

# Auditor's Annual Report Copeland Borough Council

2020/21, 2021/22 and 2022/23

March 2024



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

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



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

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# Executive summary






## Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2020/21, 2021/22 and 2022/23 in order to bring our value for money assessment up to date to 31 March 2023 after which Copeland Borough Council ceased to exist as a sovereign organisation due to local government reorganisation in Cumbria. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

The conclusions from our work and recommendations raised within this Auditor's Annual Report relate to the arrangements in place for Copeland Borough Council, but they are addressed to the new Cumberland Council as the successor authority. Cumberland Council should consider the weaknesses identified within this report to ensure robust arrangements to secure value for money are established from 1 April 2023. Whilst the new Council will have arrangements that supersede some of the issues we have raised, this report is a salutary lesson of the impact of poor governance and accountability which members should be fully briefed on. Due to the significant and pervasive nature of the weaknesses identified, we would have considered the use of additional auditor's powers had Copeland Borough Council not been a demising authority.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	Risk of significant weakness identified in relation to financial planning due to weaknesses identified in 2019/20.	R Significant weakness in arrangements to secure financial sustainability identified and five key recommendations raised.	R Significant weakness in arrangements to secure financial sustainability identified and five key recommendations raised.	R Significant weakness in arrangements to secure financial sustainability identified and three key recommendations raised.
Governance	Risk of significant weakness identified in relation to risk management, internal audit and the Audit Committee due to weaknesses identified in 2019/20.	R Significant weakness in governance arrangements identified and five key recommendations raised. An improvement recommendation has also been raised.	R Significant weakness in governance arrangements identified and five key recommendations raised. An improvement recommendation has also been raised.	R Significant weakness in governance arrangements identified and five key recommendations raised. An improvement recommendation has also been raised.
Improving economy, efficiency and effectiveness	Risk of significant weakness identified in relation to procurement due to weaknesses identified in 2019/20.	R Significant weakness in arrangements to improve economy, efficiency and effectiveness identified and one key recommendation raised.	R Significant weakness in arrangements to improve economy, efficiency and effectiveness identified and one key recommendation raised.	R Significant weakness in arrangements to improve economy, efficiency and effectiveness identified and one key recommendation raised.

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

# Executive summary (continued)



## Financial sustainability

### Financial planning

The Council delivered an immaterial net overspend for 2020/21 and achieved service underspends for 2021/22 and 2022/23, based on unaudited financial reporting. However, within these net positions we have identified significant weaknesses in financial planning arrangements in relation to the use of significant one-off resources to balance the annual budget and the lack of a robust efficiency programme to balance budget gaps identified in financial planning. This financial strategy was not sustainable and resulted in a projected budget gap of £3.99m in 2023/24 that was inherited by Cumberland Council.

The Medium-Term Financial Strategy (MTFS) 2020-2025, approved in February 2020 included a cumulative Commercial Strategy income target of £1.35m by 2023/24. This target was not based on agreed worked-up schemes and represented a balancing figure rather than an approved plan. The Council was unable to deliver any additional income through the Commercial Strategy. The failure to deliver the ambitions of the Commercial Strategy through an agreed programme of work, and its subsequent disbandment in favour of utilising one-off resources to balance the budget, represented a significant weakness in arrangements to secure financial sustainability for 2020/21, 2021/22 and 2022/23.

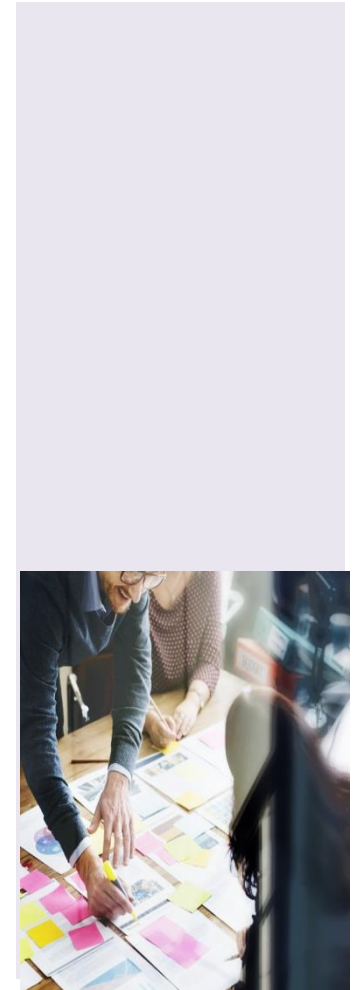
The MTFS approved with the budget 2020/21 modelled cumulative other efficiency savings of £0.5m by 2021/22. In the event none of these efficiencies were delivered and they were subsequently removed from the MTFS. No savings targets were included in the 2021/22 or 2022/23 budgets. There was no developed pipeline of savings schemes behind the efficiency targets, and as with the commercial income target, they were more reflective of balancing figures. The failure to develop robust savings proposals represented a significant weakness in arrangements to secure financial sustainability for 2020/21, 2021/22 and 2022/23.

Copeland Borough Council increasingly relied on the use of one-off resources to balance the budget during the period 2020/21 to 2022/23. These one-off resources included significant contributions from reserves and capitalisation directives, with a cumulative total of £8.55m over the three-year period. The use of one-off resources to balance the budget was not sustainable as it did not address the underlying budget deficit through recurring savings, and reduced the level of reserves available to manage financial risk.

**We have made a key recommendation that Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement arrangements that ensure financial planning is robust and provides sustainability for the delivery of services.**

### Capital planning

We have identified a significant weakness with regard to capital planning for 2020/21 and 2021/22. The financial implications of the significant borrowing required to fund the capital programme were not explicitly set out in the budget reports for 2020/21 or 2021/22. The stated financial





# Executive summary (continued)



## Financial sustainability (continued)

planning assumption was that future borrowing costs would be financed through additional net income from capital investments. This, along with the different planning horizons for the MTFs and capital programme, created a risk that the revenue costs of future borrowing were not being prudently budgeted for.

The Council did review the capital programme during 2021/22, resulting in the capital programme approved in February 2022 being less reliant on external debt and with the revenue implications of borrowing more explicitly identified in the budget report 2022/23.

**We have made a key recommendation that Cumberland Council should consider the risks that have been identified with regard to Copeland's capital programme, in order to inform the design of arrangements and ensure the capital programme is affordable and financial risk mitigated.**

### Completion of Statement of Accounts

The Council did not fulfill its statutory requirements to produce audited Statement of Accounts in line with the statutory deadline for the years 2017/18 to 2022/23. Management's capacity to produce financial statements by the deadline and of sufficient quality was a significant risk, with associated risks relating to reporting outturn and setting a budget without a prior year audited position.

For the outstanding Statement of Accounts for 2019/20, 2020/21, 2021/22 and 2022/23 we expect that the audits will be concluded under the statutory deadline arrangement proposed by DLUHC. This means that four sets of accounts must be produced, subject to public inspection and certified as true and fair by the Section 151 officer of Cumberland Council by 30 September 2024.

**We have made a key recommendation that Cumberland Council should continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.**

## Financial governance

We have identified that the Council did not comply with the requirements of the CIPFA Treasury Management in Public Services Code of Practice or the requirements of the Council's Constitution in 2020/21 and 2021/22. Annual treasury management review reports were not provided to Members for scrutiny and quarterly budget monitoring did not include all of the information we would expect from a mid-year treasury management review. Arrangements were strengthened in 2022/23.

**We have made a key recommendation that Cumberland Council should ensure it complies with the requirements of the CIPFA Treasury Management in Public Services Code of Practice and with the treasury scrutiny requirements set out in the Constitution.**

We have identified weaknesses in financial reporting to Members that combined to reflect a significant weakness in financial governance arrangements. These weaknesses included the absence of a General Fund service summary in budget setting reports, quarterly budget monitoring reports not being presented to Members in a timely manner, and quarterly budget forecasts in 2022/23 that did not identify variances in key taxation and government grant income streams. These weaknesses impacted on the level of oversight provided to Members and their ability to make timely decisions based on complete information.

**We have made a key recommendation to Cumberland Council that the quality of financial reporting to Members should be strengthened.**

We encountered difficulties in obtaining evidence for some of our key lines of enquiry due to the impact of local government reorganisation and relevant officers from Copeland Borough Council no longer being in post at the new Cumberland Council. These areas include:

- how the Council considers the financial impact of significant legal or regulatory proceedings against it;
- how budget holders reviewed and approved financial plans;
- evidence of ownership and engagement of budget holders during the annual budget setting process;
- evidence that the finance team engaged with budget holders to review financial performance in 2020/21 and 2021/22.

# Executive summary (continued)



## Governance

### Risk management

The Council enacted its business continuity plan in response to the pandemic in March 2020 and resources were redeployed to support the delivery of statutory services. As resources were redeployed, formal reporting of the Council's Strategic Risk Register to the Audit Committee was much reduced and did not return to a regular cycle.

The Risk Management Policy required that the Audit Committee received quarterly risk monitoring reports, but the Committee received limited reporting on risk management from 2020/21. The Executive was not provided with annual risk management reports as required by the Risk Management Policy.

The lack of regular risk management reporting to Members from 2020/21 to 2022/23 represented a significant weakness in governance arrangements as it did not provide proper risk management oversight and assurance to those charged with governance.

The internal audit review of risk management in March 2023 provided only partial assurance and identified that resources for risk management were limited, risks were not being reviewed and updated accurately, and that the Risk Management Policy was not being complied with.

**We have made a key recommendation that Cumberland Council should consider the weaknesses identified with regard to risk management arrangements at Copeland Borough Council and ensure robust arrangements are implemented.**

There were also significant weaknesses in the ICT risk management and control environment that were identified following the severe cyber-attack in 2017 but which were not fully addressed by Copeland Borough Council.

We reported a statutory recommendation in February 2021 that the Council should implement internal audit recommendations relating to ICT and business continuity. From discussion with officers, we understand that the Council did not develop a disaster recovery plan and did not test disaster recovery arrangements. The Council did not address previous statutory recommendations relating to ICT and business continuity.

The Council's ICT team started to undertake remediation work during 2019/20 after the appointment of the Head of ICT in early 2019. Progress in strengthening the ICT environment is evidenced through the Council achieving the Cyber Essentials Plus certification standard in April 2020, with recertification achieved in August 2021. However, we understand that the implementation of the new network was not complete as at March 2023 and the Council continued to operate on previous IT estate.

**We have made a key recommendation that Cumberland Council should consider the weaknesses identified with regard to cyber security and ICT risk management at Copeland Council in order to inform the design of a robust control environment.**

### Internal audit

The Internal Audit Plans for 2020/21, 2021/22 and 2022/23 were based on fewer audit days than previous years, reflecting the reduction in internal audit resources after the Internal Audit Manager left the employment of the Council in July 2019. The vacant Internal Audit Manager post impacted on the delivery of the Internal Audit Plans. For both 2020/21 and 2021/22 only approximately 65% of the Internal Audit Plan was delivered by the year end.

Due to the vacant Internal Audit Manager post, the roles of S151 Officer and Chief Audit Executive were both undertaken by the Director of Financial Resources, and this created a potential conflict of interest and impairment to the independence of internal audit, until an Internal Audit manager was again recruited in April 2022.

While the Council did make progress in reducing the number of key recommendations that were overdue, weaknesses in reporting overdue recommendations to the Audit Committee

# Executive summary (continued)



## Governance (continued)

continued through 2020/21 to 2022/23. Reporting on overdue recommendations during this period only provided detail for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented.

The Council commissioned an independent CIPFA review of conformance to PSIAS. The conclusion of the review, that the internal audit service partially conforms to PSIAS, was reported to the Audit Committee in September 2021. Weaknesses and partial conformance were noted in areas including independence, training and quality assurance.

The Council made reasonable progress during 2022/23 in implementing the recommendations to improve compliance with PSIAS. However, weaknesses remained, and these were recognised in the Internal Audit Annual Self-Assessment for 2022/23, which although indicating compliance with PSIAS, identified improvement points to be implemented in 2023/24. We have also identified through discussion with officers that there was a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function.

We have therefore identified significant weaknesses with regard to the effectiveness of the internal audit function that impacted on the delivery of the audit plan and the assurance that internal audit provided to management and those charged with governance on the robustness of the control environment.

**We have raised a key recommendation that Cumberland Council should continue to improve the effectiveness of the internal audit function and ensure that the positive direction of travel with regard to PSIAS compliance is maintained.**

The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate for the period 2020/21 to 2022/23. Key policies

were not updated regularly, and the Audit Committee did not receive an annual counter fraud plan, progress reports, or annual reports detailing the work undertaken to prevent and detect fraud and corruption.

**We have raised a key recommendation that Cumberland Council should consider the weaknesses identified in arrangements for preventing and detecting fraud and corruption at Copeland Borough Council and ensure robust arrangements are put in place.**

### Effectiveness of the Audit Committee

We raised statutory recommendations relating to assessing and improving the effectiveness of the Audit Committee in February 2021 and March 2022. In response the Council commissioned CIPFA to review Audit Committee arrangements in September 2021. The review identified limited challenge by Members on the agenda items being presented to the Audit Committee and made eleven recommendations aimed at increasing Audit Committee effectiveness, increasing the Committee's profile and supporting Committee Members in developing their skills and knowledge.

We have reviewed the progress that the Council made in implementing the CIPFA recommendations to improve Audit Committee effectiveness. We judge that the Council was slow to implement the required improvements and that the majority of recommendations remained outstanding as at 31 March 2023.

**We have raised a key recommendation that Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward.**

# Executive summary (continued)



## Improving economy, efficiency and effectiveness

### Procurement

We have identified significant weaknesses with regard to the Council's arrangements for delivering value for money through procurement activity for the period 2020/21 to 2022/23.

The Council's Contract Standing Orders (CSOs) were approved in 2019 and the Procurement and Contract Management Strategy 2018-21 was approved in March 2020. Despite the expectation that both documents would be reviewed annually, there is no evidence that they were subsequently presented to Members for review during the period to 31 March 2023. Not reviewing key procurement policies and strategies regularly increases the risk that they do not reflect best practice, organisational priorities, changes in organisational structure or current procurement regulations.

The Council did not maintain a register of procurement waivers to allow for the systematic review of procurements that did not follow CSOs or public procurement regulations. Procurement waivers were not reported to those charged with governance. Therefore, the Council did not have an overall picture of the number and value of procurements that did not follow a competitive process, and was not able to challenge these decisions to ensure value for money was achieved.

**We have raised a key recommendation that Cumberland Council should consider the significant weaknesses with regard to procurement arrangements at Copeland Borough Council to ensure that arrangements are robust and transparent going forward.**

### Delivering recommendations from external regulators

The recommendations from the Department for Levelling Up, Housing and Communities and other regulators were combined into a composite action plan and progress was reported to Members and subject to internal audit review. While progress was made to address weaknesses in some areas, there are some recommendations that were not sufficiently progressed as at March 2023,

particularly in relation to creating sustainable financial plans, addressing the backlog in producing the statement of accounts, developing IT disaster recovery plans and in increasing the effectiveness of the Audit Committee. We have raised further key recommendations in relation to these significant weaknesses in this Auditor's Annual Report.

### Other areas reviewed as part of our work for economy, efficiency and effectiveness

We have not identified any significant weaknesses with regard to the arrangements for managing and reporting on performance at the Council. Quarterly performance reports were provided to the Executive and these focused on key performance indicators and key deliverables relating to the Council's Corporate Strategy's goals and objectives.

We have not identified any significant weaknesses with regard to how the Council worked with partners to deliver corporate priorities. The Council had processes in place to work in partnership, but it should be noted that due to a lack of remaining corporate knowledge we have not drilled down into these areas in depth.





# Executive summary (continued)

## Local government reorganisation

We have reviewed the arrangements that were in place to support successful local government reorganisation in Cumbria in the lead up to vesting day for the two new unitary councils on 1 April 2023. The review focussed on arrangements in place during 2022/23 and the key findings are summarised as follows.

The move from seven to two councils provides an opportunity to realise financial benefits and improve service delivery and the financial sustainability of local government in Cumbria. However, implementing LGR is complex, time consuming and provides some significant challenges. These challenges for Cumbria included a relatively short implementation timescale, the pressures that come from delivering business as usual services by the sovereign councils whilst implementing LGR in parallel, the lack of ownership of some sovereign councils for the approved unitary model and a shared business case, the need to disaggregate county wide finances and services to align to the geographies of the two new unitaries, and undertaking financial and service planning for the new unitaries when many senior officers were not in role in a timely way to make key decisions.

The focus taken on ensuring continuity of existing services to residents and businesses in Cumbria meant that the opportunities that should arise from rationalisation and transformation did not progress and were largely deferred for decisions to be taken following vesting day on 1 April 2023, when it was expected that there should be greater capacity available and senior leadership teams are in place.

It will take several years to fully realise the benefits planned from LGR and will require sustained commitment from senior stakeholders to deliver. There remain inherent risks in any LGR implementation, and the new unitary councils will have significant decisions to take post vesting day. In summary, we see a number of critical challenges, in particular the following are key priorities:

- financial sustainability pressures with reliance on potential additional government financial support and use of capital receipts and /or prudential borrowing to fund revenue expenditure;
- sub-optimal progress on the transformation agenda means the new councils will need to act fast, and fully utilise the PMO resource, to drive transformational change to improve service users' experience and generate significant savings;

- organisational structures, cultures and values will need to be agreed and embedded. This will be critical to the effectiveness of the new councils' governance and performance management frameworks;
- structures and key personnel put in place need to be proportionate to the significant scaled up challenges the new council will face;
- specifying, procuring and successfully implementing new financial systems to replace the work around solution of utilising legacy financial systems. Whilst the work around arrangements are understandable in the context, this represents significant challenges in the short and medium term which will incur additional costs and impact on accounts production, audit, and budget monitoring;
- concluding the outstanding disaggregation of services and associated budgets.

It remains important that elected members of the new unitary councils have appropriate time to fully engage with and scrutinise these key decisions.

At the same time as successfully managing LGR transition, the two new unitary councils have had to manage business as usual challenges affecting Cumbria, which include improving social care provision, managing increasing demographic pressures, recruitment and retention challenges, and improved working with the NHS.

The two new unitary councils should not lose best practice arrangements that we have observed over recent years at sovereign councils, which include, but are not limited to:

- good governance via effective Audit Committees and robust risk management at Cumbria County Council and Carlisle City Council;
- strong partnership governance with a focus on demonstrable outcomes at South Lakeland District Council, Carlisle City Council, and Allerdale Borough Council.

Changes to the Fire and Rescue Service resulting from LGR means there are challenges for the service beyond April 2023, including ensuring its financial sustainability and how it collaborates.

We plan to undertake a follow up review in early 2024 on how the new unitary councils have managed the challenges set out in these findings during 2023/24, which will have a particular focus on their financial sustainability.

# Use of auditor's powers

	2020/21	2021/22	2022/23
<p><b>Statutory recommendations</b></p> <p>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</p>	We issued statutory recommendations in February 2021 which are summarised on page 11.	We issued statutory recommendations in March 2022 which are summarised on page 11.	We have not issued further statutory recommendations due to Copeland Borough Council demising on 31 March 2023 after LGR in Cumbria.  Cumberland Council should consider the recommendations raised in this Auditor's Annual Report.
<p><b>Public Interest Report</b></p> <p>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.</p>	We have not issued a Public Interest Report.	We have not issued a Public Interest Report.	We have not issued a Public Interest Report.
<p><b>Application to the Court</b></p> <p>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.</p>	We did not make an application to the court.	We did not make an application to the court.	We did not make an application to the court.
<p><b>Advisory notice</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>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</li> <li>is about to enter an item of account, the entry of which is unlawful.</li> </ul>	We did not issue an advisory notice.	We did not issue an advisory notice.	We did not issue an advisory notice.
<p><b>Judicial review</b></p> <p>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.</p>	We did not apply for a judicial review.	We did not apply for a judicial review	We did not apply for a judicial review.

# Use of auditor's powers (continued)

## Statutory recommendations

We have concluded that, it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements in financial governance and the Council's capacity and capability to effectively respond to and implement a large number of external review governance related recommendations raised by the Department for Levelling Up, Housing and Communities, Grant Thornton and the Chartered Institute of Public Finance and Accountancy, with the direct financial and human resource costs adding further pressure to a very fragile financial position. The progress that the Council has made in addressing each statutory recommendation has been assessed within the follow up of previous recommendations section of this report on Pages 45 – 48 and is summarised in the table below.

Date	Statutory recommendations
February 2021	<ul style="list-style-type: none"> <li>• Introduce robust arrangements for the production of late 2018/19, 2019/20 and 2020/21 financial statements, which meet statutory requirements and international financial reporting standards;</li> <li>• Implement outstanding audit recommendations and Annual Governance Statement governance related weaknesses and actions, especially those related to ICT and business continuity, and regularly update management and members with progress and implementation of improved controls; and</li> <li>• Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment.</li> </ul>
March 2022	<ul style="list-style-type: none"> <li>• Continue to put in place robust arrangements for the production of late 2019/20, 2020/21 and 2021/2022 financial statements, which meet statutory requirements and international financial reporting standards.</li> <li>• Ensure the critical financial governance weaknesses identified by the Department of Levelling Up, Housing and Communities (DLUHC) review and Grant Thornton on medium term financial planning, budgeting assumptions and sensitivity analysis are implemented with immediate effect to enable the Council to set realistic financial revenue plans for the short term.</li> <li>• Protect against overcommitment on the Council's capital ambitions especially in the context of dependency on capital directions and the transition to Local Government Reorganisation.</li> <li>• Develop a composite and robust action plan from all the Grant Thornton, DLUHC and CIPFA external reviews, ensuring there is appropriate capacity and capability in place to implement the required governance improvements with adequate and regular oversight and challenge from Full Council, Overview and Scrutiny and the Audit Committee; and</li> <li>• Immediate action is required to strengthen the Council's internal governance arrangements, especially its Internal Audit service and Audit and Governance Committee effectiveness</li> </ul>

# Use of auditor's powers (continued)

## Statutory recommendations (continued)

### Progress made addressing statutory recommendations

The Council developed a composite action plan and progress on implementing the recommendations from the Department for Levelling Up, Housing and Communities and other regulators was reported to Audit Committee and Overview and Scrutiny Committee. While we acknowledge that progress was made in addressing some of the statutory recommendations, significant concerns and weaknesses in key areas continued to 31 March 2023 when Copeland Borough Council demised.

We note that some improvements were made to make financial planning more robust in 2022/23, such as the extension of the planning horizon and a clearer analysis of the projected revenue implications of borrowing to fund the capital programme. A more detailed sensitivity analysis is also provided for key budget assumptions. However, the budget gap was not closed and the strategy since 2020/21 of relying on one-off resources to balance the budget has resulted in a projected £3.99m budget deficit for 2023/24, which was inherited by the new Cumberland Council.

The Council did review the capital programme in 2021/22, and approved a programme in February 2022 that is less reliant on borrowing to fund schemes, so reducing the challenge of future affordability. While the Council did not take out additional debt to support the capital programme, there is a financing risk for the new Cumberland Council going forward when external borrowing will need to be incurred to finance the legacy Copeland Borough Council capital programme.

CIPFA have undertaken reviews of internal audit's compliance with PSIAS and of the effectiveness of the Audit Committee. Recommendations resulting from these reviews were included in the Council's composite action plan. While reasonable progress was made in 2022/23 to improve internal audit's compliance with PSIAS, and the recruitment of an Internal Audit Manager resolved independence issues, weaknesses in reporting recommendations continued and further action was required in relation to training and embedding quality assurance. We have also identified a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function

The Council was slow to secure improvements to increase the effectiveness of the Audit Committee. The weaknesses in arrangements with regard to enhancing the skills and knowledge of Audit Committee Members and raising the profile of the Audit Committee that existed in 2019/20 have not been fully addressed.

We have identified continuing significant weaknesses with regard to the ICT control environment and ICT risk management arrangements that persisted through 2020/21, 2021/22 and 2022/23. The Council has not developed and tested a disaster recovery plan.

The Council has produced a draft statement of accounts for the 2019/20 financial year, but none yet for 2020/21 or subsequent years. Producing draft accounts and responding to audit queries is likely to continue to stretch the capacity of the Council's finance team. For the remaining Statement of Accounts for 2019-20, 2020-21, 2021-22, 2022-23 we expect that the audits will be concluded under the statutory deadline arrangement proposed by DLUHC. We still consider that the finance team faces challenges to prepare overdue financial statements and working papers to the required quality by the deadlines required.

Cumberland Council should consider the weaknesses in financial planning and governance arrangements that existed at Copeland Borough Council, which are reflected in the further key recommendations raised in this Auditor's Annual Report, to ensure arrangements to secure value for money are robust going forward.



# Key recommendations

## Recommendation 1

Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement arrangements that ensure financial planning is robust and provides sustainability for the delivery of services. This includes:

- taking a longer-term approach to financial planning and not relying on the use of one-off resources to balance the budget;
- ensuring levels of reserves are sufficient to mitigate financial risk;
- ensuring robust savings plans are developed to deliver recurring savings and are backed by business and delivery plans;
- providing sensitivity and scenario analysis for key financial risks within the budget and MTFS;
- providing sufficient information regarding the revenue impacts of capital expenditure and borrowing within budget and MTFS reports and ensuring the MTFS and capital programme are aligned.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

The Council did not have a financially sustainable strategy for addressing budget gaps and the legacy of this approach was a forecast £3.99m budget gap for 2023/24, a position inherited by Cumberland Council.

## Summary findings

We have identified significant weaknesses with regard to medium term financial planning at Copeland Borough Council. These weaknesses included the failure to deliver the ambitions of the Commercial Strategy through an agreed programme of work, the failure to develop robust savings proposals to balance budget gaps, and the use of one-off resources to balance the budget rather than addressing the underlying budget deficit.

## Criteria impacted by the significant weakness



## Financial Sustainability

## Management Comments

Robustness of estimates and adequacy of reserves considered as part of Cumberland Council's 2023-24 and 2024-25 budget setting rounds in accordance with statutory requirements.

The Council is engaging in a significant Transformation Programme, supported by the recently approved capitalisation funding bid. The programme aims to support (among other objectives) long-term financial sustainability for the authority.

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



# Key recommendations

## Recommendation 2

Cumberland Council should consider the risks that have been identified with regard to Copeland's capital programme, in order to inform the design of arrangements and ensure the capital programme is affordable and financial risk mitigated. This includes:

- ensuring that the revenue implications of capital expenditure and borrowing are clearly highlighted in budget reports and the MTFS;
- ensuring that capital programme projections, MTFS and the Treasury Management Strategy cover the same planning horizon;
- reviewing the inherited capital programmes from legacy councils to ensure they are affordable and develop a strategy for financing schemes dependent on borrowing.

## Audit year

2020/21, 2021/22

## Identified significant weakness in arrangements

The lack of explicit information on the revenue impact of the significant levels of borrowing required to fund the capital programme, or of how borrowing costs would be funded, created a risk that the revenue costs of future borrowing were not being prudently budgeted for.

## Summary findings

The financial implications of the significant borrowing required to fund the capital programme were not explicitly set out in the budget reports for 2020/21 or 2021/22. The stated financial planning assumption was that future borrowing costs would be financed through additional net income from capital investments. The MTFS and capital programme also used different planning horizons.

The Council made progress through the 2022/23 budget in addressing the statutory recommendation we reported in March 2022 relating to protecting against overcommitment on the capital programme through reducing the amount of debt required to fund capital expenditure and identifying the revenue impacts of capital expenditure in the budget report.

## Criteria impacted by the significant weakness



## Financial Sustainability

## Management Comments

Prudence, affordability and sustainability of Cumberland Council's capital expenditure programme and associated borrowing considered in line with requirements of the Prudential Framework.

Capital programme and the Prudential and treasury indicators cover the same minimum three period required by the Prudential Framework

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



# Key recommendations

**Recommendation 3**

Cumberland Council should continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.

The new unitary council will need to ensure sufficient resources and specialist skills are available to support the accounts production and ensure appropriate working papers are produced supported by evidence and documentation retained from the predecessor authority.

**Audit year**

2020/21, 2021/22, 2022/23

**Identified significant weakness in arrangements**

The Council did not fulfill its statutory requirements to produce audited Statement of Accounts in line with the statutory deadline for years 2017/18 to 2022/23. Management’s capacity to produce financial statements by the deadline and of sufficient quality was a significant risk, with associated risks relating to reporting outturn and setting a budget without a prior year audited position.

**Summary findings**

The Council did produce a draft statement of accounts for the 2019/20 financial year, but none for 2020/21 or subsequent years. For the remaining Statement of Accounts for 2019/20, 2020/21, 2021/22, 2022/23 we expect that the audits will be concluded under the statutory deadline arrangement proposed by DLUHC.

The lack of audited closing Statement of Accounts for Copeland Borough Council will impact Cumberland Council’s opening Statement of Accounts.

**Criteria impacted by the significant weakness**



**Financial Sustainability**


**Management Comments**

The Council will continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.

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



# Key recommendations

<b>Recommendation 4</b>	Cumberland Council should ensure it complies with the requirements of the CIPFA Treasury Management in Public Services Code of Practice and with the treasury scrutiny requirements set out in the Constitution.
<b>Audit year</b>	2020/21, 2021/22
<b>Identified significant weakness in arrangements</b>	The CIPFA Treasury Management in Public Services Code of Practice requires that as a minimum the Council should receive an annual report on the strategy for the coming year, a mid-year review, and an annual report on the performance of the treasury management function. The Council's Constitution sets out that the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.
<b>Summary findings</b>	We have identified that the Council did not comply with the requirements of the CIPFA Treasury Management in Public Services Code of Practice or the requirements of the Council's Constitution in 2020/21 and 2021/22 as annual treasury management review reports were not provided to Members for scrutiny and quarterly budget monitoring did not include all of the information we would expect from a mid-year treasury management review. Arrangements were strengthened in 2022/23.
<b>Criteria impacted by the significant weakness</b>	 <b>Financial Sustainability</b>
<b>Management Comments</b>	<p>In accordance with the Treasury Management Code Full Council receives annual treasury strategy report, a mid-year review, and an annual treasury report;</p> <p>A summary of treasury management activities is also be included in the quarterly finance reports submitted to the Council's Executive. This includes reporting on performance against all forward looking prudential indicators.</p> <p>Cumberland Council's Constitution the Audit Committee is responsible for monitoring the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.</p>

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





# Key recommendations

## Recommendation 5

Cumberland Council should strengthen the quality of financial reporting to Members. Specifically:

- budget setting reports should include a General Fund service summary with comparatives for previous years;
- budget monitoring reports should be provided quarterly to Members in a timely manner;
- budget forecasts should be accurate and complete;
- budget reports should include non-financial information, such as service activity and workforce data.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

We have identified weaknesses in financial reporting to Members that combined to reflect a significant weakness in financial governance arrangements. These weaknesses impacted on the level of oversight provided to Members and their ability to make timely decisions based on complete information.

## Summary findings

The budget setting reports for 2020/21, 2021/22 and 2022/23 did not provide Members with an analysis or summary of General Fund costs by directorate or service area or a comparative to previous years. Providing this basic financial information is considered key to enabling Members to understand and challenge the proposed budget and to enable budget holders to be held to account by those charged with governance.

Quarterly budget monitoring reports were not always presented promptly to Executive to allow for prompt scrutiny and challenge of the budget position.

We have identified that quarterly budget forecasts in 2022/23 did not include variances for key taxation and government grant income streams, impacting on the accuracy of financial monitoring.

## Criteria impacted by the significant weakness



### Financial Sustainability

## Management Comments

A quarterly monitoring process is in place for Cumberland, with reports reviewed through Directorate Management Teams & Senior Leadership Team prior to quarterly reports to Executive.

Forecasting has been rolled out to all budget holders, who are supported by a member of the finance team. This process informs the quarterly monitoring.

Budget reports also include updates on general fund balances and non-financial information (such as demand data) and will continue to be developed.

Members also have the opportunity for informal briefing on financial information on a regular basis.

# Key recommendations

## Recommendation 6

Cumberland Council should consider the weaknesses identified with regard to risk management arrangements at Copeland Borough Council and ensure robust arrangements are implemented that include:

- regular and detailed reporting of risk to provide adequate oversight and assurance to those charged with governance;
- risks are reviewed regularly and accurately recorded;
- sufficient resources are allocated to risk management processes;
- compliance to the Risk Management Policy is monitored and reported.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

The lack of regular risk management reporting to Members from 2020/21 to 2022/23 represented a significant weakness in governance arrangements as it did not provide proper risk management oversight and assurance to those charged with governance.

## Summary findings

The Risk Management Policy required that the Audit Committee received quarterly risk monitoring reports, but the Committee received limited reporting on risk management from 2020/21, with only one quarterly report received in 2020/21 and 2021/22 and two quarterly reports received in 2022/23. No annual risk management reports were produced.

The internal audit review of risk management in March 2023 provided only partial assurance and identified that resources for risk management were limited, risks were not being reviewed and updated accurately, and that the Risk Management Policy was not being complied with.

## Criteria impacted by the significant weakness



Governance

## Management Comments

Workshops were held both prior to LGR and in March to identify a strategic risk register against corporate objectives, working closely with the Senior Leadership Team. The strategic risk register format includes a mapping to the Council's strategic delivery plan; this plan was approved by Executive in January 2024, so the strategic themes will be mapped to the Strategic Risk Register from March 2024.

Responsibility for all Strategic Risks are assigned to a member of the Senior Leadership Team and from March 2024 future actions to mitigate risk will include an assigned owner and target completion date. Risk reports have been reported to SLT on an 8 weekly cycle, which has recently been increased to a 4 weekly cycle for higher scoring risks.

Risk update reports for Cumberland have been presented to every Audit Committee, with the Risk Management Framework approved in August 2023 and the first Strategic Risk Register presented in October 2023, with updates at each subsequent meeting. Committee Members have also received facilitated risk management training to enhance oversight in this area (January 2024).

The Strategic Risk Register is also reported to Senior Leadership Team on an 8 weekly cycle, with more frequent reporting (4 weekly) now in place for higher scoring risks.

The Council has appointed a Risk Manager who, supported by the Head of Internal Audit and Risk Management has been engaged with developing and implementing the council's risk management framework throughout the organisation. Internal Audit will also be monitoring compliance with the policy as part of all relevant audit reviews.

# Key recommendations

## Recommendation 7

Cumberland Council should consider the weaknesses identified with regard to cyber security and ICT risk management at Copeland Borough Council in order to inform the design of a robust control environment. This includes:

- ensuring that appropriate cyber security controls are in place and weaknesses identified in IT Health Checks are addressed;
- ensure that ICT risks are appropriately recorded on risk registers and that there is sufficient oversight and awareness of ICT risk from those charged with governance;
- ensuring that a disaster recovery plan is in place and that arrangements are regularly tested;
- ensuring that internal audit plans include sufficient coverage of key ICT controls and processes that is commensurate with risk;
- the Council addresses previous statutory recommendations relating to ICT and business continuity.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

There were significant weaknesses in the ICT risk management and control environment that were identified following the severe cyber-attack in 2017 but which were not fully addressed by Copeland Borough Council.

## Summary findings

Weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017. Significant weaknesses continued into 2019/20 as evidenced through an independent IT healthcheck (ITHC) in May 2019, which identified 99 findings, of which 36 were critical or high. A further independent ITHC in December 2020 identified that although there had been some improvements to IT security, the Council was still exposed to “considerable unnecessary risk”. The review identified 91 findings, of which 28 were critical or high.

The Council did not develop a disaster recovery plan and did not test disaster recovery arrangements and the implementation of the new network was not complete as at March 2023, with the Council continuing to operate on previous IT estate.

## Criteria impacted by the significant weakness



### Governance

## Management Comments

A significant amount of work has been undertaken by Cumberland to ensure that Copeland’s ICT control environment meets the requirements of Public Services Network (PSN) Accreditation. An extensive ICT health check was commissioned and undertaken, with further extensive work undertaken to address remedial actions to obtain PSN certification for the legacy Copeland network.

The majority of the Copeland Infrastructure has been replaced and modernised and implemented in line with Best Practices. This includes the Core network, the Firewalls, the VPN, and the Datacentre facilities.

Cumberland Council has registered a strategic risk in relation to cyber attacks, which has been given the maximum risk score available due to the current geopolitical risk environment.

The team are currently harmonising their operational risk registers and will work with the Council’s Risk Manager to produce an operational risk register that conforms to the Council’s Risk Management Framework. Disaster Recovery is addressed in the response to follow-ups.

Cumberland Internal audit has carried out an audit of cyber security in 2023/24, which will be followed up in 2024/25, including assessment of changes in the associated risk environment. A review of previous statutory recommendations is underway to identify those still outstanding for Cumberland, which will then be assigned actions and monitored by SLT.

# Key recommendations

## Recommendation 8

Cumberland Council should continue to improve the effectiveness of the internal audit function and ensure that the positive direction of travel with regard to Public Sector Internal Audit Standards (PSIAS) compliance is maintained. This includes:

- embedding the new working methodology and quality and improvement process;
- continued review and reporting to the Audit Committee of compliance with PSIAS;
- providing detailed monitoring to the Audit Committee on the implementation of all key recommendations;
- ensuring that auditors undertake sufficient professional training;
- ensuring that the senior management team effectively engages with internal audit to develop an Audit Plan that is aligned to corporate risks and priorities;
- developing the profile of internal audit within the organisation.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

We have identified significant weaknesses with regard to the effectiveness of the internal audit function that impacted on the delivery of the audit plan and the assurance that internal audit provided to management and those charged with governance on the robustness of the control environment.

## Summary findings

Weaknesses during 2020/21 and 2021/22 included significant under-delivery against the audit plan, the potential conflict of interest and impairment to the independence of internal audit, weaknesses in reporting on the implementation of recommendations, and non-conformance with PSIAS. While reasonable progress was made in 2022/23 to improve compliance with PSIAS, and the recruitment of an Internal Audit Manager resolved independence issues, weaknesses in reporting recommendations continued and further action was required in relation to training and embedding quality assurance. We have also identified a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function.

## Criteria impacted by the significant weakness



Governance

## Management Comments

Significant action was undertaken by Copeland's Head of Internal Audit during 2022/23 to address the recommendations made in the External Quality Assessment, with progress reported to Audit Committee on a regular basis.

A self-assessment of conformance with the PSIAS for 2022/23 was reported to Cumberland Audit Committee (August 2023) for all 3 district councils, including Copeland, resulting in an action plan, which has had progress reported to Audit Committee at subsequent meetings. A self-assessment will be provided for 2023/24, shortly followed by an independent external quality assessment.

Quality and Improvement Procedures (QAIP) are in-built into the existing methodology, but Internal Audit has recognised the need to develop an enhanced QAIP for the service and this will be in place from early 2024/25, which will include a training needs assessment for the service.

# Key recommendations

## Recommendation 9

Cumberland Council should consider the weaknesses identified in arrangements for preventing and detecting fraud and corruption at Copeland Borough Council and ensure robust arrangements are put in place. This includes:

- strengthening reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee, including regular progress reports;
- approving an annual counter fraud plan which includes adequate resource for risk-based work, reactive work, investigations and counter fraud training;
- anti-fraud and corruption policies should be regularly reviewed and updated;
- officer awareness of the Whistle Blowing Policy should be increased, and regular training provided.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

Internal audit progress reports and annual reports did not provide enough detail on the work undertaken to prevent fraud and corruption to give those charged with governance assurance that adequate controls are in place.

## Summary findings

The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate for the period 2020/21 to 2022/23. Key policies were not updated regularly, and the Audit Committee did not receive an annual counter fraud plan, progress reports, or annual reports detailing the work undertaken to prevent and detect fraud and corruption.

## Criteria impacted by the significant weakness



Governance

## Management Comments

The Internal Audit plan for Cumberland includes a counter-fraud plan, specifying audit work being undertaken in relation to the prevention, detection and investigation of fraud.

The Committee received and approved the Council's Counter-fraud and Confidential Reporting policies.

Internal Audit progress reports include an update on counter-fraud activity, including outcomes of any finalised fraud investigations.

From 2024/25 an annual self-assessment will be provided against best practice in relation to counter-fraud.

The Council's counter-fraud and confidential reporting policies were approved by the Audit Committee in August 2024, followed by communication to officers. Counter-fraud e-learning is being developed and will be mandatory for relevant officers.

Further work is also anticipated in growing awareness of the confidential reporting policy.



# Key recommendations

## Recommendation 10

Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward. This includes:

- ensuring sufficient training and support is provided in order to increase the challenge, skills and knowledge of Audit Committee Members;
- providing frequent risk management reports to the Audit Committee in order to provide proper oversight to those charged with governance;
- ensuring that governance arrangements are robust and that the Audit Committee has sufficient status through the production of an Audit Committee Annual Report and self-assessment.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

We raised statutory recommendations relating to assessing and improving the effectiveness of the Audit Committee in February 2021 and March 2022. There were still significant weaknesses with regard to the effectiveness of the Audit Committee as at March 2023.

## Summary findings

The Council was slow to implement the required improvements to increase the effectiveness of the Audit Committee, and the majority of the recommendations from the CIPFA review (September 2021) were outstanding as at March 2023. Areas for focus included Member training, undertaking self-assessments, producing annual reports, and reporting on risk management arrangements.

## Criteria impacted by the significant weakness



### Governance

## Management Comments

A significant training programme has been developed for Cumberland Council Audit Committee members, including:

- A comprehensive induction programme covering training on all areas within members remit.
- Regular training sessions prior to Committee meetings.
- An enhanced risk management training session facilitated by Zurich Municipal.
- An enhanced Treasury Management training session facilitated by Link.

The Committee have also appointed a suitably qualified independent member following a competitive interview process, who will commence in post from March 2024.

Informal/formal deep dives of individual strategic risks are now being undertaken at Committee meetings to improve Member's awareness of risk management within the organisation.

Regular risk management updates are provided and an annual report and self-assessment will be delivered in May 2024.

# Key recommendations

## Recommendation 11

Cumberland Council should consider the significant weaknesses with regard to procurement arrangements at Copeland Borough Council to ensure that arrangements are robust and transparent going forward. This includes:

- maintaining a register of procurement waivers, and reporting waivers regularly to those charged with governance;
- reporting on the key performance indicators as set out in the Procurement Strategy;
- reviewing Contract Standing Orders and the Procurement Strategy regularly;
- ensuring the contract register is maintained and published;
- ensuring procurement information published on the Council's website is up to date.

## Audit year

2020/21, 2021/22, 2022/23

## Identified significant weakness in arrangements

Not reviewing key procurement policies and strategies regularly increases the risk that they do not reflect best practice, organisational priorities, changes in organisational structure or current procurement regulations. The Council did not have an overall picture of the number and value of procurements that did not follow a competitive process, and was not able to challenge these decisions to ensure value for money was achieved.

## Summary findings

We have identified significant weaknesses with regard to the Council's arrangements for delivering value for money through procurement activity for the period 2020/21 to 2022/23. Weaknesses included key policies such as Contract Standing Orders and the Procurement and Contract Management Strategy not being reviewed regularly, the lack of procurement performance and procurement waiver reporting to Members, and not updating key information such as the contract register on the Council website.

## Criteria impacted by the significant weakness



Improving economy, efficiency and effectiveness

## Management Comments

These issues were predominantly in place due to the limited resource at Copeland in relation to procurement. Cumberland Council has a Procurement team in place who have either addressed or are working towards addressing the issues raised.

Contract Procedure Rules and Standing Orders are in place and a spend analysis tool is now in place and starting to be used to help monitor compliance.

A register of procurement waivers is maintained by the service.

A Contract Register is online on the external website. A 'Contracts Finder' form has been put in place to facilitate the register and this should be completed by officers when they award contracts over £25k plus VAT, so that the appropriate notification can be published on the government website Contracts Finder page and also to ensure contracts over £50k are added to the Council's Contract Register.

An intranet page has been developed to provide awareness of counter-fraud arrangements and Internal Audit & Procurement are working on an e-learning package that will include procurement fraud.

The draft internal audit plan for 2024/25 also includes an audit of counter-fraud activity in place at the Council, which will comprehensively review the control framework in place at Cumberland and identify any further improvements that could be put in place.

# Securing economy, efficiency and effectiveness in the Council's 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.

Council's 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.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 27 to 44.

# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there are appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from value for money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies;
- a failure to address and resolve relationship difficulties between senior officers and members;
- significant challenges associated with financial capability and capacity;
- a lack of compliance with procurement and contract management processes and procedures;
- ineffective leadership and decision-making.

Value for money audit has an important role in providing assurance and supporting improvement in the sector.

# The current LG landscape (continued)



## Local context

Copeland Borough Council serves a population of approximately 68,500 within West Cumbria. While the area is predominantly rural, the majority of the population resides within the four market towns of Whitehaven, Cleator Moor, Egremont and Millom.

Copeland Borough Council and the area that it serves face challenges that impact on the cost and demand for services and on the residents that live in the Council area. Challenges include the legacy of Covid-19, an ageing population, rural isolation and young people moving away from the area. The principal employer in the area, Sellafield, accounts for 59% of jobs within Copeland, and is transforming as it moves away from processing which creates additional financial uncertainty for the Council and wider area. The Council aspires to work with partners to secure a sustainable economy and support the most vulnerable groups in society.

Copeland Borough Council's Corporate Strategy 2020-2024 sets out three ambitions:

**Community** – ensuring communities can thrive;

**Economy** – maximising opportunities for growth;

**Environment** – protecting and enhancing the environment.

Local government reorganisation has changed the structure of councils within Cumbria. The seven existing Cumbrian authorities transitioned to two new unitary authorities on 1 April 2023. The two new unitary councils will provide all council services for their areas that were previously provided by the districts and county council. Local government reorganisation in Cumbria is intended to improve financial sustainability, remove duplication and increase collaboration in order to deliver integrated services. The business case for the implementation of unitary councils in the East and West of Cumbria estimated that annual savings of between £19.1m and £31.6m would be achieved.

The two new unitary authorities and the predecessor council areas that they serve are as follows:

Cumberland Council – delivering services previously provided by Allerdale, Carlisle and Copeland Councils and Cumbria County Council;

Westmorland and Furness Council – delivering services previously provided by Barrow, Eden and South Lakeland Councils and Cumbria County Council.

In preparation for the transition to the new local government structure, in May 2022 46 new Councillors were elected to the Shadow Authority for Cumberland Council and 65 new Councillors were elected to the Shadow Authority for Westmorland and Furness Council. The Shadow Authorities allow decisions to be made in relation to the finances, governance and services of the new authorities in advance of vesting day. These Councillors will serve their respective new authorities from 1 April 2023 for a term of four years.



# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Budget outturn

The Council delivered an immaterial net overspend for 2020/21 and achieved service underspends for 2021/22 and 2022/23. However, within these net positions we have identified significant weaknesses in financial planning arrangements in relation to the use of significant one-off resources to balance the annual budget and the lack of a robust efficiency programme to balance budget gaps identified in financial planning. This financial strategy was not sustainable and resulted in a projected budget gap of £3.99m in 2023/24 that was inherited by Cumberland Council.

We have further considered Copeland Borough Council's financial planning arrangements elsewhere in this Auditor's Annual Report. We have made a key recommendation that Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement arrangements that ensure financial planning is robust and provides sustainability for the delivery of services.

## Outturn 2020/21

The approved budget for 2020/21 was reliant on one-off resources through a £1.19m contribution from reserves to balance the position in addition to efficiency and commercial income targets of £1.43m.

The Council delivered a £0.01m overspend against the approved budget for 2020/21. Service cost pressures relating to the pandemic were funded through additional Covid-19 government grant.

However, within this net position the Council did not achieve the £0.34m commercial income target nor the £0.25m efficiency target included within the approved budget, and these figures were reflective of balancing figures rather than approved projects. The Council did achieve the £0.84m saving relating to the Copeland Centre.

## Outturn 2021/22

The 2021/22 budget required significant one-off resources to balance the budget, including a £1.85m contribution from reserves and a £1.5m capitalisation directive from the government. No efficiency or commercial income targets were included within the 2021/22 budget.

The outturn position for 2021/22 was a £0.49m underspend which was added to the General Fund balance. This positive financial position was the result of increased income for parks and open spaces, vacancies and additional government grant, partially offset by increased energy costs.

## Outturn 2022/23

The 2022/23 budget was the final budget set by Copeland Borough Council as a sovereign authority.

The budget was again balanced through significant one-off resources of £4.01m, comprising a further capitalisation directive to fund the revenue budget (£1.5m), a capitalisation directive to fund delivery of the Towns Fund (£0.74m), a further drawdown from reserves (£1.17m), and release of Covid-19 grant funding (£0.6m).

There were no efficiency or income targets included within the budget.

The Council delivered a £0.61m service underspend against the approved budget, after accounting for the £1.5m provisional capitalisation directive. We understand that Cumberland Council has submitted the information required by DLUHC to support the 2022/23 capitalisation directive and awaits final confirmation from the government, which we will review when the final decision is confirmed.

The service underspend was driven largely by increased investment income and reduced borrowing costs due to high cash balances and increasing interest rates. However, this was offset by a reduction in taxation and government grant income to provide an overall balanced position for the year.

# Financial sustainability (continued)

## Medium term financial planning

We have identified significant weaknesses with regard to medium-term financial planning at Copeland Borough Council for 2020/21, 2021/22 and 2022/23. These weaknesses included the failure to deliver the ambitions of the Commercial Strategy through an agreed programme of work, the failure to develop robust savings proposals to balance budget gaps, and the use of one-off resources to balance the budget rather than addressing the underlying budget deficit. The Council did not have a financially sustainable strategy for addressing budget gaps and the legacy of this approach was a forecast £3.99m budget gap for 2023/24, a position inherited by Cumberland Council.

We have made a key recommendation that Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement arrangements that ensure financial planning is robust and provides sustainability for the delivery of services. This includes:

- taking a longer-term approach to financial planning and not relying on the use of one-off resources to balance the budget;
- ensuring levels of reserves are sufficient to mitigate financial risk;
- ensuring robust savings plans are developed to deliver recurring savings and are backed by business and delivery plans;
- providing sensitivity and scenario analysis for key financial risks within the budget and medium-term financial strategy (MTFS);
- providing sufficient information regarding the revenue impacts of capital expenditure and borrowing within budget and MTFS reports and ensuring the MTFS and capital programme are aligned.

## Commercial strategy

The Commercial Strategy was approved in September 2019 with the aim of making the Council financially sustainable through seeking innovative approaches to service delivery

and providing a framework for commercial activity. Areas of focus included procurement, assets and investments, income generation and companies. As a result of Covid-19, local government reorganisation and management capacity, the Strategy was disbanded in 2020/21, rather than seeking to refresh it to reflect opportunities during the recovery phase of the pandemic.

The budget 2020/21 included a Commercial Strategy income target of £0.34m, but no additional income was delivered as the target was not based on agreed worked-up schemes and represented a balancing figure.

The MTFS 2020-2025, approved in February 2020 included a cumulative Commercial Strategy income target of £1.35m by 2023/24. Again, this target was not backed up by identified schemes with delivery plans and represented a balancing figure rather than an approved plan.

The budget 2021/22 did not include any commercial income targets and previous targets were removed from the MTFS 2021-2023 that was approved in February 2021.

The failure to deliver the ambitions of the Commercial Strategy through an agreed programme of work, and its subsequent disbandment in favour of utilising one-off resources to balance the budget, represent a significant weakness in arrangements to secure financial sustainability for 2020/21, 2021/22 and 2022/23.

## Efficiency targets

The 2020/21 budget included a savings target of £0.84m relating to the Copeland Centre which was delivered through exiting the private finance initiative funding arrangement that was not providing value for money. However, the budget also included an additional efficiency target of £0.25m that was not achieved.

The MTFS approved with the budget 2020/21 modelled cumulative other efficiency savings of £0.5m by 2021/22. In the event none of these efficiencies were delivered and they were subsequently removed from the MTFS, and no savings targets were included in the 2021/22 or 2022/23 budgets.

There was no developed pipeline of savings schemes behind these efficiency targets, and as with the commercial income target, they were more reflective of balancing figures. The failure

# Financial sustainability (continued)

## Medium term financial planning (continued)

to develop robust savings proposals represents a significant weakness in arrangements to secure financial sustainability for 2020/21, 2021/22 and 2022/23.

### Use of one-off resources to balance the budget

Copeland Borough Council increasingly relied on the use of one-off resources to balance the budget during the period 2020/21 to 2022/23 as demonstrated in Figure 1. These one-off resources comprised of significant contributions from reserves and capitalisation directives, with a cumulative total of £8.55m over the three-year period.

The Council did not deliver the additional commercial income target of £0.34m in 2020/21 and underdelivered on the efficiency target by £0.25m, with future years' budgets including no targets for income or efficiencies to balance the position.

The use of one-off resources to balance the budget was not sustainable as it did not address the underlying budget deficit through recurring savings and reduced the level of reserves available to manage financial risk or fund corporate priorities. Due to the strategy of using one-off resources to balance the budget, the forecast budget deficit for Copeland Borough Council was £3.99m for 2023/24, a position inherited by Cumberland Council.

The use of one-off resources to balance the budget rather than addressing the underlying budget gap is a significant weakness in financial planning arrangements for 2020/21, 2021/22 and 2022/23.

### Other financial planning weaknesses

We note other weaknesses in financial planning at Copeland Borough Council. The MTFs 2020-2025 and MTFs 2021-2023 that were approved in February 2020 and February 2021 respectively did not include explicit information regarding the revenue implications of the £33.32m of borrowing required to fund the capital programme. The assumption stated in the MTFs was that the future costs of borrowing will be financed through net operating income from future investments. These iterations of the MTFs would also be strengthened and budget risk better understood by including a sensitivity analysis of potential impact on the budget of reductions in funding in relation to the fair funding review and the business rate reset.

Figure 1: Balancing the budget 2020/21 to 2022/23

Year	Total Budgeted Efficiencies and Reserves	Budgeted Reserves and Capital Directives	Budgeted Recurring Efficiencies	Delivered Recurring Efficiencies
	£m	£m	£m	£m
2020/21	2.62	1.19	1.43	0.84
2021/22	3.35	3.35	0	0
2022/23	4.01	4.01	0	0

The MTFs 2022-2025 that was approved in February 2022 had an extended horizon to 2024/25 and contained a more detailed sensitivity and scenario analysis for variables such as inflation, demand and economic factors. The budget for key areas was identified, including inflation, business rates, borrowing costs and capital investment income with a best and worst-case scenario provided for each year. Despite these improvements to the February 2022, MTFs, there were still significant weaknesses with regard to the robustness of financial planning.

### External financial assurance review

In response to the Council's request for a capitalisation directive, the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA undertook a financial assurance review of the Council in December 2021. The review identified significant weaknesses and made a number of recommendations to improve financial planning and governance.

# Financial sustainability (continued)

## Medium term financial planning (continued)

We reported a statutory recommendation in March 2022 that the Council should ensure the critical financial governance weaknesses identified by DLUHC and Grant Thornton for medium term financial planning, budgeting assumptions and sensitivity analysis, are implemented with immediate effect to enable the Council to set realistic financial revenue plans for the short term.

As already noted, some improvements were made to make financial planning more robust in 2022/23, such as the extension of the planning horizon and a clearer analysis of the projected revenue implications of borrowing to fund the capital programme. A more detailed sensitivity analysis is also provided for key budget assumptions. However, the budget gap was not closed and the strategy since 2020/21 of relying on one-off resources to balance the budget resulted in a projected £3.99m budget deficit for 2023/24.

## Reserves

**The Council increasingly utilised one-off resources to balance the budget gap rather than addressing the underlying budget deficit through delivering recurring efficiency plans. This resulted in the Council drawing down significant levels of reserves to balance the financial position between 2020/21 and 2022/23. This is judged a significant weakness in arrangements and did not represent a financially sustainable strategy. We have made a key recommendation regarding strengthening financial planning that includes ensuring levels of reserves are sufficient to mitigate financial risk.**

The MTFS 2020-2025 approved in February 2020 modelled a total net contribution from reserves of £1.72m to balance the financial position to 2024/25. Efficiency saving delivery was forecast to increase to £0.5m per annum and additional commercial income was forecast to grow to £1.35m per annum over the same period, negating the need for reserves to balance the budget in later years.

The anticipated drawdown from reserves was forecast primarily in the earlier years of the MTFS as additional income from the Commercial Strategy and efficiency savings were realised. While balancing the financial position through the use of reserves may provide

financial sustainability while savings plans are delivered, this is only prudent where there is an agreed pipeline of efficiency projects with approved business cases and delivery plans. However, when the budget and MTFS were approved in February 2020, schemes were still being worked-up and plans developed from a long-list of projects. The targets were more reflective of a balancing figure than an approved plan. This represents a significant weakness with regard to the financial planning arrangements in place to achieve financial sustainability.

Due to non-delivery of the Commercial Strategy income targets and other efficiency targets, increased contributions from reserves were required to balance the 2021/22 and 2022/23 budgets than those forecast in the February 2020 MTFS. The 2021/22 budget utilised £1.85m of reserves and the 2022/23 budget required £1.17m of reserves to balance position.

As previously noted, the use of one-off resources to balance the budget was not sustainable as it did not address the underlying budget deficit through recurring savings, and reduced the level of reserves available to manage financial risk or fund corporate priorities. This is judged a significant weakness in arrangements to ensure financial sustainability.

The General Fund (GF) balance remained at or above the minimum prudent limit of £2m for the period 2020/21 to 2022/23, as demonstrated in Figure 2 overleaf. The GF balance declined to virtually the minimum limit in 2019/20 and 2020/21 due to revenue overspends and support in balancing the budget, but was replenished by the 2021/22 revenue underspend. While the GF balance was £2.49m as at 31 March 2023, this reduced significantly since the £3.25m balance as at 31 March 2018 (23% reduction). The annual outturn positions impacted the GF balance for several years, creating significant volatility in the available balance and demonstrating weakness in budgeting arrangements.

The reliance on the use of earmarked reserves to balance the budget position over the period 2020/21 – 2022/23, when a total of £4.2m was utilised, in addition to the release of the £0.6m Covid grant in 2022/23, had the effect of eroding the Council-funded earmarked reserves. The balance for these reserves as at 31 March 2023 was £4.83m, a significant reduction from the £9.98m available as at 31 March 2019 (52% reduction).

We have made a key recommendation that Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement

# Financial sustainability (continued)

## Reserves (continued)

arrangements that ensure financial planning is robust and provides sustainability for the delivery of services. This includes ensuring levels of reserves are sufficient to mitigate financial risk.

Figure 2: General Fund balance and earmarked reserves

	Balance as at 31 March					
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
GF balance	3.25	2.76	2.06	2.05	2.49	2.49
Council funded earmarked reserves	9.45	9.98	9.92	6.50	5.43	4.83

## Capital programme

We have identified a significant weakness with regard to capital planning for 2020/21 and 2021/22. The financial implications of the significant borrowing required to fund the capital programme were not explicitly set out in the budget reports for 2020/21 or 2021/22. The stated financial planning assumption was that future borrowing costs would be financed through additional net income from capital investments. This, along with the different planning horizons for the MTFs and capital programme, created a risk that the revenue costs of future borrowing were not being prudently budgeted for. The Council made progress through the 2022/23 budget in addressing the statutory recommendation we reported in March 2022 relating to protecting against overcommitment on the capital programme through reducing the amount of debt required to fund capital expenditure and identifying the revenue impacts of capital expenditure in the budget report.

A total capital programme of £37.12m, covering the period from 2020/21 to 2024/25, was approved in February 2020. This level of expenditure required £27.0m of borrowing, the majority of which related to the £25.0m to fund commercial investment activity. There was a lack of explicit information within the budget report 2020/21 relating to the revenue impact of this level of borrowing, with the financial planning assumption that future borrowing costs would be financed through additional net income from capital investments.

In February 2021 the capital programme 2021/22 to 2025/26 was approved, with forecast total expenditure of £43.72m. The borrowing required to fund the approved programme increased from £27.0m to £33.32m, representing a growing risk in terms of affordability. Funding the future costs of borrowing through the net income of future investment decisions continued to be a key assumption within the MTFs. A further capital planning risk related to the different horizons for capital and revenue planning, with the capital programme covering five years to 2025/26 but the MTFs only covering two years to 2022/23.

The differing planning horizons for the MTFs and capital programme, coupled with the assumption that the future costs of borrowing would be funded through the net income of future investment decisions, created a risk that the revenue costs of future borrowing were not being prudently budgeted for.

The Council did review the capital programme during 2021/22. The capital programme 2022/23 to 2025/26 was approved in February 2022 and reflected only sufficiently developed schemes identified as likely to proceed. Although total approved capital expenditure increased to £70.33m, this included £51.64m of Towns Fund regeneration schemes funded from government grants, external contributions and capital receipts. The borrowing required to fund the capital programme reduced from £33.32m to £16.5m, largely due to the removal of the commercial investment schemes.

The budget report 2022/23 included more information relating to the revenue implications of the capital programme, forecasting minimum revenue provision (MRP) costs of £1.48m by 2024/25 with potential sources of MRP funding identified.

Therefore, the Council made progress through the 2022/23 budget in addressing the statutory recommendation we reported in March 2022 relating to protecting against overcommitment on the capital programme through reducing the amount of debt required to



# Financial sustainability (continued)

## Capital programme (continued)

fund capital expenditure and identifying the revenue impact of capital expenditure.

Copeland Borough Council did not take out additional debt to support the capital programme, with external borrowing remaining at £5m which is comparatively low compared to other District Councils. However, in the context of rising interest rates, there is a financing risk for the new Cumberland Council going forward when external borrowing will need to be incurred to finance the legacy Copeland Borough Council capital programme.

We have raised a key recommendation, relating to the significant weaknesses identified in capital planning for 2020/21 and 2021/22, that Cumberland Council should consider the risks that have been identified with regard to Copeland's capital programme, in order to inform the design of arrangements and ensure the capital programme is affordable and financial risk mitigated. This includes:

- ensuring that the revenue implications of capital expenditure and borrowing are clearly highlighted in budget reports and the MTFS;
- ensuring that capital programme projections, MTFS and the Treasury Management Strategy cover the same planning horizon;
- reviewing the inherited capital programmes from legacy councils to ensure they are affordable and develop a strategy for financing schemes dependent on borrowing.



# Financial governance

## Completion of financial statements

The Council did not fulfill its statutory requirements to produce audited Statement of Accounts in line with the statutory deadline for the years 2017/18 to 2022/23. Management's capacity to produce financial statements by the deadline and of sufficient quality was a significant risk, with associated risks relating to reporting outturn and setting a budget without a prior year audited position.

A statutory recommendation was reported in March 2022 that the Council should continue to put in place robust arrangements for the production of the late financial statements, which meet statutory requirements and international financial reporting standards.

The Council has produced a draft statement of accounts for the 2019/20 financial year, but none yet for 2020/21 or subsequent years. Producing draft accounts and responding to audit queries is likely to continue to stretch the capacity of the Council's finance team. For the remaining Statement of Accounts for 2019/20, 2020/21, 2021/22 and 2022/23 we expect that the audits will be concluded under the statutory deadline arrangement proposed by DLUHC. We still consider that the team faces challenges to prepare overdue financial statements and working papers to the required quality by the deadlines required. The Council will need to comply with the statutory inspection period for local electors.

We have raised a key recommendation that Cumberland Council should continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.

The new unitary council will need to ensure sufficient resources and specialist skills are available to support the accounts production and ensure appropriate working papers are produced supported by evidence and documentation retained from the predecessor authority.

## Treasury management

We have identified that the Council did not comply with the requirements of the CIPFA Treasury Management in Public Services Code of Practice or the requirements of the Council's Constitution in 2020/21 and 2021/22. Annual treasury management review reports were not provided to Members for scrutiny and quarterly budget monitoring did

not include all of the information we would expect from a mid-year treasury management review. Arrangements were strengthened in 2022/23. We have made a key recommendation that the Council should ensure it complies with the requirements of the CIPFA Treasury Management in Public Services Code of Practice and with the treasury scrutiny requirements set out in the Constitution.

The CIPFA Treasury Management in Public Services Code of Practice requires that as a minimum the Council should receive an annual report on the strategy for the coming year, a mid-year review, and an annual report on the performance of the treasury management function. The Council's Constitution sets out that the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

We noted in the Auditor's Findings Report 2019/20 that the Council did not comply with these requirements as no annual report was provided for Member Scrutiny. Although quarterly budget monitoring reports included a commentary on treasury management, they did not provide all the information we would expect from a formal mid-year review such as treasury income and expenditure forecasts against budget.

Weaknesses in treasury management reporting continued into 2020/21, as quarterly budget monitoring reports did not include forecasts against budget for investment income, interest costs or minimum revenue provision. The Audit Committee of July 2021 was due to consider the Annual Treasury Management Review 2020/21 Report, but this item was deferred until the September Audit Committee. However, there is no evidence that this report was considered by the September or subsequent Audit Committees.

Similarly, quarterly budget monitoring in 2021/22 did not include treasury income and expenditure forecasts against budget. There is no evidence that a formal Annual Treasury Management Review 2021/22 Report was produced for Member consideration.

Treasury management reporting improved for 2022/23, with formal quarter two and quarter three treasury management reports considered by Executive. The Budget Outturn Report 2022/23 included a more detailed summary of treasury management activity and prudential indicators.

Non-compliance with the CIPFA Code is considered a significant weakness in arrangements.

# Financial governance (continued)

## Treasury management (continued)

We have made a key recommendation that the Council should ensure it complies with the requirements of the CIPFA Treasury Management in Public Services Code of Practice and with the treasury scrutiny requirements set out in the Constitution.

## Budget setting and monitoring

**We have identified weaknesses in financial reporting to Members that combined to reflect a significant weakness in financial governance arrangements. These weaknesses included the absence of a General Fund service summary in budget setting reports, quarterly budget monitoring reports not being presented to Members in a timely manner, and quarterly budget forecasts in 2022/23 that did not identify variances in key taxation and government grant income streams. These weaknesses impacted on the level of oversight provided to Members and their ability to make timely decisions based on complete information. We have made a key recommendation that the quality of financial reporting to Members should be strengthened.**

The budget setting reports for 2020/21, 2021/22 and 2022/23 did not provide Members with an analysis or summary of General Fund costs by directorate or service area or a comparative to previous years. Providing this basic financial information is considered key to enabling Members to understand and challenge the proposed budget and to enable budget holders to be held to account by those charged with governance.

We also note that quarterly budget monitoring reports were not always presented promptly to Executive to allow for prompt scrutiny and challenge of the budget position. Examples of delayed or absent quarterly budget monitoring reports to Executive include:

- there was no quarter two 2020/21 budget monitoring report;
- the quarter three 2021/22 budget monitoring report, detailing the financial position as at December 2021, was not presented to Executive until April 2022;
- the quarter two 2022/23 budget monitoring report, detailing the financial position as at September 2022, was not presented to Executive until January 2023.

We have identified that quarterly budget forecasts in 2022/23 did not include variances for key taxation and government grant income streams, impacting on the accuracy of financial monitoring. The Council delivered a £0.61m service underspend against the approved budget for 2022/23. The service underspend was driven largely by increased investment income and reduced borrowing costs. The service underspend was offset by a reduction in taxation and government grant income to provide an overall balanced position for the year, and the assumption that the Council could utilise the full provisional capital directive of £1.5m. This balanced budget position was reported to the Cumberland Council Executive in September 2023.

This position varied to that reported at quarter three to the Copeland Borough Council Executive in February 2023. The quarter three position forecast a similar service underspend of £0.7m, but did not forecast any reduction in taxation and government grant income. The position reported at quarter three anticipated that the Council's provisional capitalisation directive would be reduced by the £0.7m underspend to reach a balanced budget position. The impact on the collection fund of the reduction in rateable value for Sellafield and the increases in specific government grants were not included in the quarter three budget monitoring forecast although we understand that this information was available.

Quarterly budget monitoring reports would be strengthened by including non-financial information such as service activity and workforce data in order to provide a context for financial reporting and enable Members to have a fuller understanding of organisation performance.

We have raised a key recommendation that the quality of financial reporting to Members should be strengthened. Specifically:

- budget setting reports should include a General Fund service summary with comparatives for previous years;
- budget monitoring reports should be provided quarterly to Members in a timely manner;
- budget forecasts should be accurate and complete;
- budget reports should include non-financial information, such as service activity and workforce data.

# 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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

## Risk management

**The lack of regular risk management reporting to Members from 2020/21 to 2022/23 represented a significant weakness in governance arrangements as it did not provide proper risk management oversight and assurance to those charged with governance. Weaknesses in risk management arrangements were noted by internal audit, who provided a partial assurance opinion in March 2023. There were also significant weaknesses in the ICT risk management and control environment that were identified following the severe cyber-attack in 2017 but which were not fully addressed by Copeland Borough Council. We have made two key recommendations that Cumberland Council should consider the weaknesses in risk management arrangements and the ICT control environment at Copeland Borough Council to ensure that processes are robust going forwards.**

The Council enacted its business continuity plan in response to the pandemic in March 2020 and resources were redeployed to support the delivery of statutory services. As resources were redeployed, formal reporting of the Council's Strategic Risk Register to the Audit Committee was much reduced and did not return to a regular cycle.

The Risk Management Policy required that the Audit Committee receive quarterly risk monitoring reports, but the Committee received limited reporting on risk management from 2020/21, as demonstrated below:

- 2020/21 - quarter two report (November 2020);
- 2021/22 - quarter four report (July 2022);
- 2022/23 - quarter two report (January 2023) and quarter three report (March 2023).

The Risk Management Policy also required that the Executive received annual risk management reports, but these were not provided for 2020/21, 2021/22, or 2022/23.

The internal audit review of risk management in March 2023 provided only partial assurance and identified that resources for risk management were limited, risks were not being reviewed and updated accurately, and that the Risk Management Policy was not being complied with.

Therefore, the reporting of risk to Members was not in accordance with the Risk Management Policy and there were significant periods where risk was not reported at all. We note that in response to the CIPFA review of the effectiveness of the Audit Committee that Members requested risk is reported at each meeting. We judge the lack of regular reporting of risk to Members for the last three financial years to be a significant weakness in arrangements as it has not provided proper oversight of arrangements for those charged with governance.

We have made a key recommendation that Cumberland Council should consider the weaknesses identified with regard to risk management arrangements at Copeland Borough Council and ensure robust arrangements are implemented that include:

- regular and detailed reporting of risk to provide adequate oversight and assurance to those charged with governance;
- risks are reviewed regularly and accurately recorded;
- sufficient resources are allocated to risk management processes;
- compliance to the Risk Management Policy is monitored and reported.

# Governance (continued)

## Risk management (continued)

The Strategic Risk Register included most of the elements of best practice that we would expect for individual risks. This included Red, Amber, Green (RAG) status, risk score, target score, risk owner and actions required to mitigate risk. We note that the Strategic Risk Register could be further strengthened by mapping risks to corporate priorities and by allocating further required actions to named officers with target dates for completion.

We have raised an additional improvement recommendation that the strategic risk register should be strengthened by mapping risks to corporate priorities and allocating further required actions to named officers with target dates for implementation.

## ICT risk management and control environment

Weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017, with defences such as network segmentation and intrusion detection systems not in place when the attack happened. These weaknesses were evidence of a lack of governance and a failure to ensure adequate procedures were in place for disaster recovery.

Significant weaknesses continued into 2019/20 as evidenced through an independent IT healthcheck (ITHC) in May 2019, which identified 99 findings, of which 36 were critical or high. A further independent ITHC in December 2020 identified that although there had been some improvements to IT security, the Council was still exposed to “considerable unnecessary risk”. The review identified 91 findings, of which 28 were critical or high.

We reported a statutory recommendation in February 2021 that the Council should implement internal audit recommendations relating to ICT and business continuity. From discussion with officers, we understand that the Council did not develop a disaster recovery plan and did not test disaster recovery arrangements. The Council did not address previous statutory recommendations relating to ICT and business continuity.

We also have concerns with the reduction in scope to the planned internal audit reviews of the ICT Strategy and Purchasing, Associated Contracts and Support to focus on just two areas relating to Information Security Policies and Human Resource Security. The planned

reviews in 2019/20 of the ICT Strategy and of ICT Purchasing, Associated Contracts and Support were carried forward and scheduled for 2020/21. However, the Internal Audit Update Report to the Audit Committee in May 2021 confirmed that the ICT Strategy and Purchasing Audit was now focussing on just two areas of the ISO27001 Information Security Management Standard. This represents a significant diminution of scope from the previous plan at a time when the risks relating to ICT controls were high. There were no other internal audit reviews of ICT governance arrangements from 2019/20 to 2022/23.

The Council’s ICT team started to undertake remediation work during 2019/20 after the appointment of the Head of ICT in early 2019. Progress in strengthening the ICT environment is evidenced through the Council achieving the Cyber Essentials Plus certification standard in April 2020, with recertification achieved in August 2021. However, we understand that the implementation of the new network was not complete as at March 2023 and the Council continued to operate on previous IT estate.

Therefore, we have identified significant weaknesses with regard to the arrangements to manage ICT risks and ensure an effective ICT control environment.

We have made a key recommendation that Cumberland Council should consider the weaknesses identified with regard to cyber security and ICT risk management at Copeland Borough Council in order to inform the design of a robust control environment. This includes:

- ensuring that appropriate cyber security controls are in place and weaknesses identified in IT Health Checks are addressed;
- ensure that ICT risks are appropriately recorded on risk registers and that there is sufficient oversight and awareness of ICT risk from those charged with governance;
- ensuring that a disaster recovery plan is in place and that arrangements are regularly tested;
- ensuring that internal audit plans include sufficient coverage of key ICT controls and processes that is commensurate with risk;
- that the Council addresses previous statutory recommendations relating to ICT and business continuity.



# Governance (continued)

## Internal audit

We have identified significant weaknesses with regard to the effectiveness of the internal audit function. Weaknesses during 2020/21 and 2021/22 included significant under-delivery against the audit plan, the potential conflict of interest and impairment to the independence of internal audit, weaknesses in reporting on the implementation of recommendations, and non-conformance with Public Sector Internal Audit Standards (PSIAS). While reasonable progress was made in 2022/23 to improve compliance with PSIAS, and the recruitment of an Internal Audit Manager resolved independence issues, weaknesses in reporting recommendations continued and further action was required in relation to training and embedding quality assurance. We have also identified a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function. We have raised a key recommendation that Cumberland Council should continue to improve the effectiveness of internal audit.

The Internal Audit Plans for 2020/21, 2021/22 and 2022/23 were based on fewer audit days than previous years with 206 days allocated to the 2020/21 plan, 281 days allocated to the 2021/22 plan and 269 days allocated to the 2022/23 plan. The approved Internal Audit Plan for 2019/20 was based on 421 audit days which was consistent with previous years. The reduction in days reflected the reduction in internal audit resources after the Internal Audit Manager left the employment of the Council in July 2019.

The Council had a small internal audit team, with an establishment made up from the Internal Audit Manager and 1.6 full time equivalent internal auditors. The vacant Internal Audit Manager post impacted on the delivery of the Internal Audit Plans. For both 2020/21 and 2021/22 only approximately 65% of the Internal Audit Plan was delivered by the year end, with only a partial assurance annual audit opinion provided in these years based on the limited level of audit coverage.

The 2022/23 Internal Audit Plan was delivered in full. However, a partial assurance opinion was again issued for 2022/23 due to the significant and ongoing control concerns in areas raised by external regulators and which are also the subject of key recommendations within this Auditor's Annual Report.

Due to the vacant Internal Audit Manager post, the roles of S151 Officer and Chief Audit Executive were both undertaken by the Director of Financial Resources, and this created a potential conflict of interest and impairment to the independence of internal audit. This was recognised in the CIPFA review of internal audit in August 2021. While arrangements were put in place and the Internal Audit Charter amended to create safeguards to protect the independence of the internal audit function, this arrangement represented a departure from best practice.

We have previously identified weaknesses in the reporting of the implementation of internal audit recommendations. The Council did make progress in reducing the number of key recommendations that were overdue as demonstrated in Figure 3.

However, weaknesses in reporting overdue recommendations to the Audit Committee continued through 2020/21 to 2022/23. Reporting on overdue recommendations during this period only provided detail for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented.

Figure 3: Outstanding internal audit key recommendations

Reporting date	Total key recommendations overdue	Priority 1 overdue	Priority 2 overdue
31 March 2018	45	16	29
31 March 2019	32	12	20
31 March 2020	23	7	16
30 April 2021	18	8	10
31 March 2022	19	8	11
28 February 2023	25	8	17

# Governance (continued)

## Internal audit (continued)

The Audit Committee should be provided with detailed information regarding the progress made in implementing all Priority 1 and 2 recommendations, in order to allow for appropriate oversight and challenge where improvements are required to the control environment. Only reporting on Priority 2 recommendations that are less than 50% completed does not allow for scrutiny of recommendations that are more than 50% complete but which are significantly overdue.

In response to previous recommendations from Grant Thornton and DLUHC, the Council commissioned an independent CIPFA review of conformance to PSIAS. The conclusion of the review, that the internal audit service partially conforms to PSIAS, was reported to the Audit Committee in September 2021.

Weaknesses and partial conformance were noted in areas such as the independence and objectivity of the function, auditors do not hold relevant professional qualifications and have received minimal training, the quality assurance and improvement programme requires improvement, and the Internal Audit Plan should be enhanced in terms of audit scope and relevance to Council priorities.

The Council made reasonable progress during 2022/23 in implementing the recommendations to improve compliance with PSIAS. Several recommendations were completed with improvements made to the Internal Audit Charter and Audit Plan. A new working methodology was used to deliver the 2022/23 internal audit work. Other improvements were in progress, for example ongoing review of compliance with PSIAS to inform the compliance statement in the annual report. The Council did recruit an Internal Audit Manager in April 2022, as a shared post with other local councils, and so the potential conflicts of interest weakness was resolved.

However, weaknesses remained, and these were recognised in the Internal Audit Annual Self-Assessment for 2022/23. This assessment indicated compliance with PSIAS, but identified improvement points to be implemented in 2023/24, including training and embedding quality assurance. We have also identified through discussion with officers that there was a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function.

Due to the reduced coverage against the internal audit plan, weaknesses in reporting progress made on implementing internal audit recommendations, and the potential impairment to the independence of internal audit, we have concluded that there were significant weaknesses in arrangements for an effective internal audit function in 2020/21 and 2021/22. Despite the progress made in 2022/23 in improving compliance with PSIAS, significant weaknesses remained including reporting of implementation of recommendations and senior management engagement.

We have raised a key recommendation that Cumberland Council should continue to improve the effectiveness of the internal audit function and ensure that the positive direction of travel with regard to PSIAS compliance is maintained. This includes:

- embedding the new working methodology and quality and improvement process;
- continued review and reporting to the Audit Committee of compliance with PSIAS;
- providing detailed monitoring to the Audit Committee on the implementation of all key recommendations;
- ensuring that auditors undertake sufficient professional training;
- ensuring that the senior management team effectively engages with internal audit to develop an Audit Plan that is aligned to corporate risks and priorities;
- developing the profile of internal audit within the organisation.

## Arrangements to prevent and detect fraud and corruption

The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate for the period 2020/21 to 2022/23. Key policies were not updated regularly, and the Audit Committee did not receive an annual counter fraud plan, progress reports, or annual reports detailing the work undertaken to prevent and detect fraud and corruption. We have made a key recommendation that Cumberland Council should consider the weaknesses identified in arrangements for preventing and detecting fraud and corruption at Copeland Borough Council and ensure robust arrangements are put in place.

# Governance (continued)

## Arrangements to prevent and detect fraud and corruption (continued)

The Audit Committee approved the revised Fraud Prevention and Anti-Corruption Strategy in April 2019, but this was not subsequently reviewed or updated.

Internal Audit Plans for 2020/21 and 2021/22 included minimal provision for anti-fraud work, with 15 days and 10 days allocated respectively. This allocation was mainly in relation to National Fraud Initiative (NFI) reviews with limited capacity for reactive work. Allocated counter fraud days increased in the 2022/23 Internal Audit Plan to 30 days.

Internal audit progress reports and annual reports did not provide enough detail on the work undertaken to prevent fraud and corruption to give those charged with governance assurance that adequate controls are in place, referring in the main to work undertaken in relation to NFI data matches. Members were not informed of proactive or reactive work planned or undertaken, the results of fraud investigations, or whether anti-fraud awareness training is undertaken by officers.

Executive approved the Whistleblowing Policy in June 2021. The Standards and Ethics Committee was delegated the task of monitoring the operation of the Policy but there was no further reporting to this Committee or Members more widely on the operation whistleblowing arrangements .

We have made a key recommendation that Cumberland Council should consider the weaknesses identified in arrangements for preventing and detecting fraud and corruption at Copeland Borough Council and ensure robust arrangements are put in place. This includes:

- strengthening reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee, including regular progress reports;
- approving an annual counter fraud plan which includes adequate resource for risk-based work, reactive work, investigations and counter fraud training;
- anti-fraud and corruption policies should be regularly reviewed and updated;
- officer awareness of the Whistle Blowing Policy should be increased, and regular training provided.

## Audit Committee effectiveness

**The Council was slow to implement the required improvements to increase the effectiveness of the Audit Committee, and the majority of the recommendations from the CIPFA review were outstanding as at March 2023. Areas for focus included Member training, undertaking self-assessments, producing annual reports, and reporting on risk management arrangements. We have made a key recommendation that Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward.**

In response to the statutory recommendation we raised in February 2021, the Council commissioned CIPFA to review the effectiveness of the Audit Committee. The results of the review were reported to the March 2022 Audit Committee, with CIPFA concluding that *“the foundations for an effective Audit Committee are in place at CBC, but there is a need and scope to enhance the skills and knowledge of the members to improve the Audit Committees effectiveness”*.

The review identified limited challenge by Members on the agenda items being presented to the Audit Committee and made eleven recommendations aimed at increasing Audit Committee effectiveness, increasing the Committee's profile and supporting Committee Members in developing their skills and knowledge.

We reported a further statutory recommendation in March 2022 that immediate action is required to strengthen the Council's internal governance arrangements, including Audit Committee effectiveness.

We have reviewed the progress that the Council made in implementing the CIPFA recommendations to improve Audit Committee effectiveness. We judge that the Council was slow to implement the required improvements and that the majority of recommendations remained outstanding as at 31 March 2023.

The CIPFA report was dated September 2021 and was presented to the March 2022 Audit Committee. There was therefore an opportunity to implement improvements to be effective for 2022/23 and for annual reporting 2021/22. Many of the actions could have been

# Governance (continued)

## Audit Committee effectiveness (continued)

implemented quickly without significant cost.

Recommendations relating to developing a programme of Member training, Member working parties, and the provision of a key library of documents in order to develop skills and knowledge were not actioned. A series of deep dives was implemented instead, covering topics such as asset valuations and treasury management. Deep dives are a tool for better understanding key areas of risk or significant current issues, but should have been part of a suite of measures to better support Members of the Audit Committee.

Opportunities to increase the profile of the Audit Committee were not taken through the production of an annual report or self-assessment for 2021/22. The CIPFA recommendation that risk management should be included on every Audit Committee Agenda was not fully implemented. The only risk management reports that the Audit Committee received in relation to 2022/23 arrangements were in January 2023 (Q2) and March 2023 (Q3).

Therefore, we conclude that there were still weaknesses with regard to the effectiveness of the Audit Committee as at March 2023.

We have made a key recommendation that Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward. This includes:

- ensuring sufficient training and support is provided in order to increase the challenge, skills and knowledge of Audit Committee Members;
- providing frequent risk management reports to the Audit Committee in order to provide proper oversight to those charged with governance;
- ensuring that governance arrangements are robust and that the Audit Committee has sufficient status through the production of an Audit Committee Annual Report and self-assessment.



# Improvement recommendations



## Governance

### Recommendation 1

Cumberland Council should strengthen the strategic risk register by mapping risks to corporate priorities and allocating further required actions to named officers with target dates for implementation.

### Audit year

2020/21, 2021/22, 2022/23

### Improvement opportunity identified

Mapping risks to corporate priorities ensures that the strategic risk register focuses on risks that could impact on the Council achieving corporate objectives. Allocating further mitigating actions to manage risk to named officers with target dates for implementation enables those charged with governance to hold responsible officers to account for improving risk management.

### Summary findings

The Strategic Risk Register included most of the elements of best practice that we would expect for individual risks. This included Red, Amber, Green status, risk score, target score, risk owner and actions required to mitigate risk. We note that the Strategic Risk Register could be further strengthened by mapping risks to corporate priorities and by allocating further required actions to named officers with target dates for completion.

### Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

### Management Comments



# 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Procurement

We have identified significant weaknesses with regard to the Council's arrangements for delivering value for money through procurement activity for the period 2020/21 to 2022/23.

**Weaknesses included key policies such as Contract Standing Orders and the Procurement and Contract Management Strategy not being reviewed regularly, the lack of procurement performance or procurement waiver reporting to Members, and not updating key information such as the contract register on the Council website. We have raised a key recommendation that Cumberland Council should consider the significant weaknesses with regard to procurement arrangements at Copeland Borough Council to ensure that arrangements are robust and transparent going forward.**

The Council's Contract Standing Orders (CSOs) were approved in 2019 and confirm the expectation that they will be reviewed annually by the Standards and Ethics Committee, with any changes endorsed by Council. From review of Council, Executive, and Standards and Ethics Committee agendas there is no evidence that CSOs were reviewed after September 2019.

The Executive approved the Procurement and Contract Management Strategy 2018-21 in March 2020. The aim of the Strategy was to secure best value through professional, planned and sustainable procurement. While the intention was to update the Procurement Strategy on an annual basis, there were no further updates since March 2020.

Not reviewing key procurement policies and strategies regularly increases the risk that they do not reflect best practice, organisational priorities, changes in organisational structure or current procurement regulations.

The Procurement Strategy identified performance indicators to be monitored as part of quarterly performance reporting. These related to bidder challenges and complaints, targets for bids from local suppliers, regular publishing of the contract register, contract review targets, and the tracking of savings achieved. However, procurement performance indicators were not reported formally through quarterly performance reports, although some Portfolio Holder update reports to Council did provide ad-hoc reporting of aspects of procurement performance.

The Council did not maintain a register of procurement waivers to allow for the systematic review of procurements that did not follow CSOs or public procurement regulations. Procurement waivers were not reported to those charged with governance. Therefore, the Council did not have an overall picture of the number and value of procurements that did not follow a competitive process, and was not able to challenge these decisions to ensure value for money was achieved.

The information provided on the Council's procurement webpage was not kept up to date. For example, the Procurement and Contract Management Strategy was dated November 2018. Although the contract register was updated quarterly during 2019, it was seldom updated since then (March 2021 and June 2021). The Procurement Strategy states that the contract register will be updated quarterly. Discussions with officers confirmed that the contract register was being updated to form a county-wide register as part of the preparations for local government reorganisation.

As part of our work, we requested information from the Council relating to procurements undertaken in each of the financial years 2020/21, 2021/22 and 2022/23. From this information we selected a sample of procurements for which we requested evidence that a proper procurement process was undertaken. The Council was able



# Improving economy, efficiency and effectiveness (continued)

## Procurement (continued)

to demonstrate in each case that proper procurement processes were followed which included budget authorisation, authorisation to procure, invitations to tender, and evaluation of results on a quality and price basis.

However, despite evidence of detailed arrangements that were working for specific procurements, we judge that as far as overall arrangements were concerned, there were significant weaknesses with regard to procurement arrangements at Copeland Borough Council for 2020/21, 2021/22 and 2022/23.

We have raised a key recommendation that Cumberland Council should consider the significant weaknesses with regard to procurement arrangements at Copeland Borough Council to ensure that arrangements are robust and transparent going forward. This includes:

- maintaining a register of procurement waivers, and reporting waivers regularly to those charged with governance;
- reporting on the key performance indicators as set out in the Procurement Strategy;
- reviewing Contract Standing Orders and the Procurement Strategy regularly;
- ensuring the contract register is maintained and published;
- ensuring procurement information published on the Council's website is up to date.

## Delivering recommendations from external regulators

The recommendations from the Department for Levelling Up, Housing and Communities and other regulators were combined into a composite action plan and progress was reported to Members and subject to internal audit review. While progress was made to address weaknesses in some areas, there are some recommendations that were not sufficiently progressed as at March 2023, particularly in relation to creating sustainable financial plans, addressing the backlog in producing the statement of accounts, developing IT disaster recovery plans and in increasing the effectiveness of the Audit Committee.

The recommendations from the DLUHC finance review, CIPFA reviews of the effectiveness of the Audit Committee and internal audit compliance with PSIAS, and Grant Thornton statutory recommendations, were combined into a composite action plan. The progress made in implementing the action plan was formally reported to Members of the Overview and Scrutiny Committee (July 2022) and Audit Committee (October 2022 and January 2023).

Internal Audit undertook a review of the progress made against the action plan, providing reasonable assurance to the controls for progressing statutory recommendations to the Audit Committee in January 2023. Internal Audit made two medium priority recommendations relating to adding outstanding recommendations to the corporate performance management system, and for SMT to regularly review the status of all recommendations.

We have reviewed the progress reported in the January 2023 action plan against our own understanding of the arrangements in place across the various areas subject to recommendations from external regulators. We have commented in more detail elsewhere in this Auditor's Annual Report on areas of progress or continued weakness in arrangements, but summarise progress as follows:

- some improvements were made in financial planning such as the review of the capital programme and the quantification of the revenue impact of borrowing, but key weaknesses remained with regard to production of the financial statements and balancing the MTFs;
- reasonable progress was made during 2022/23 in implementing the recommendations to improve internal audit compliance with PSIAS, but significant weaknesses remained including reporting of implementation of recommendations and senior management engagement;
- the Council was slow to implement the required improvements to increase the effectiveness of the Audit Committee, with the majority of the recommendations outstanding as at March 2023.

# Improving economy, efficiency and effectiveness (continued)

## Delivering recommendations from external regulators (continued)

The recommendations made by DLUHC and CIPFA in order to improve financial planning and governance arrangements overlap with the statutory recommendations made by Grant Thornton. Therefore, there are some recommendations that were not sufficiently progressed as at March 2023, particularly in relation to creating sustainable financial plans, addressing the backlog in producing the statement of accounts, developing IT disaster recovery plans and in increasing the effectiveness of the Audit Committee. Due to the failure to produce annual statement of accounts and due to the financial planning weaknesses that have been identified, the Council could not have adequate assurance with regard to the accuracy and completeness of its underlying financial data. We have raised further key recommendations in relation to these significant weaknesses in this Auditor's Annual Report.

## Performance management

**We have not identified any significant weaknesses with regard to the arrangements for managing and reporting on performance at the Council.**

Quarterly performance reports were provided to the Executive during 2020/21, 2021/22 and 2022/23. Performance reports focused on key performance indicators and key deliverables relating to the Council's Corporate Strategy's goals and objectives. Key performance indicators were updated against target, with a supporting narrative where targets were not met and actions to improve performance.

Service plans also contained individual performance objectives aligned to the Corporate Strategy.

Internal audit reviewed the performance management framework in 2020/21, providing reasonable assurance as to the controls in place and not identifying any high priority recommendations.

## Partnership working

**We have not identified any significant weaknesses with regard to how the Council worked with partners to deliver corporate priorities.**

The Council worked with a variety of partners in order to achieve the objectives within the Corporate Strategy. Examples of partnership working included the Cumbria Strategic Waste Partnership, Copeland Housing Partnership, Copeland Work and Skills Partnership, the Community Safety Partnership and the Zero Carbon Cumbria Partnership.

Partnership arrangements were documented, aligned to the Corporate Strategy, and identified lead officer and member representatives. The work undertaken by, and achievements of, various partnership arrangements was reported through the Mayor's Executive reports. In addition, Member representatives on outside bodies provided formal feedback through an annual report to Council that included the key outcomes and issues relating to their work with outside bodies and the impact on the delivery of Council priorities.

While the Council had processes in place to work in partnership, it should be noted that due to a lack of remaining corporate knowledge we have not drilled down into these areas in depth.



# Follow-up of previous recommendations: section 24 written recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 The Council should put in place robust arrangements for the production of the 2018/19, 2019/20 and 2020/21 financial statements, which meet statutory requirements and international financial reporting standards.	Statutory  (also Key recommendation 4 in VFM 2019-20)	February 2021	There has been considerable slippage in producing updated 2018/19 draft financial statements, largely due to the Council commissioning a revised valuation of land, buildings and investment property to address errors identified in the initial draft statements.  As a consequence slippage has continued with the production and audit of subsequent years financial statements. The Council produced a draft statement of accounts for the 2019/20 financial year, but none for 2020/21 or subsequent years. Producing draft accounts and responding to audit queries is likely to continue to stretch the capacity of the Council's finance team.	No	Key recommendation made that Cumberland Council should continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.
2 Implement outstanding audit recommendations and Annual Governance Statement governance related weaknesses and actions, especially those related to ICT and business continuity, and regularly update management and Members with progress and implementation of improved controls.	Statutory	February 2021	We have identified continuing significant weaknesses with regard to the ICT control environment and ICT risk management arrangements that persisted through 2020/21, 2021/22 and 2022/23. The Council has not developed and tested a disaster recovery plan.	No	Key recommendation made that Cumberland Council should consider the weaknesses identified with regard to cyber security and ICT risk management at Copeland Borough Council in order to inform the design of a robust control environment.
3 Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment.	Statutory	February 2021	CIPFA have undertaken reviews of internal audit's compliance with PSIAS and of the effectiveness of the Audit Committee. Recommendations resulting from these reviews were included in the Council's composite action plan.	Yes	None

# Follow-up of previous recommendations: section 24 written recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	Continue to put in place robust arrangements for the production of late 2019/20, 2020/21 and 2021/2022 financial statements, which meet statutory requirements and international financial reporting standards.	Statutory	March 2022	The Council produced a draft statement of accounts for the 2019/20 financial year, but none for 2020/21 or subsequent years.	No	Key recommendation made that Cumberland Council should continue to put in place robust arrangements for the production of financial statements, on a timely basis which meet statutory requirements and international financial reporting standards.
5	Ensure the critical financial governance weaknesses identified by DLUHC review and Grant Thornton on medium term financial planning, budgeting assumptions and sensitivity analysis are implemented with immediate effect to enable the Council to set realistic financial revenue plans for the short term.	Statutory	March 2022	<p>We note that some improvements were made to make financial planning more robust in 2022/23, such as the extension of the planning horizon and a clearer analysis of the projected revenue implications of borrowing to fund the capital programme. The MTFS 2022-25 set out the MRP costs associated with £16.5m of borrowing relating to the capitalisation directives, fleet purchase costs, and regeneration which rise to £1.48m by 2024/25. A more detailed sensitivity analysis was also provided for key budget assumptions such as inflation, business rates and borrowing costs to provide a better understanding of financial risk within the MTFS.</p> <p>While some progress was made in improving financial planning during 2022/23, the budget gap was not closed. The strategy since 2020/21 of relying on one-off resources to balance the budget resulted in a projected £3.99m budget deficit for 2023/24, which was inherited by the new Cumberland Council.</p>	Partially	Key recommendation that Cumberland Council should consider the financial planning weaknesses identified at Copeland Borough Council, and implement arrangements that ensure financial planning is robust and provides sustainability for the delivery of services.

# Follow-up of previous recommendations: section 24 written recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
6	Protect against overcommitment on the Council's capital ambitions especially in the context of dependency on capital directions and the transition to LGR.	Statutory	March 2022	<p>The Council did review the capital programme in 2021/22, and approved a programme in February 2022 that is less reliant on borrowing to fund schemes, so reducing the challenge of future affordability. The budget report 2022/23 and MTFs approved in February 2022 also provided more information regarding the revenue implications of the capital programme.</p> <p>Therefore, the Council made progress in addressing this statutory recommendation.</p> <p>While the Council did not take out additional debt to support the capital programme, there is a financing risk for the new Cumberland Council going forward when external borrowing will need to be incurred to finance the legacy Copeland Borough Council capital programme.</p>	Partially	Key recommendation that Cumberland Council should consider the risks that have been identified with regard to Copeland's capital programme, in order to inform the design of arrangements and ensure the capital programme is affordable and financial risk mitigated.
7	Develop a composite and robust action plan from all the Grant Thornton, DLUHC and CIPFA external reviews, ensuring there is appropriate capacity and capability in place to implement the required governance improvements with adequate and regular oversight and challenge from Full Council, Overview and Scrutiny and the Audit Committee.	Statutory	March 2022	<p>The Council developed a composite action plan and progress on implementing the recommendations from external regulators was reported to Audit Committee and Overview and Scrutiny Committee. While we acknowledge that progress was made in addressing some of the statutory recommendations, significant concerns and weaknesses in key areas continued to 31 March 2023 when Copeland Borough Council demised. Continuing significant areas of weakness include financial planning, addressing the backlog in the production of the financial statements and the effectiveness of the Audit Committee.</p>	Partially	Further key recommendations made in relation to financial planning, financial statements, internal audit and Audit Committee effectiveness.

# Follow-up of previous recommendations: section 24 written recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
8	Immediate action is required to strengthen the Council's internal governance arrangements, especially its Internal Audit service and Audit and Governance Committee effectiveness.	Statutory	March 2022	<p>While reasonable progress was made in 2022/23 to improve internal audit's compliance with PSIAS, and the recruitment of an Internal Audit Manager resolved independence issues, weaknesses in reporting recommendations continued and further action was required in relation to training and embedding quality assurance. We have also identified a lack of engagement by senior managers with internal audit to develop a risk-based Audit Plan and to increase the profile of the internal audit function</p> <p>The Council was slow to secure improvements to increase the effectiveness of the Audit Committee. The weaknesses in arrangements with regard to enhancing the skills and knowledge of Audit Committee Members and raising the profile of the Audit Committee that existed in 2019/20 have not been fully addressed.</p>	Partially	<p>Key recommendations made that:</p> <p>Cumberland Council should continue to improve the effectiveness of the internal audit function and ensure that the positive direction of travel with regard to PSIAS compliance is maintained.</p> <p>Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward.</p>



# Follow-up of previous recommendations: value for money recommendations 2019/20

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 The financial planning weaknesses that have been identified at Copeland Borough Council should be considered by Cumberland Council, and used to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.</p> <p>This includes ensuring levels of reserves are sufficient to mitigate financial risk, ensuring robust savings plans, providing sensitivity and scenario analysis for key financial risks within the budget, and providing sufficient information regarding the revenue impacts of capital expenditure and borrowing within budget report.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's financial planning arrangements will be considered as part of our 2023/24 value for money audit.

# Follow-up of previous recommendations: value for money recommendations 2019/20

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>2 The capital programme risks that have been identified at Copeland Borough Council should be considered by Cumberland Council, and used to inform the design of arrangements to ensure the capital programme is affordable and financing risk is mitigated.</p> <p>This includes ensuring that the revenue implications of capital expenditure and borrowing are clearly highlighted in budget reports, ensuring that capital programme projections and the Treasury Management Strategy cover the same period, reviewing the inherited capital programmes from legacy councils to ensure they are affordable and develop a strategy for financing schemes dependent on borrowing.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's capital planning arrangements will be considered as part of our 2023/24 value for money audit.
<p>3 The Council should ensure it complies with the requirements of the CIPFA Treasury Management in Public Services Code of Practice and with the treasury scrutiny requirements set out in the Constitution.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's treasury management reporting arrangements will be considered as part of our 2023/24 value for money audit.

# Follow-up of previous recommendations: value for money recommendations 2019/20

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Risk management reporting arrangements should be strengthened by mapping risks in the Strategic Risk Register to corporate priorities, allocating further required actions to named officers and providing target dates for implementation.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's risk management arrangements will be considered as part of our 2023/24 value for money audit.
6	Report risk quarterly to the Audit Committee and annually to Executive, in accordance with the Risk Management Policy, to ensure that those charged with governance have a proper oversight of risk management arrangements.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's risk management arrangements will be considered as part of our 2023/24 value for money audit.
7	Cumberland Council should consider the weaknesses identified with regard to the management of ICT risks at Copeland Borough Council as a priority to ensure that ICT controls and disaster recovery plans are robust going forward.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's ICT risk management arrangements will be considered as part of our 2023/24 value for money audit.

# Follow-up of previous recommendations: value for money recommendations 2019/20

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	Revisit the basis for providing a reasonable assurance internal audit opinion for 2019/20 and whether this is justified by the reduced internal audit coverage.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place to ensure an effective internal audit function at Cumberland Borough Council will be considered as part of our 2023/24 value for money audit.
9	Improve the quality of reporting on the implementation of internal audit key recommendations to the Audit Committee to include detailed narrative for all Priority 1 and Priority 2 recommendations.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place to ensure an effective internal audit function at Cumberland Borough Council will be considered as part of our 2023/24 value for money audit.
10	Continue to improve the effectiveness of the internal audit function and ensure that the positive direction of travel with regard to PSIAS compliance is maintained.  This includes embedding the new working methodology to deliver internal audit work, continued review and reporting to Audit Committee of compliance with PSIAS, continuing to develop the quality and improvement process and ensuring that auditors undertake training.	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place to ensure an effective internal audit function at Cumberland Borough Council will be considered as part of our 2023/24 value for money audit.

# Follow-up of previous recommendations: value for money recommendations 2019/20

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	<p>Cumberland Council should ensure that the actions identified in the CIPFA review of the effectiveness of the Audit Committee at Copeland Borough Council are addressed to ensure that there is an effective Audit Committee going forward.</p> <p>In particular ensuring sufficient training and support is provided to Audit Committee Members, providing frequent risk management reports to the Audit and improving governance arrangements through the production of an Audit Committee Annual Report and self-assessment.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place to ensure an effective Audit Committee at Cumberland Borough Council will be considered as part of our 2023/24 value for money audit.
12	<p>Cumberland Council should consider the weaknesses identified at Copeland Borough Council regarding reporting on arrangements to prevent and detect fraud and corruption and ensure that robust arrangements are put in place going forward.</p> <p>The Audit Committee should receive an annual counter fraud plan and regular progress reports on counter fraud activity.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place to prevent and detect fraud and corruption at Cumberland Borough Council will be considered as part of our 2023/24 value for money audit.

# Follow-up of previous recommendations: value for money recommendations 2019/20

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
13	<p>Implement the recommendations made by internal audit regarding the monitoring of progress with the composite action plan developed from external regulator reviews.</p> <p>Outstanding statutory recommendations should be added to the corporate performance management system and SMT should regularly review the status of all recommendations.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	The arrangements in place at Cumberland Borough Council to achieve value for money, including responding to recommendations made by internal audit and external reviews, will be considered as part of our 2023/24 value for money audit.
14	<p>We recommend that the Cumberland Council considers the significant weaknesses with regard to procurement arrangements at Copeland Borough Council to ensure that arrangements are robust and transparent going forward.</p> <p>This includes maintaining evidence that procurement activity complies with regulatory requirements, maintaining and reporting on the register of procurement waivers, and ensuring the contract register is maintained and published.</p>	Value for money 2019/20	February 2024	To be confirmed.	To be confirmed.	Cumberland Borough Council's procurement arrangements will be considered as part of our 2023/24 value for money audit.



# Appendices

# Appendix A: Responsibilities of the Council

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.

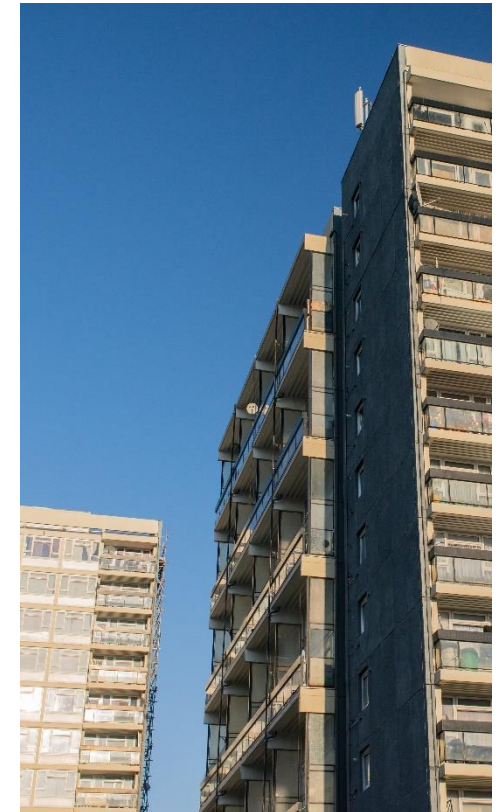
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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) 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 – An explanatory note on recommendations

A range of different recommendations can be raised by the [type of body]’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the [type of body] under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
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 [type of body]. We have defined these recommendations as ‘key recommendations’.	Yes	Pages 13 - 23
Improvement	These recommendations, if implemented should improve the arrangements in place at the [type of body], but are not a result of identifying significant weaknesses in the [type of body]’s arrangements.	Yes	Page 41

