's response to COVID 19 positive and the arrangements it put in place were good.

Further detail can be seen on pages 23 to 32 of this report.

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

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

We have identified significant weaknesses in the Council's arrangements for procurement and contract management. We have identified statutory recommendations for improvement as outlined on pages 5 to 7.

Public interest report

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

We did not issue a Public Interest Report.

Application to the Court

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

We did not make any Application to the Court.

Advisory notice

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

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

We did not issue an Advisory notice.

Judicial review

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

We did not apply for a Judicial review.

Statutory recommendations



Recommendation

Embed and enforce the Council's updated contract standing orders and procurement rules.

We expect officers in all departments to follow and fully evidence compliance with contract standing orders on all procured services.

Why/impact

The Council is failing to demonstrate and apply the principles and values of sound governance in its procurement arrangements. This is leading to ineffective procurement of supplies and services to support the delivery of strategic priorities. This failure to adhere to Council purchasing and contract standing orders means it is difficult for the Council to demonstrate that it has achieved value for money in all procurement decisions. Furthermore, these weaknesses increase the exposure risk of fraud in procurement and increase the potential for legal challenge from unsuccessful potential suppliers.

Summary findings

We acknowledge that, the Council has made some progress in addressing its procurement and contract management arrangements with the introduction of STAR Procurement, but this has largely been delivered from April 2022 and further work is required to ensure changes are fully embedded. The Council needs to ensure the governance arrangements are sufficient to provide assurance of the effectiveness of procurement and contract management controls, which will remain important as the Council transitions into the new Westmorland and Furness Unitary Council.

See page 25 for further detail

Management Comments

The Council will ensure that regular, refresher training is offered to procuring officers; the training video will be available on the intranet; the procurement guidance and handbook will be regularly updated with any changes notified to all managers and updated on the intranet. Spot checking of ordered goods and services made via intranet to ensure the procurement rules are being followed are ongoing. Specialist training on the Chest (ProActis) will be provided – this is the Council's e-procurement portal for tenders.

Responsible officer – Procurement and Contract Lead

Due Date - immediate

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



Statutory recommendations



Recommendation

Ensure members and officers have robust assurance and reporting arrangements in place, for managing all ongoing contracts to enable appropriate and timely action to remediate any non-compliance or wider deficiencies.

Why/impact

Receiving timely and reliable information in relation to the effectiveness of internal controls is critical to support informed decision making by officers and members.

As well as members receiving compliance assurance they need to demonstrate timely action in holding officers to account for any non-compliance.

Summary findings

It is evident from Internal Audit and our work that, procurement and contract documentation has not been made available for inspection on a timely basis. This has resulted in several areas of the Internal Audit annual work programme being issued with “no assurance”. This undermines the system of assurance and accountability.

Management has not been able to provide contract documentation for audit inspection. It is difficult for the Council to manage contracts when this basic information is not readily available. This risk has materialised with respect to the waste contract.

See page 20 for further detail

Management Comments

A schedule of significant contracts will be provided to the Overview and Scrutiny Committee. Overview and Scrutiny Committee will then select those contracts to be reported on through the committee cycle. Regular progress reports to Corporate Programme Board will highlight any issues on the contracts register and action will be determined. A report on the use of the new procurement exemption process will provide assurance to the Audit and Governance Committee.

Responsible officer – Procurement and Contract Lead & Heads of Service

Due date – December 2022

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



Statutory recommendations



Recommendation

Review the Council's escalation arrangements up to Full Council and Overview and Scrutiny Committee to ensure an adequate and timely response to address significant control environment weaknesses.

Why/impact

If the Council fails to take appropriate action or secure improvement in areas of significant weaknesses, it will be difficult for the Council to demonstrate it has achieved value for money.

We expect good governance arrangements via the Audit and Governance Committee to escalate ongoing significant matters to both Full Council and Overview and Scrutiny Committee, to demonstrate effective accountability and to drive timely improvements.

Summary findings

Since 2016-17 and earlier, Internal Audit has reported continued deficiencies in the Council's arrangements for ensuring compliance with procurement and contract management procedures. Reviews of procurement and specific contracts have identified breaches of the procurement rules and Contract Standing Orders. There are several historic recommendations for improvement to internal controls highlighted by Internal and External Audit, which have not been resolved.

Despite being aware following persistent warnings from the Council's auditors, it has had a significant period of time where its procurement and contract management arrangements have been inadequate. There are currently 15 outstanding recommendations, including 7 assessed as high priority, issued by Internal Audit from the reviews of procurement procedures, some of which were first reported in September 2015. In 2021/22 Internal Audit completed 9 contract audits, no assurance was assigned to 7 reviews and the other 2 received restricted assurance. Since April 2018, Internal Audit have reported 93 recommendations in relation to contract audits.

See page 19 for further detail

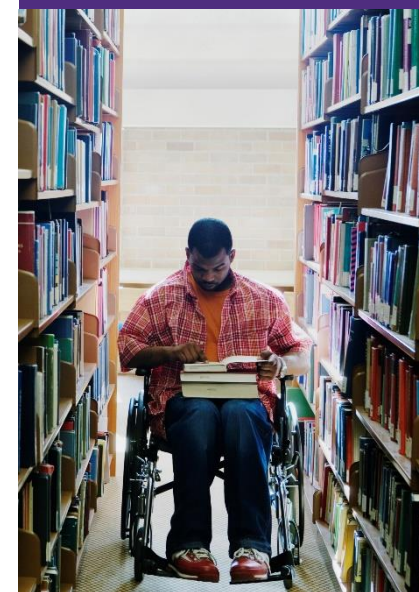
Management comments

The Council will review the outstanding current and historic Internal Audit recommendations and establish the monitoring scope and reporting route with the Chair of the Audit and Governance Committee. The arrangements for the Audit and Governance Committee to refer and escalate significant governance concerns shall be updated.

Responsible officer – Procurement and Contract Lead & Head of Legal and Governance

Due date – November 2022

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



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

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

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

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 9 to 33. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

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

Managing financial performance

The covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance has meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in areas such as car parking and commercial rents as people stayed at home and businesses were forced to close. The Council does not have a large property portfolio but does have some property holdings in the borough. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been left with increased financial uncertainty.

Throughout the huge uncertainty of the last financial year, the Council worked to minimise expenditure in all areas where appropriate. Some services were suspended for example, leisure, while some staff were diverted to Covid related work including paying out Covid related support grants across the borough. The Council set its budget for 2020/21 and determined the council tax including the precepts for County, Fire and Police services in February 2020, before the effects of the pandemic were realised. Borough councils have had to pay precepts over as planned, while collection rates have been down, providing added pressures on cashflow.

Alongside this, new, essential activity was introduced, such as the Barrow Community Local Resilience Forum (BCLRF) and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the borough.

The Executive Committee were briefed on the financial impact of Covid in June 2020. At that time, it was projected that the Council would forego approximately £960k in income and incur additional costs in the region of £718k. The final outturn for the General Fund was a balanced budget but with unexpected additions to reserves of £700k. This is a positive performance given the income losses incurred by the Council and was achieved in part due to the receipt of significant levels of government grant coupled with good budgetary control.

The pandemic also had a significant impact on the delivery of the capital programme with combined capital expenditure of £2.3m against a £4.0m budget. The Council recognised capital slippage would occur throughout the year and this was reported through the budget monitoring process.

We note that the 2020/21 outturn position was not formally reported to the Executive Committee until September 2021. We have made an improvement recommendation that, the outturn position should be reported to Members promptly after the year end, and ideally in June or July once management accounts have been closed. This is so that the financial impact of the previous year's outturn can be taken into account when monitoring the financial position for the new financial year.

Budget 2021/22

A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget assumes a reliance on earmarked reserves as recovery begins. The budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at previous levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general Covid-19 funding, additional sales, fees and charges (SFC) compensation grant, and a new one-off tranche of New Homes Bonus grant.

Financial sustainability

Medium term financial plan (MTFP)

Review of the Council’s MTFP indicates that financial planning is based on realistic assumptions, although annual settlements and the delay of the fair funding review and business rate reset have made financial planning more difficult for all local government entities. The MTFP includes assumptions around key areas such as future government funding reform, the anticipated business rate reset, changes to the New Homes Bonus grant and inflation, as we would expect it to.

The Council has a detailed financial plan covering three years. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. We have seen no evidence that short term measures are being used to relieve current pressures.

Financial plans are discussed at Council and Executive Committee. The Council has a history of transparency in financial matters. The quarterly financial reporting considers any ongoing implications for the core budget and demonstrates the impact for Member’s awareness. The budget assumptions are monitored and any exceptions are reported as part of the quarterly finances.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement for 2021/22 and 2022/23 were only one year. Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sound approach to financial planning and budget management.

As part of the 2021/22 budget setting, budgets have been reviewed and changes to the budget were made, adjusting for pressures, new initiatives, expected cost increases and income changes. There is an expectation that the Council will be making a net contribution to reserves. The Council has a healthy reserves position. On 31st March 2021, the Council held useable reserves of £15.7m although this includes £3.9m held for Section 31 Business Rates relief which will be released in the forthcoming year.

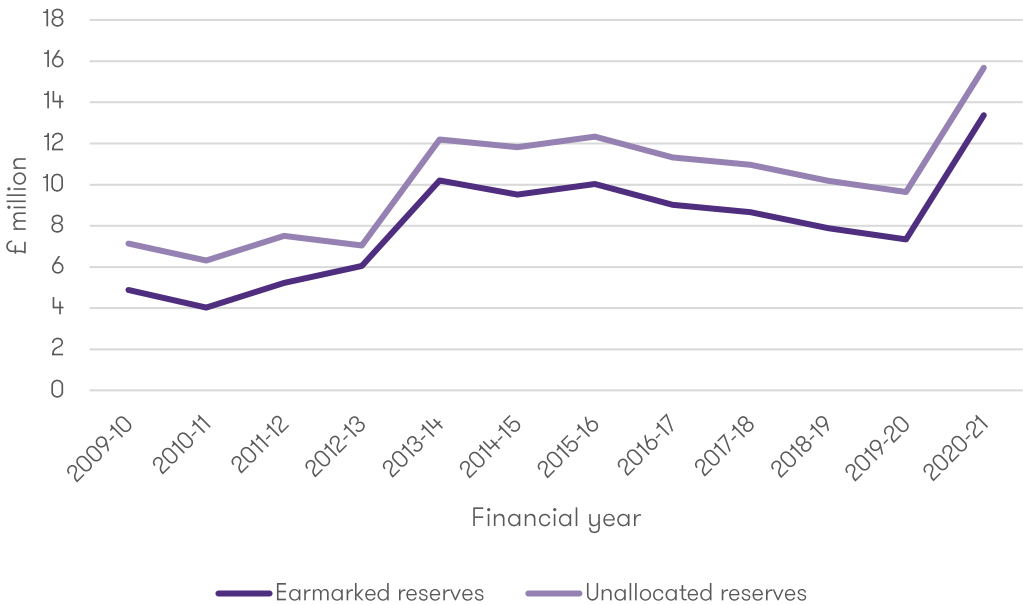
The Council has been prudent in its funding assumptions and the council tax base and the Council is anticipating collection fund balances should be better than expected and thus not requiring the predicted level of use of reserves.

The budget is not reliant on achieving recurring savings from service reductions to balance the overall financial position. However, the MTFP shows incremental deficits are forecast over 2023-24 and 2024-25 with a cumulative deficit of 0.9m over the period.

While savings and additional income potential has been affected by the pandemic, Barrow has a history of successful delivery on savings; achieving £8.9m of savings since 2010. The MTFP does not identify specific savings to address the forecast deficit and is reliant on future grant funding, Business Rate Retention and recovery of service income to bridge the gap.

Analysis of the Council’s total earmarked and unallocated revenue reserves over the last five years shows that they have increased from £7.2m in 2009/10 to £15.7m in 2020/21, as demonstrated in the graph below. The position reflects that reported in the annual financial statements.

Financial reserves changes over time



Financial sustainability

The budget report includes the Chief Finance Officer's statement under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of reserves. Although budget and financial planning reports do bring financial risks to Member's attention, we consider that the explicit s25 Statement in the annual budget report would be strengthened if it summarised the key risks within the budget, their quantum, and how they are mitigated. This would help Members and other stakeholders understand financial risks, their consequences, and how they are being managed. We have therefore made an improvement recommendation that this information should be included in the s25 Statement.

There is adequate engagement from Members during the budget setting process. The formal budget setting process for 2021/22 began in November 2020 and the Overview & Scrutiny Committee considered budget and financial planning assumptions as part of the budget setting timetable, in advance of their consideration by Executive Committee. The draft budget was made available for consultation with external stakeholders and members of the public from November 2020.

As a result of our work we have found no evidence of significant weaknesses in the Council's budget setting arrangements. The Council adopts reasonable assumptions during the annual budget setting process.

Financial planning

We found a robust financial planning process, which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Council has undertaken an organisational review with the objective to ensure services are aligned to the Council priorities much more clearly with appropriate staffing and monetary resources in place and to enable performance and impacts to be captured. The new divisions will be implemented in 2022-2023.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information; the necessary financial skills, experience and capacity in the finance team; and budget holders in the services, with clearly defined responsibilities for budget management.

Corporate Management and members challenge of performance, holding budget holders to account, and making decisive interventions where necessary provide effective challenge. The Finance team is well established with significant experience of managing the Council's finances. We consider, based on our work, that the Council has a positive financial culture and the ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led and difficult to predict. The Covid-19 pandemic has also made it more difficult to predict future costs and demand as the Council has experienced a 'difficult-to-predict-and-plan-for' year. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as a strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. Whilst discretionary spends are the areas which come under scrutiny when savings plans are being considered, it would not be clear to taxpayers that there is a distinction between statutory and discretionary spend. We have included an improvement recommendation in relation to this point on page 16.

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

Financial sustainability

The Council approved the Capital Programme, Treasury Management and Capital Strategy in February 2021. These documents set out the Council's capital expenditure, capital financing and borrowing projections. The Capital Programme is determined in accordance with the Capital Strategy. The programme contains no new borrowing and is reliant upon external funding, usable capital receipts and the Major Repairs Reserve.

The Council's Capital Financing Requirement (CFR) is £36.3m as at 31 March 2021, a decrease of £1.3m from the previous year. After taking into account the decreases in borrowing required to fund the capital programme, the Capital Strategy forecasts a reduction in the CFR to £5.2m by 2024/25. As the Council's debt is forecast to decrease, so is the minimum revenue provision to repay the debt, from £1.3m in 2020/21 to £1.1m by 2024/25.

We have seen a workforce strategy which was dated 2017 and due for review in 2020. The Council therefore does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the "new normal." As a sector, local government is facing a recruitment and retention challenge and this is particularly acute in Barrow due to its location. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear.

The Council's medium term financial planning has been superseded by plans for local government reorganisation in Cumbria, with savings plans tempered accordingly. The decision was made by the Secretary of State in July 2021 to create two unitary councils in Cumbria that, incorporate the existing County and District Councils based upon an East and West geographical split. Therefore Barrow Borough Council will cease to exist and will form part of Westmorland and Furness Unitary from 1 April 2023. The estimated savings within the submission to the Secretary of State are between £19.1m and £31.6m per annum. Local government reorganisation is now the strategic response to creating financial sustainability and improving service delivery for the whole of Cumbria.

From our work we have found no evidence of significant weakness in the Council's financial planning arrangements. We have identified an improvement recommendation on page 17 that the council should develop or update the workforce plan adequately to reflect its operational requirements and service delivery objectives.

Managing risks to financial resilience

2020/21 has been a unique year for financial management, dealing with a pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Within the corporate risk register, the Council has identified the risk of failure to achieve efficiency saving, maximise income, or performance targets. It is noted that the latest corporate risk register indicated the risk was marked as "red." Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Executive meetings. A list of financial risk is included in budget papers sent to members when setting the Council's budget. It is evident that the Council has managed its reserves prudently.

The medium term financial plan (MTFP) sets out the Council's reserve strategy, which aims to protect overall reserves as far as possible until funding beyond 2022-23 is known. The analysis of change in reserves over time demonstrates the Council's strategy to improve the financial resilience and to absorb any unexpected and unavoidable costs. The risk assessment of the fund balance includes the uncertainty in the underlying assumptions and estimates within the core budget; these are set out in the Reserves and Balances Policy which is reset annually against the new budget and reviewed each year-end.

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what Covid-19 working patterns and arrangements should continue in the post pandemic world.

Conclusion

We found no evidence or indication of significant risks to financial sustainability as such no further risk-based work has been undertaken in this area. We have identified 5 opportunities for improvement on pages 13-17

Improvement recommendations



Financial sustainability

1 Recommendation	Report the outturn position to Members promptly after the year end, and ideally in June or July once management accounts have been closed.
Why/impact	Prompt reporting of financial outturn represents good financial governance, allowing for the financial impact of the previous year's outturn to be taken into account when monitoring the financial position for the new financial year.
Summary findings	The 2020/21 outturn position was not formally reported to the Executive Committee until September 2021.
Management comment	Whilst the 2020-21 outturn reporting was impacted by COVID-19 duties, 2021-22 has also been reported to the Executive Committee in September. The accounts for 2021-22 were closed in August 2022. A revaluation of the Council's assets was carried out for 2021-22 with a new external valuer; that work, the management review and subsequent accounting were completed by the end of July 2022. The Section 151 Officer's final review was completed late August and the draft accounts authorised for issue; the outturn report prepared. The valuation work for 2022-23 will fall within the closedown timetable and outturn reporting will return to June/July.



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

Improvement recommendations



Financial sustainability

2 Recommendation	Include a summary of the financial risks within the budget, their potential impact, and how the risks are mitigated within the Section 25 statement within the annual budget report.
Why/impact	This would help Members and other stakeholders understand financial risks, their consequences, and how they are being managed.
Summary findings	<p>The budget report includes the Chief Finance Officer's statement under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of reserves.</p> <p>Although budget and financial planning reports do bring financial risks to Member's attention, we consider that the explicit s25 Statement in the annual budget report would be strengthened if it summarised the key risks within the budget, their quantum, and how they are mitigated.</p>
Management comment	Whilst there won't be an annual budget report for Barrow Borough Council alone for 2023-24, the inclusion of the financial risks, impacts and mitigation within the report of the Section 151 Officer is supported as an improvement.



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

Improvement recommendations



Financial sustainability

Recommendation	Refine formal reporting to members on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFs.
Why/impact	In emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of avoidable or unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates.
Auditor judgement	Greater agility on financial management is required given the current financial uncertainties. Regular review and challenge of MTFP assumptions to help ensure financial forecasts remain accurate, illustrate the financial risks will help to ensure ongoing accurate financial forecasting and allow for appropriate timely action. Reporting of MTFP assumptions with sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improved accuracy of forecasting.
Summary findings	<p>MTFP assumptions are updated annually as part of the annual budget setting process.</p> <p>Sensitivity analysis and scenario planning is undertaken as part of the development of the budget however, analysis is not formally presented to members.</p>
Management comment	Sensitivity analysis and scenario planning to quantify the assumptions underlying the budget and Medium Term Financial Plan would improve the reports to members and create a stronger connection between the budget and the outturn, and clearer recognition of new pressures and exceptional variances to existing assumptions. The next annual budget report will be for Westmorland and Furness Council.

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

Improvement recommendations



Financial Sustainability

Recommendation	Provide a clear distinction between discretionary and non-discretionary spending in the budgetary information presented to members and ensure it is published on the website.
Why/impact	This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside or in addition to its statutory obligations.
Auditor judgement	The different categories of spending could be made clearer. Currently it is not apparent what elements if any of the Council's spending is discretionary.
Summary findings	No distinction is made in the financial information reported to TCWG between statutory and discretionary spending.
Management comment	The quarterly financial monitoring is focussed on the divisions established through the restructuring of 2022 which aligned resources to the Council Plan priorities. Expenditure is not marked as discretionary or non-discretionary, however this can be introduced and would be most appropriately applied to the 2023-24 budget. There is an ongoing exercise to amalgamate district budgets to their unitary and disaggregate the county budget to add the two parts. As this work is already underway, the marking of discretionary and non-discretionary spending should be incorporated.



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

Improvement recommendations

Financial Sustainability

Recommendation	Develop or update the workforce plan adequately to reflect the Council's operational requirements and service delivery objectives.
Why/impact	Robust workforce planning is critical to ensuring consistency between the Council's strategic objectives, financial planning and operational delivery of services.
Summary findings	The Council does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the "new normal." As a sector, local government is facing a recruitment and retention challenge and this is particularly acute in Barrow due to its location. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear.
Management comment	The Workforce Strategy has been revised by the Head of HR and shall be presented to the Executive Committee in October 2022. Aspects of the strategy have developed and changed, with new initiatives implemented over the last two years. The strategy has been revised to reflect the current position and the future aspirations for the workforce through local government reorganisation and beyond.



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

Governance



We considered how the Council:

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

Risk management and the internal control environment

The Annual Governance Statement for 2020/21 notes the Council has a risk policy which reviewed regularly by Management Team and is approved by the Executive Committee and that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is part of their job.

The risk management policy was reviewed in 2019 and is due for review in 2022, but there is no detailed guidance for managers on how to identify, assess and manage their risks. While roles and responsibilities are clearly defined, the Council has not defined its risk appetite.

An Internal Audit review of Risk Management was planned for 2019/20, but was postponed due to Covid-19 and is now planned for 2022/23. Internal Audit has previously recommended that specialist risk management training should be provided to members and officers. We have been informed that staff have not received any training on risk management.

The Council Strategic Risk Register was reported to the Audit and Governance Committee at every meeting during 2020/21 and it is reported to Management Team quarterly. It is also reported annually to Executive Committee. The Strategic Risk Register contains 14 risks, which is in the range where we feel adequate overview of risks can be maintained. Risks are scored for inherent and mitigated risk and the risk register contains four “red” risks relating to financial performance, economic and political change and natural disaster.

The risk register format is clear showing current and mitigated risk score, potential consequence, current mitigations and the lead officer. The risk register does not document a number of potential factors including direction of travel, target risk score, contingency, future actions required, sources of risk and assurance and dates of last and next review.

The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

We have raised recommendations for improvement in these areas on page 22.

Governance

The Head of Internal Audit opinion for 2020-21 could not provide reasonable assurance that the organisation's framework of governance, risk management and control predominantly operated satisfactorily during 2020-21 due to the restrictions and limitations of the coronavirus pandemic.

The annual work plans for Internal Audit are approved and overseen by the Audit and Governance Committee. Regular progress reports highlighting key issues and findings on reviews are reported to Audit and Governance Committee periodically. Review of the Annual Internal Audit Opinion shows limited work during the year with only three assurance assignments compared to 21 reviews which were planned and therefore a limited breadth of work during the year.

Internal Audit also provides counter fraud services and undertakes work related to the National Fraud Initiative and other counter fraud duties. Counter fraud operations are underpinned by Member and Officer codes of conduct (both updated January 2022), an Anti-Fraud and Corruption Strategy (dated 2016 and due for review in 2022) and a whistleblowing policy (dated 2016 and due for review in 2022).

From our attendance at the Committee and review of Internal Audit findings, we have observed that the Council has been slow to address weaknesses identified in the internal controls and procedures; in particular, but not limited to, arrangements for procurement and contract management.

Despite being aware following persistent warnings from the Council's auditors, it has had a significant period of time where its procurement and contract management arrangements have been inadequate. There are currently 15 outstanding recommendations, including 7 assessed as high priority, issued by Internal Audit from the reviews of procurement procedures, some of which were first reported in September 2015. In 2021/22 Internal Audit completed 9 contract audits no assurance was assigned to 7 reviews and the other 2 received restricted assurance. Since April 2018, Internal Audit have reported 93 recommendations in relation to contract audits.

59% of previous recommendations reviewed by Internal Audit during 2021-22 are outstanding; many of which are rated as high priority. At the end of 2021-22, there were 129 outstanding recommendations from Internal Audit reviews. External and internal audit recommendations are monitored by the Audit and Governance Committee however, from our attendance and review of committee papers, there is no regular reporting or monitoring of progress with implementing audit recommendations.

This indicates a lack of appropriate escalation of issues and failure to secure improvement in areas of significant weakness identified. We have identified a statutory recommendation in this area on page 7 and improvement recommendations on page 23.

Annual budget setting & monitoring

The Government financial landscape has made this a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams.

The budget and MTFP are considered concurrently, drawing on information from other strategies such as the treasury management and capital strategies. There is also a quarterly review of budget to outturn position by Executive Committee. The MTFP and budget are considered at Overview and Scrutiny, then Executive Committee and then approved at Council. Members are asked to consider the range of options for savings put forward.

The Budget Timetable and Assumptions are reviewed by Executive Committee in November each year. The budget is developed through internal consultation with budget holders; assumptions are established and subject to review by Overview and Scrutiny Committee. Following review by the Senior Management Team, a draft budget is presented to Executive Committee in February each year.

The statutory public engagement with the budget setting process is also observed, giving residents the opportunity to interact with the Council and this process, and to feed back on the budget, on priorities and on plan. There is also a consultation survey online for stakeholders to contribute their views and ideas.

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding

Budgets are monitored monthly with budget holders and the forecast is reported to Senior Management Team monthly. The Finance team is duly qualified, stable and experienced. The S151 Officer is the Director of Resources and sits on the Management Team. It is clear that financial delivery is a key objective from the top down

Quarterly monitoring reports are usually submitted to Overview and Scrutiny Committee and Executive Committee. During 2020-2021 there was a high level half-year report rather than quarterly due to resource and time constraints that new COVID-19 duties placed upon the Finance team. Our review of Executive Committee papers indicates that variances are adequately identified and explained. We understand that arrangements have been strengthened for 2022/23, with the reversion to a quarterly budget monitoring timetable.

Governance

The Growing Forward report contains the service activity and performance monitoring throughout the year. The quarterly financial monitoring focusses on budgetary performance and incorporates any significant items that are influencing the budget such as COVID, establishment changes and any new proposals (including external funding).

The Executive Committee review the key financial papers including the annual treasury management strategy, the annual statement and capital programme. The quarterly budget report content was reduced during 2020-2021 but usually includes the key treasury items of loans, investments, and interest.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

Informed decision making

All reports to the Executive Committee and Council are considered by the Director of Resources and the Head of Legal and Governance, along with the other officers on the Senior Management Team, prior to being added to the agenda. The Council operates an Overview and Scrutiny Committee which can call-in any of the Executive Committee reports. The referred matters go on to Council for debate and decision.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorisation in line with the wishes of the Council.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic, the response has been deliberate and thought out. This is supported by detailed and comprehensive reports from officers. The importance of maintaining a strong financial culture is vital in the context.

From our review of Internal Audit findings, it is evident that documentation has not been made available or retained for inspection. This has restricted the timely reporting of assurance reviews to members and limits both the ability to challenge and hold senior management to account, as well as make informed decisions. There is no evidence that fraudulent or unlawful decisions have been made. We have reported statutory recommendations for improvement in this area on page 6.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. The Council's Local Code of Corporate Governance states that it has adopted the CIPFA/SOLACE framework Delivering Good Governance in Local Government. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements. The Head of Legal and Governance is the Council's Monitoring Officer. The Council also has a legal framework agreement for capacity and expertise, and specific legal advice is sought as needed, such as HR specific advice and subsidy allowance advice.

The Council has adopted a Values and Behaviours framework, which includes the Be Proud awards. This has been launched through facilitated workshops and is available on the Council intranet and supported by the staff newsletter. Officer and Member codes of conduct are in place and members' interests are published on the Council website. An Internal Review of the procedures completed in March 2022 concluded with substantial assurance. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared. We are satisfied the policy is reviewed regularly and complied with.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture. All key policies are reviewed on an annual basis by the Executive Committee and/or Audit and Governance Committee. Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards in relation to officer or member behaviour.

We have not been made aware of any serious data security breach. The Council has received cyber security funding to ensure that all pre-emptive measures are embedded, and the controls remain relevant. A further bid for cyber security funding was successful in 2022.

Conclusion

We have identified significant weaknesses in the Council's governance arrangements for procurement and contract management. We have reported statutory recommendations for improvement on page 5 – 8. We have made 2 further improvement recommendations on pages 22 and 23.

Improvement recommendations



Governance

Recommendation	<p>Strengthen the risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk.</p> <p>Develop the risk register to align with best practice to ensure adequate information is reported to members</p>
Why/impact	<p>The Council has identified where improvements to risk management arrangements can be made and is making progress to implement internal audit recommendations. We will follow up how risk management arrangements have been embedded in the Council as part of our 2021/22 value for money work</p>
Summary findings	<p>A review of Risk Management was postponed due to Covid-19 and is now planned for 2023-23. Internal Audit has previously recommended that specialist training risk management should be provided to members and officers. We have been informed that staff have not received any training on risk management.</p> <p>There is also scope to improve the information reported to members in the risk register by including potential factors including direction of travel, target risk score, contingency, future actions required, sources of risk and assurance and dates of last and next review</p>
Management comments	<p>The Council will procure an external specialist to review the Risk Management Policy, structure of the Risk Registers, and provide training for the various levels of staff and for members. This expertise will be sought from another Cumbrian authority where possible, otherwise it will be procured externally.</p>

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



Improvement recommendations



Governance

Recommendation	<p>Implement regular monitoring and reporting of audit recommendations to the Audit and Governance Committee with updates from all responsible officers including the S151 officer and Monitoring Officer.</p> <p>For all audit recommendations, we would expect an appropriate action plan to be put in place with realistic targets for delivery of improvements and responsible officers assigned.</p>
Why/impact	<p>If the Council fails to take appropriate action or secure improvement in areas of significant weaknesses, it will be difficult for the Council to demonstrate it has achieved value for money.</p> <p>Receiving timely and reliable information in relation to the effectiveness of internal controls is critical to support informed decision making by officers and members.</p>
Summary findings	<p>There are 129 outstanding Internal Audit recommendations at the end of 2021-22, many of which are assessed as high priority and some which were originally reported in 2014. From attendance at the Audit and Governance Committee and review of committee papers, there is no regular reporting or monitoring of progress with implementing audit recommendations.</p>
Management comments	<p>The referral options available to the Audit and Governance Committee shall be presented to members to clarify the actions available to ensure that governance and internal controls are effective. The outstanding recommendations shall be compiled and reviewed with the appropriate committee; management shall establish the monitoring scope and reporting route with the chair of the Audit and Governance Committee. There may be a resource required to maintain and report on progress – this will be dependent upon the number of recommendations that are live and can be actioned. The review will be included as part of the improvement action plan.</p>

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



Improving economy, efficiency and effectiveness



We considered how the Council:

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

Performance review, monitoring and assessment

The Council approved the Council Plan 2020-2024 in January 2020 which sets out the Council's vision and strategic priorities across people, place and prosperity for the borough.

The Council has established the Growing Forward performance report, which brings together progress and performance against the Council Plan priorities. The performance information produced for scrutiny is good enabling challenge and questioning. Performance reports now comprise a covering report with narrative on key achievements or exceptions with regard to strategic objectives and milestones, and a high level summary of performance against targets by RAG rating.

The annual performance is also reported to Overview and Scrutiny Committee. Service performance is reviewed by the responsible head of service and director.

We are aware of the Council benchmarking some areas such as Heads of service review against nationally published indicators for areas such as planning, housing benefits, collection rates and staff absence, and baselining of services as part of the Local Government Reform process.

Whilst we have not identified any evidence of failure to meet minimum service standards or failure to review and challenge strategic priorities, Internal Audit have reviewed the performance management arrangements in 2021-22 and identified some areas for improvement. The weaknesses identified are in relation to defining performance targets which more clearly link to the Council Plan priorities to enable measurement of progress and increasing the transparency of reporting performance information to the public. We understand this is being addressed in 2022.

The Council has provided no Data Quality Policy or Guidance. Such documents help to ensure the accuracy and timeliness of data used. We also understand there is no moderating process for performance data. We are concerned that without a policy, guidance or a process related to data quality, poor quality data can be reported to decision makers leading to poor decisions.

Improving economy, efficiency and effectiveness

The Corporate Plan is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Plan runs until 2024, but it should be noted that Local Government Reorganisation in Cumbria means that the Council will cease to exist on 31st March 2023. The preparation of the plan predates the decision to reorganise.

The Council took onboard several recommendations from the LGA Peer Review, undertaken in February 2020, to reflect the best practice and experience that was identified. The LGA Governance review also identified areas for improvement across the Council's governance arrangements. In July 2020, the Council has developed a combined improvement plan with identified actions and target dates for implementation.

The Customer Services Strategy has been updated and incorporates customer consultation and feedback. The Council is in the process of amalgamating all customer services together to remove any inconsistencies and confusion for customers. There have been significant changes in the way customer services has been delivered during COVID-19 and this has enabled the opportunity to refine service delivery and ensure needs are met. The Council has undergone an organisational restructure to align services to the Council Plan Priorities and identify clear connections between the outcomes and the objectives.

The Council uses customer feedback and learning from complaints to understand what works well and what could be improved. The Council's performance in handling complaints is reported to the Senior Management Team and through an annual summary to the Audit and Governance Committee.

Recommendations from other regulators or inspectorates are monitored through the Executive Committee, such as the Investigatory Powers Commissioner's Office review of RIPA completed in 2022. There are currently no other regulator or inspectorate reports or recommendations.

Partnership working

The Council Plan and Priorities were established through consultation with key partners. The foundation provided by the Council Plan led to the Town Deal bid collaboration which has now become the Brilliant Barrow Board with a shared long-term view for the borough. The Barrow Community Local Resilience Forum has become well established through COVID-19 and provides strong links with community and voluntary sectors.

Partnerships have been seen as a cost effective and efficient way to provide services by the Council for a number of years. The Council is part of the Morecambe Bay Anchor Collaborative working with other anchor institutions to support the development of health care and help tackle inequalities. Other examples of the Council working in partnership to achieve key priorities include the Heritage Action Zone, Low Carbon Barrow, Town Deal and Levelling Up Fund. The design of these programmes involved consultation with key stakeholders.

The Council is fully engaged with Local Government re-organisation and the proposed creation of a Westmorland and Furness Unitary Council. The Council's S151 Officer is playing a key role on the Finance workstream and the Chief Executive has been appointed to the new unitary Council.

County wide £19m, of which Barrow's contribution is £1.6m, has been set aside for the transition with the vast majority of this to be used on outside consultants. It is critical the Council and its partners have robust oversight and governance on this spend to ensure related expenditure represents value for money. It is also important that the Council monitors other associated transitional costs, such as redundancy with the transition to the new unitary. It is important that the Council continues to engage and actively contribute to LG reorganisation to maximise the opportunities it presents to both reconfigure services and provide better value for money for its local taxpayers.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

Improving economy, efficiency and effectiveness

Procurement and contract management

Since 2016-17 and earlier, Internal Audit has reported continued deficiencies in the Council's arrangements for ensuring compliance with procurement and contract management procedures. Reviews of procurement and specific contracts have identified breaches of the procurement rules and Contract Standing Orders. There are several historic recommendations for improvement to internal controls highlighted by Internal and External Audit, which have not been resolved.

Internal Audit's restricted assurance report on Procurement, issued in July 2019, identified clear breaches of the Council's purchasing and contract standing orders including:

- Contracts being allowed to "roll over" rather than extensions being formally authorised
- Failure to complete the Council's pre-contract checklist in a timely manner
- Failure to conduct purchases over £100,000 in accordance with the Council's contract standing orders
- Inadequate timely market testing of certain contracts to inform effective decision making.

Internal Audit's follow up review on prior year recommendations in July 2019 also identified:

- Relevant supporting documentation relating to procurements are not always retained and available for inspection to confirm compliance with the Council's procedures
- Procurements are not consistently made in accordance with the competition requirements of the Council's purchasing procedure
- The Council is not performing annual reviews of payments to supplier to identify whether contract standing orders should have been followed in specific instances.

In December 2021, Internal Audit published the draft report on Procurement. Subsequently finalised in July 2022, the review was issued with "no assurance" due to the continuing weaknesses identified in the Council's compliance with procurement procedures. There are five high priority recommendations brought forward from the previous Procurement audit, which remain pertinent. Internal Audit has also identified increased use of the provisions for engaging "specialist" suppliers, which did not appear to meet the criteria in all cases where this has been applied.

During 2020-21, Internal Audit reviewed several ongoing contracts as part of the annual audit plan. Eight contract reviews concluded with "no assurance", due to the key contract documentation not being readily available for inspection. The Insurance contract review has subsequently been revised to "restricted assurance" following additional evidence provided to Internal Audit. However, there was no signed agreement available for inspection.

The Council has been unsuccessful in recruiting to the senior officer role of Contracts and Procurement Manager. The funding for this position has been utilised to undertake an external review of the Council's procurement strategy and procedures. The Council has relied on retained external support from a public sector procurement support and consultancy service, STAR Procurement.

In August 2021 the Council engaged STAR Procurement to perform an in-depth review of procurement rules including contract standing orders, training and ongoing practical assistance with frameworks and tenders. The review concluded that, the Council's existing procurement rules could be improved and the detailed findings and recommendations were presented to Members in January 2022.

A new procurement strategy was adopted and has been effective from April 2022. This is supported by updated contract standing orders, template documentation and procurement handbook. Training to support the new procurement framework was delivered to officers in March 2022

The Council has a Procurement and Contract Lead in place, which allows a more specialised resource to guide and advise managers. The Procurement and Contract Lead, supported by the Head of Legal and Governance, has taken ownership of the contract register to ensure that contracts are market-tested with a reasonable frequency. The Procurement and Contract Lead is involved in all procurements that go onto the Chest system.

From April 2021, a Programme Board has been established with responsibility for governance of project activities and the Capital Programme. The Capital Programme Manager has been appointed to support the Director of People and Place and will lead on major projects. The project management procedures were adapted from the Cumbria County Council framework and implemented from March 2021.

The Council has been unsuccessful in recruiting a Project Management officer and since April 2021 has contracted direct support from the Project Management Office within Cumbria County Council, to deliver some major projects, including the Barrow Town Deal. The Council continues to work with the Project Management Office to manage the grant funding process.

It is positive that, the Council is putting arrangements in place to address historic failings in this area. However, these arrangements are still not fully embedded and have largely only been in place since April 2022.

The effectiveness of the revised contract and procurement procedures has not yet been subject to internal or external assurance reviews.

Improving economy, efficiency and effectiveness

The Council has encountered challenges with managing some of its procurement contracts, most notably the waste contract with a value of £2.1 million per annum. The result of procurement procedures not being followed appropriately at the commencement of the contract and also weaknesses in contract management, has meant the Council has faced difficulties in dealing with contractual disputes. For example, the lack of clarity around the agreed level of acceptable contamination of recycling was a critical problem that has remained unresolved until the mutual early termination of the contract.

In March 2022, the Council took the decision to transfer the waste services from the contractor to direct delivery from 1 October 2022. This will require the Council to transfer staff from the contractor and takeover the waste fleet and processing facilities resulting in transition costs of £0.4m and additional annual running costs of £1.1m, above the original budget for waste services.

Conclusion

These matters identify significant weaknesses in the Council's arrangements for ensuring policies and procedures in relation to procurement and contract management are followed. We have reported Statutory recommendations for improvement on pages 5 – 7.



Improvement recommendations



Recommendation	Update the Data Quality policy and guidance to reflect best practice, organisational structure, and the processes required for the producing and reporting performance management information.
Why/impact	An up to date Data Quality policy provides assurance that performance data reported to Members, and upon which decisions are made, is accurate, complete and timely.
Summary findings	The Council has provided no Data Quality Policy or Guidance. We are concerned that without a policy, guidance or a process related to data quality, poor quality data can be reported to decision makers leading to poor decisions .
Management comments	The Council has not established a Data Quality policy; there is an ongoing work package to establish information management policies for Westmorland and Furness Council.

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



COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

Officers first reported the potential impact of Covid-19 on the Council's financial sustainability in June 2020. At this stage, an adverse £1.679 million financial impact of Covid-19 was forecast for 2020/21. This consisted of £0.718 million additional costs and £0.961 million loss of income (from fees and charges).

89% (£0.641 million) of the increased expenditure related to existing contracted services. This additional expenditure related to the Council increasing the services required from existing contracted services and supporting the Leisure Centre during lockdown and recovery period. Financial support to the Leisure Centre included 20% top-up of furloughed staff (contractor claimed 80% furlough support) and a management fee.

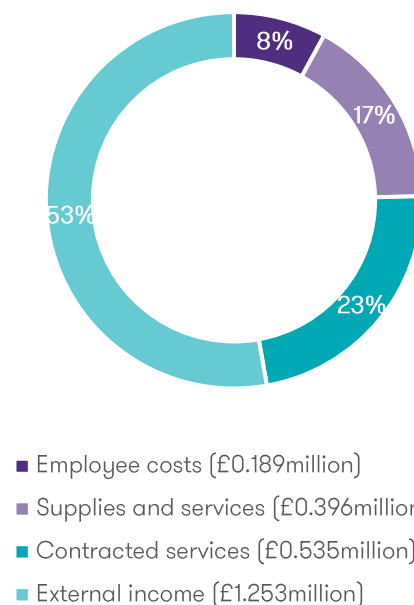
In September 2020, the Council also updated its medium-term financial plan (MTFP), which forecast a net cost of £2.014million due to the impact of Covid-19 between 2020/21 to 2023/24.

The actual financial impact of Covid-19 in 2020/21 was higher than originally forecast. The 2020/21 Outturn clearly reports the impact of Covid-19 on the Council's finances. The Council incurred additional costs and income losses of £2.373million, of which £2.298million (96.8%) was met by Covid-19 support funding. We have not seen any evidence of this funding not being used for the purposes intended. As shown on the pie chart to the right, over half (53%) was due to loss of income, 23% due to additional expenditure on contracted services (as noted above) and the remaining 17% on supplies and services.

The assumptions of the MTFP are reviewed annually as part budget setting. This included considering and reviewing the multi-year impact of Covid-19 on the key assumptions, which is appropriate. Improvements to the budget monitoring reports and MTFP could be made to more clearly identify the financial impact of Covid-19.

Looking forward to recovery from the pandemic, the impact on the Council's finances remains uncertainty, including whether income will return to pre-pandemic levels.

Covid-19 additional costs/ loss of income
2020/21



Source: 2020/21 Outturn,
Executive Committee September 2021

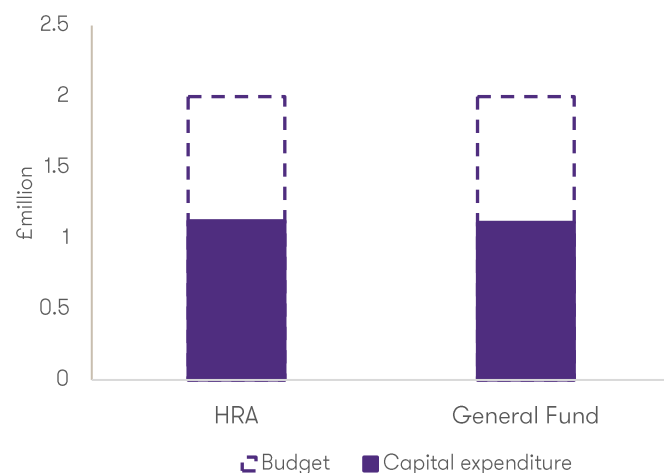
COVID-19 arrangements

The 2020/21 capital programme was approved by full Council in February 2020/21. Covid-19 has also severely affected the delivery of the capital budget, as shown in the graph below:

- 55% of HRA capital budget was delivered (£1.113million capital expenditure against a budget of £2.031million); and
- 57% of the general fund budget was delivered (£1.123million capital expenditure against a budget of £1.968million).

The progress of the capital programme was not reported to committee or full Council during 2020/21. The outturn capital expenditure was reported to Executive in September 2021 although no budget figures were included. Regular reporting of the capital programme allows progress to be monitored by members and provide the opportunity for challenge and scrutiny regarding delivery of capital projects.

Capital budget outturn 2020/21



Sources: Capital Strategy 2020/21 and 2020/21 Outturn, Executive Committee February 2020 and September 2021 respectively

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16 March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online. Open meetings were also live streamed through YouTube supporting public access and enhancing transparency.

All committees, but especially Executive and Overview and Scrutiny have maintained a keen interest in the Council's response to the pandemic.

The corporate and operational risk registers have also been updated to ensure Covid-related risks are recorded appropriately, mitigated and monitored.

The delivery of the Internal Audit Plan 2020/21 was significantly and adversely impacted by Covid-19. Mainly as a result of their redeployment in the first quarter of 2020/21, to evaluate and process Covid-19 support grants and support other resourcing issues.

As shown on the next page, over 60% of the planned audit assignments were not delivered, 53% cancelled and 7% deferred to 2021/21. The Head of Internal Audit Opinion Statement 2020/21 highlights the restrictions and limitations of Covid-19, although provides reasonable assurance for the minimal systems reviewed. This will have a negative impact on the Audit and Governance Committee's lines of assurance, which will have been greatly diminished.

There were also two areas where only restricted assurance was provided:

- Covid risk assessment; and
- IT procedure review.

The Covid risk assessment found two major and eight important issues from the review and testing of Covid-19 health and safety controls. The Council should seek to implement these as soon as soon given the threat the pandemic continues to pose to health and the functioning of the Council.

COVID-19 arrangements

Progress of Internal Audit Plan 2020/21	Assignments	
	Number	%
Audit cancelled	15	53.6%
Complete/ draft report/ initial final	10	35.7%
On-going	1	3.6%
Deferred to 2021/22	2	7.1%
Total	28	100%

Source: Internal Audit Report 2020/21, Appendix A

The Council has provided data for all grants to the Department for Business, Energy & Industrial Strategy (BEIS) along with evidence of checks undertaken to support their assurance process for grant payments. Currently no Internal Audit review of Covid-19 support grants has been undertaken or planned. If any additional internal assurance is required, the Council and Internal Audit should consider how this assurance should be delivered, with consonance to independence as Internal Audit supported the administering of Covid grants.

All staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council.

In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

Six monthly reporting of non-financial performance to Executive and Overview and Scrutiny committees was delayed during 2020/21, the outturn performance was only reported. This reduced reporting will limit the ability of those charged with governance to understand which of the Council's activities have been most impacted by Covid-19 and the extent of this impact. Despite the challenges of the pandemic, the Council administered £29.357million Covid-19 support grants to individuals and businesses during 2020/21.

The Council reported a decline in performance against targets in 2020/21 compared to 2019/20. This is reported as due to Covid-19.

In July 2020, the Council set out the initial impact and the Council's response to the pandemic within 'Growing Forward.' Linked to the Council Plan priorities, the plan identified actions to respond to the issues resulting from Covid-19. The Executive Committee was kept up to date with progress. Partnership working is a key foundation of 'Growing Forward.' Barrow Community Local Resilience Forum was formed, which acts as a bridge between the Council's citizens and four formal partnerships.

Individuals and business have been significantly affected by the Covid-19 pandemic. We undertook a review of district councils vulnerability to the immediate and medium-term impacts of Covid-19 and how well placed areas are to respond and recover from Covid-19. The recovery index focuses on nine indicators including:

- year at risk;
- level of reserves as a percentage of gross expenditure;
- house price recovery;
- percentage of businesses in 'at risk' sectors;
- Gross Value Added (GVA) – Covid-19 impact on growth;
- business size (mixture/variance); and
- net additional dwellings (percentage of total dwellings).

COVID-19 arrangements

The vulnerability index considers six socio-economic factors, as shown in the following diagram:

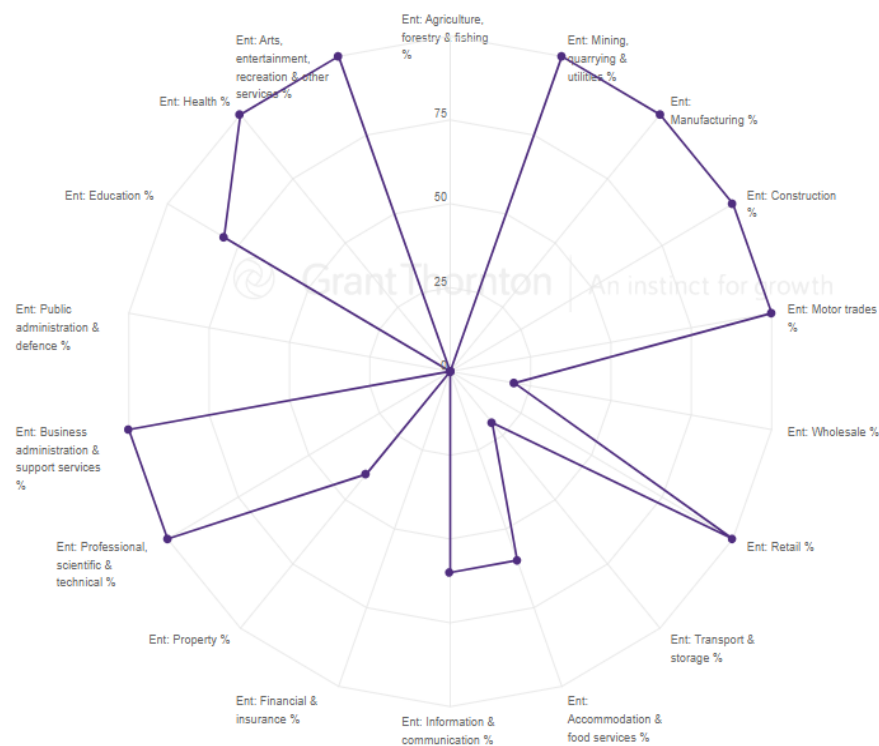


This identified that the Council is low vulnerability and low on the recovery index. The low recovery index is driven by the Council's level of reserves, by low house price recovery and the percentage of businesses and employment within at risk sectors. The main at risk sectors within the district include education, retail, accommodation and food services, and arts, entertainment, recreation services. This is shown graphically on the right of this page. Lower house price recovery affects all of the Cumbria Districts.

The low vulnerability index is more complex. As noted above, the index is driven by six indicators. Four of these six are low or very low vulnerability leading to an overall low vulnerability. However, two indicators have very high vulnerability identified.

The very high indicators are social care and health. Further analysis of these indicators are detailed in the table below.

Barrow-of-Furness' business demography: sector representation



Source: CFO Insights

COVID-19 arrangements

High/ very high vulnerability socio-economic factors:

Health	Further analysis shows that the district has a number of very high health vulnerabilities. These include lower life expectancy, very high under 75 mortality, very high percentage of adults classified as overweight and excess winter deaths and very high prevalence mental health illness diagnoses a very high prevalence of smoking.
Social care	Similar to other districts in Cumbria, the Council also has very high numbers of children in need, high volume of child protection plans and high prevalence of older adult supported in residential and nursing settings and patients with learning disabilities.

Conclusion

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified audit report opinion on the financial statements on 4 May 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Governance Committee on 27 April 2022. We have concluded that the other information published with the financial statements, including the Narrative report and Annual Governance Statement post audit changes, was consistent with our knowledge of the Council and the financial statements we have audited.

Whole of Government Accounts

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

We have completed our work in this area and reported to the National Audit Office.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline.

Issues arising from the accounts:

The key issues were:

- Revisions required to the valuations of land and building assets
- Incorrect recognition of grants income in respect of Covid-19 funding received.

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

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



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

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

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

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

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

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

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

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



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness	We have assessed what the Council is doing to strengthen the financial planning arrangements and management of financial risks.	We found no evidence or indication of significant risks to financial sustainability as such no further risk-based work has been undertaken in this area.	Appropriate arrangements not in place, five improvement recommendations raised.
Procurement and contract management was identified as a potential significant weakness	We have assessed the Council's progress in addressing identified weaknesses in the procurement and contract management arrangements, including review of Internal Audit's findings and consideration of the actions implemented by management up to the current date.	The Council is failing to demonstrate and apply the principles and values of sound governance in its procurement arrangements. This is leading to ineffective procurement of supplies and services to support the delivery of strategic priorities. This failure to adhere to Council purchasing and contract standing orders means it is difficult for the Council to demonstrate that it has achieved value for money in all procurement decisions	Significant weaknesses in arrangements identified and statutory recommendations raised.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	Yes	5 - 8
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	-
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	13-17, 21-22, 27

