



The Audit Findings Report: Value for Money

Copeland Borough Council

Years ended 31 March 2019 and 31 March 2020

February 2024



Value for Money 2018-19

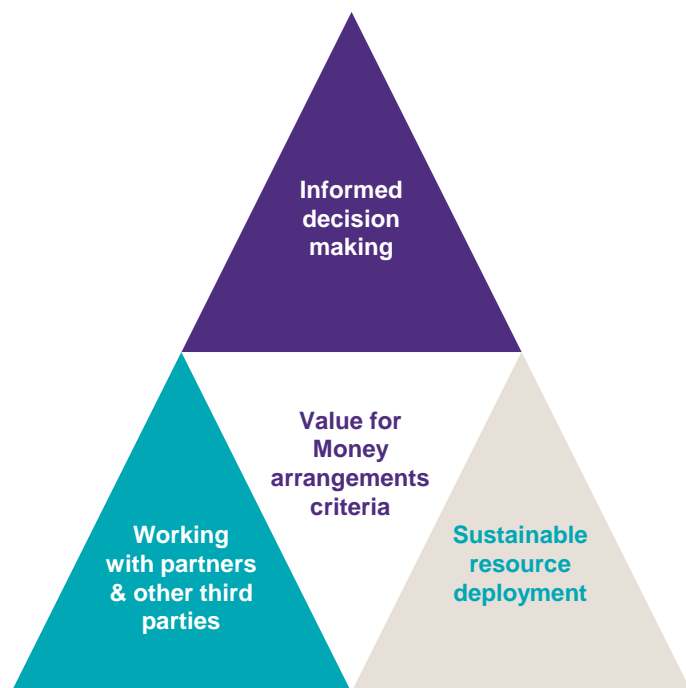
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

This involves the auditor carrying out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work for 2018/19 and 2019/20, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2021 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks in our Audit Plan 2018-19 dated March 2021 and they are included on the following page.

Our risk assessment is a dynamic process and we have had regard to new information and risks which emerged since we issued our Audit Plan. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements which we report in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements, together with new risks we have since identified. In arriving at our conclusion, our main considerations were:

- Management's capacity to produce financial statements by the prescribed deadline and of sufficient quality. Linked to this is the reporting of outturn performance and forward budget setting without a clear prior year audited financial position
- Management's capacity to respond to and deliver the recommendations and action plans required of external regulators including external audit (including statutory recommendations) and Department of Levelling Up, Housing and Communities (DLUHC). This is in the face of Local Government Reorganisation (LGR) across Cumbria and the proposed transfer of the Council to a successor unitary body on 31 March 2023
- Financial sustainability pressures (both revenue and capital) and pressure on the Council's reserves up until LGR is implemented
- Governance weaknesses identified by CIPFA in their review of Audit Committee and Internal Audit effectiveness
- Deficiencies in the Council's IT control environment during 2018/19

We have set out more detail on the risks we identified and the results of the work we performed in Appendix A. The conclusions we drew from this work are set out on page 3.

Value for Money – Significant Risks

Financial Sustainability and the Medium Term Financial Plan (MFTP)

Risk

The Council continues to face a challenging environment in the short to medium-term. Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Copeland Borough Council, this is leading to pressure to identify significant savings to achieve a balanced budget. There continues to be significant uncertainty over the future of Local Government funding beyond 2020. The Medium Term Financial Strategy (MTFS) 2017/18 to 2020/21 was refreshed in February 2018 and shows that efficiencies and additional income totalling £2.430 million is required to ensure delivery of balanced budgets in each of the three remaining years of the MTFS (2018/19 to 2020/21). The efficiencies required have increased for the period covered by the MTFS from 2018/19 to 2021/22 approved in February 2019 to £4.659 million. There are considerable uncertainties over various revenue streams in the medium term. As a result the Council has to apply a number of estimates and key judgements to compile the MFTP.

Response

We will review the arrangements the Council has in place to compile the MFTP, including a challenge on the assumptions used. This includes a review of the Council's arrangements for identifying, managing and monitoring financial information in order to regularly update the MFTP, including reporting outcomes.

Financial Reporting

Risk

The Council has produced accounts after the statutory deadline in each of the previous four years. This is primarily due to significant problems with the 2014/15 accounts which have had a knock-on effect into succeeding financial years, combined with the impact of the Cyber-attack suffered in August 2017. There is a risk that the Council has not been able to make informed decisions in the budgeting and monitoring process, as the final outturn position for 2018/19 has yet to be finalised.

Response

We will review the Council's arrangements for producing timely, reliable and accurate financial reporting information which meets statutory and internal deadlines. We will also review the arrangements management put in place to ensure the Council had the information available to make informed decisions in the decisions in the absence of an audited outturn position.

Finance department skills and capacity gap

Risk

The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. These roles are key to the department due to the technical accounting expertise required.

Response

We will review how the Council has progressed its restructuring of the finance department and the extent to which permanent, qualified and experienced staff are in place. We will also assess the costs of any interim arrangements in place to the Council.

Internal control environment

Risk

The Council has not acted on a timely basis to address the weaknesses in its internal control environment, which were highlighted in recommendations made by Internal Audit and in its Annual Governance Statement Action Plan. Failure to take prompt action in response to identified weaknesses may have exacerbated the impact of the cyber-attack and contributed to the delay in restoring normal service delivery following the attack. Furthermore there is a risk that normal control activities did not take place or were delayed, in the wake of the cyber-attack. The effectiveness of the Council's wider third line of defence control environment has been challenging in the period, including Internal Audit and Audit Committee operating arrangements.

Response

We will review the actions taken against outstanding Internal Audit recommendations and consider the processes in place to follow-up and monitor recommendations. We will also review the arrangements the Council had in place to respond to the cyber attack in August 2017, from a continuity of service and maintaining the internal control environment perspective. We will also review the effectiveness of the Council's third line of defence by reviewing the effectiveness of Internal Audit and the Audit Committee arrangements during 2018/19.

Section 3: Value for Money 2018-19

Overall conclusion

Because of the significance of the matters we identified in respect of Informed Decision Making and Sustainable Resource Deployment, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This failure to provide appropriate evidence suggests the Council may have been exposed to fraudulent practice. We therefore propose to give a qualified 'adverse' conclusion.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

In making recommendations from the 2018/19 Value for Money audit work, we have recognised where progress has been made during the period 2019 to 2022, especially regarding improvements in the overall IT general control environment since the appointment of the Head of ICT in December 2018. It should be noted however that in reaching our 2018/19 adverse VFM conclusion this only covers arrangements in place during the financial year 2018/19, although we add commentary, where relevant on related matters up to the point that this report is published.

Due to the significant delays encountered to complete this work and the passage of time, we have reviewed and reported on the Council's progress in addressing the recommendations.

Our recommendations can be found in the Appendix C including those reported as Statutory Recommendations under section 24 of the Local Audit and Accountability Act 2014.

Significant difficulties in undertaking our work

Management were unable to fully explain the make-up of the cyber related costs and lost income to support the capitalisation directive of October 2018 due to records being unavailable and staff transition brought about by the passage of time. This is referenced in the pages that follow.

Significant matters discussed with management

There were no further matters where evidence was unavailable or matters of such significance to our conclusion that we required written representation from management or those charged with governance.

Implications for Cumberland Council

From 1 April 2023, the Cumberland unitary council was established which subsumed the functions, services and responsibilities of Copeland Borough Council.

We expect Cumberland Council to follow up on the extant issues and to ensure adequate arrangements are in place to minimise the risk of similar failures in the future.

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

Issue	Commentary
<p>Section 24 Written Recommendations- Local Audit and Accountability Act February 2021</p>	<p>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 and implement a large number of external review governance related recommendations raised by the Department for Levelling Up, Housing and Communities (DLUHC), Grant Thornton and the Chartered Institute of Public Finance and Accountancy (CIPFA), with the direct financial and human resource costs adding further pressure to a very fragile financial position. The Council's 2019/20 and 2020/21 financial statements and value for money conclusions have not yet been provided for audit as the opening positions are not known until the 2018/19 accounts audit is completed.</p> <p>Statutory recommendations are included within the recommendations arising from the audit at Appendix A.</p> <p>We issued statutory recommendations in February 2021, for the Council to:</p> <ul style="list-style-type: none"> • 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 • 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 • Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment. <p>We have followed up progress against these recommendations during the 2018/19 audit and we acknowledge that, the Council has made some progress on these statutory recommendations. We recognise that the dates have lapsed for the Council to produce their 2021/22 and previous financial statements by the deadline. Progress has been made in implementing overdue recommendations although we report separately that we have concerns regarding management capacity to respond to the extant recommendations of external regulators made during 2021. Effectiveness reviews of Internal Audit and the Audit Committee have been undertaken and the deficiencies arising are reported elsewhere in this report.</p> <p>Further work is required, especially to bring the Council back into line with financial statement statutory reporting deadlines to support fully informed decision making and to implement the various recommendations now raised in the independent reviews carried out by CIPFA on the effectiveness of its Internal Audit service and the Audit Committee. The Council has recently made progress on ICT governance weaknesses but the development of robust business continuity plans still need to be implemented.</p>

Other statutory powers and duties (continued)

Issue	Commentary
<p>Section 24 Written Recommendations- Local Audit and Accountability Act March 2022</p>	<p>Following on from the statutory recommendations issued in February 2021, and cognisant of the outcomes from Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA during 2022, we have concluded that, it is appropriate for us to use our powers to make further written recommendations under section 24 of the Act.</p> <p>Statutory recommendations are included within the recommendations arising from the audit at Appendix A.</p> <p>We issued statutory recommendations in March 2022, for the Council to:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. • 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 • Immediate action is required to strengthen the Council's internal governance arrangements, especially its Internal Audit service and Audit and Governance Committee effectiveness. <p>We acknowledge that, the Council has made some progress on these statutory recommendations, including a composite action plan which is presented to monthly to Overview and Scrutiny Committee and to each Audit Committee. We have however raised concerns that not all recommendations are included, and that some items are marked as met without sufficient consideration. Further work is required to meet the statutory recommendations, especially to bring the Council back into line with financial statement statutory reporting deadlines to support fully informed decision making and to implement the various recommendations now raised in the independent reviews carried out by CIPFA on the effectiveness of its Internal Audit service and the Audit Committee.</p>

We have reviewed the Council's progress with implementing the recommendations to address the significant risks and this is reported in Appendix C.

Value for Money Approach 2019-20

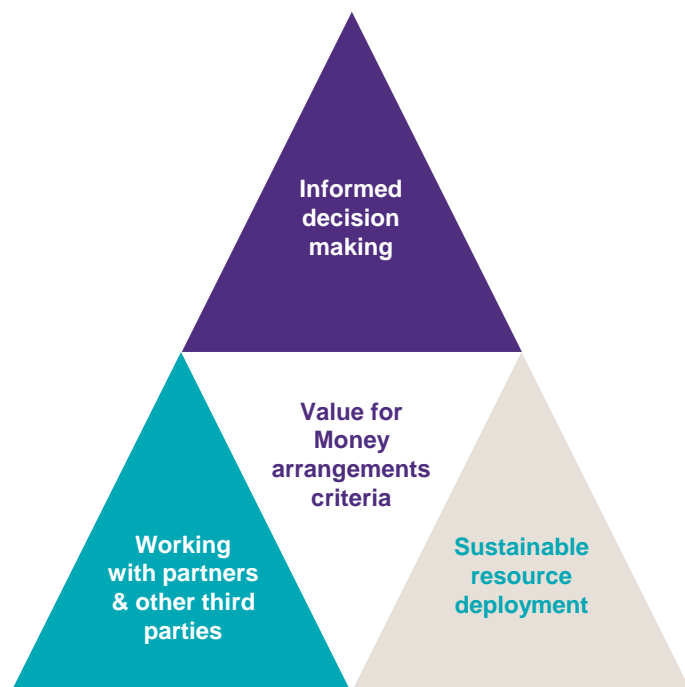
Background to our VFM approach

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

This involves the auditor carrying out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work for 2019/20, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We have considered the significant risks identified in 2017-18 and 2018-19 and have assessed the deficiencies in arrangements continue to represent significant risks.

Our risk assessment is a dynamic process and we have had regard to new information and risks which emerged since we issued our previous audit.

Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements which we report in our VFM conclusion.

Our work

We have focused our work on the significant risks that we identified in the Council's arrangements, together with new risks we have since identified. We have assessed the progress that has been made in response to issues identified in prior year audits. We have reviewed the actions that have been implemented to address the previous audit recommendations and considered any mitigations to the identified risks.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the pages that follow.

Value for Money – Significant Risks

Medium term financial planning

Risk: The robustness of financial planning, and reliance on one-off resources to balance the budget rather than sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.

There is pressure on the Council to identify significant savings over the period of the medium-term financial strategy. As well as the cost, demand and inflation pressures that impact on the Council's budget, there are also uncertainties in the timing and impact of changes to the local government funding regime relating to the fair funding review and business rate baseline reset. The Council has become reliant on the use of one-off resources to balance the budget position in recent years rather than developing plans to deliver recurring savings. The new Cumberland Council will inherit any underlying budget gap from Copeland Borough Council on 1 April 2023.

Response:

We will review the robustness of the Council's financial planning assumptions, development of savings plans, and strategy for utilising reserves to balance the annual budget. We will also consider the progress made in addressing the weaknesses identified by the Department for Levelling Up, Housing and Communities (DLUHC) and by Grant Thornton with regard to financial planning.

Capital programme

Risk: The affordability of the capital programme and potential impact on the financial sustainability of the new Cumberland Council.

The DLUHC review of financial sustainability identified the affordability of the capital programme as a significant challenge. The Council approved the capital programme 2020/21–2024/25 in February 2020. Capital expenditure for the period was forecast at £37.122m, with associated funding including £27.0m of additional borrowing. The majority of the borrowing requirement relates to the commercial investment programme of £25.0m.

Response:

We will consider how the capital programme has been reviewed in order to identify priority schemes to deliver and identify appropriate sources of funding, to ensure that plans remain affordable. We will review the alignment of the capital programme to medium term financial planning, including the forecast period and consistency of financial planning information.

Financial statements

Risk: Management's capacity to produce financial statements by the prescribed deadline and to sufficient quality.

There was a delay in closing the 2017/18 financial statements and a consequent delay in producing the 2018/19 draft financial statements for audit with deficiencies noted in property valuation. The 2017/18 and 2018/19 accounts contained material errors. The Council has produced draft statement of accounts for 2019/20, but not 2020/21 or 2021/22.

Management's capacity to produce financial statements by the deadline and of sufficient quality is a significant risk, with associated risks relating to reporting outturn and setting a budget without a prior year audited position.

Response:

We will assess the arrangements put in place and the progress made in clearing the backlog of overdue financial statements for 19/20 to 21/22 in accordance with agreed timescales.

Value for Money – Significant Risks

Capacity and capability of the finance team

Risk: The capacity, skill and experience within the finance team to clear the backlog of accounts, provide business as usual activity, implement improvements to financial planning, and support local government reorganisation effectively.

The recruitment and retention of skilled and qualified finance staff is an ongoing issue. The finance team did not have a qualified permanent technical chief accountant with local government experience for an extended period of time, until October 2020. Efforts need to be made to fill vacancies in the Finance Team and ensure they receive suitable support and training. Additional demands on officers and Members will be made due to local government reorganisation in Cumbria as the council transitions to a successor unitary body on 31 March 2023.

Response:

We will review the arrangements in place to recruit and retain adequate resources and skills within the finance team.

Risk management

Risk: The robustness of risk management arrangements and compliance with the requirements of the risk management framework.

We identified a weakness in 2018/19 that the Council's risk management framework is not operating as designed and that there is insufficient oversight by those charged with governance. Effective risk management arrangements are essential to the Council's internal control framework.

The Council suffered a severe cyber-attack in 2017 which had a significant impact on systems, services and financial reporting. An independent IT health check in May 2019 identified 99 recommendations, with many critical recommendations similar to those identified in a previous health check. There is a risk that the Council has not made sufficient progress in strengthening its risk management arrangements for IT systems and that the network is not adequately protected against malicious cyber activity.

Response:

We will review the arrangements in place to manage and report on risk. We will also review the progress made in addressing weaknesses identified in the IT control environment and development of an IT disaster recovery plan.

Internal audit and the Audit Committee

Risk: The effectiveness of the Council's internal audit function and Audit Committee.

We reported a statutory recommendation in February 2021 that the Council should carry out independent internal audit and Audit Committee effectiveness reviews. The CIPFA review of internal audit confirms partial compliance with Public Sector Internal Audit Standards (PSIAS). The review of the effectiveness of the Audit Committee concludes that there is scope to enhance the skills and knowledge of Members and improve the Committee's effectiveness.

We reported a statutory recommendation in March 2022 that immediate action is required to strengthen the Council's internal governance arrangements, especially its internal audit service and Audit Committee effectiveness.

Response:

We will review the arrangements in place to deliver and report on the work of internal audit, the delivery of the audit plan, and consider the Council's response to the CIPFA review of internal audit. We will review the effectiveness of the Audit Committee and the Council's response to the weaknesses identified in the CIPFA review of the Audit Committee.

Value for Money – Significant Risks

Implementation of external review recommendations

Risk: Management's capacity to respond to and deliver the recommendations and action plans required of external regulators including external audit (including statutory recommendations), CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC).

DLUHC and CIPFA conducted a financial assurance review of the Council in response to the request for a capitalisation directive. Their report identified a number of recommendations relating to improving financial planning and financial governance. CIPFA have conducted reviews of the effectiveness of the Audit Committee and compliance with Public Sector Internal Audit Standards. These two reviews have also resulted in action plans to address weaknesses in arrangements. Grant Thornton issued statutory recommendations to the Council in February 2021 and March 2022 aimed at improving financial governance, and which overlapped with the recommendations made by other external regulators.

A statutory recommendation was issued that the Council should develop a composite and robust action plan consisting of the recommendations from all the external regulator reports, ensuring there is appropriate capacity and capability in place to implement the required governance improvements with regular oversight and challenge.

Response:

We will consider how Members have been kept informed of the progress made in implementing the actions within the composite action plan, whether the pace of change is adequate, and whether the plan is comprehensive and accurately reflects the progress made in implementing recommendations.

Procurement arrangements

Risk: The robustness of procurement arrangements, including timely review of policies, performance monitoring, and the publication of key documents on the Council's website.

A review of the Procurement and Contract Management Strategy was undertaken in 2019/20, with Executive approving the revised Strategy in March 2020. Changes were made to reflect updates to Contract Standing Orders (CSOs), the new Corporate Strategy 2020-24, and the new Commercial Strategy 2019-23.

The Strategy should be subject to an annual update and also includes performance indicators with targets that should be monitored as part of quarterly performance reports.

The capital programme includes significant capital schemes relating to fleet replacement, regeneration and Towns Fund. These will require adequate procurement and contract management processes to manage financial and delivery risk and secure value for money.

Response:

We will determine whether the Procurement and Contract Management Strategy has been reviewed and performance reported as required, including key performance indicators and savings tracking. We will assess any significant procurements that the Council undertook during the year for compliance with the Procurement Strategy and Contract Standing orders.

Value for Money Conclusion

Overall conclusion

Because of the significance of the matters we have identified in respect of sustainable resource deployment, informed decision making and working with partners and other third parties, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'adverse' conclusion.

The text of our proposed report can be found at Appendix **XX**.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement. Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

While the recommendations that we have raised to improve the arrangements to secure value for money relate to Copeland Borough Council, 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.

In making recommendations from the 2019/20 Value for Money audit work, we have recognised where progress has been made during the period 2020 to 2022. This includes the review of the Council's capital programme and the progress made in ensuring internal audit compliance with Public Sector Internal Audit Standards. It should be noted however that in reaching our 2019/20 adverse VFM conclusion, this only covers arrangements in place during the financial year 2019/20, although we add commentary, where relevant, on related matters up to the point that this report is published.

Significant difficulties in undertaking our work

During our review of procurement arrangements, we requested evidence from officers that procurement exercises undertaken during 2019/20 complied with Contract Standing Orders, Financial Regulations and public procurement regulations. The Council has been unable to provide any such evidence. Therefore, the Council is unable to demonstrate that procurement exercises were undertaken in accordance with approved procedures and legislation that is aimed at ensuring transparency, competition, and value for money through procurement activity.

The failure to demonstrate compliance with its own procedures means the risk of fraud and corrupt practice was significantly enhanced.

Significant matters discussed with management

There were no further matters where evidence was unavailable or matters of such significance to our conclusion that we required written representation from management or those charged with governance.

Significant findings – audit risks

Risks identified in our Audit Plan

The robustness of financial planning, and reliance on one-off resources to balance the budget rather than sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.

There is pressure on the Council to identify significant savings over the period of the medium term financial strategy. As well as the cost, demand and inflation pressures that impact on the Council's budget, there are also uncertainties in the timing and impact of changes to the local government funding regime relating to the fair funding review and business rate baseline reset.

The Council has become reliant on the use of one-off resources to balance the budget position in recent years rather than developing plans to deliver recurring savings. The new Cumberland Council will inherit any underlying budget gap from Copeland Borough Council on 1 April 2023.

The affordability of the capital programme and potential impact on the financial sustainability of the new Cumberland Council.

The DLUHC review of financial sustainability identified the affordability of the capital programme as a significant challenge.

The Council approved the capital programme 2020/21–2024/25 in February 2020. Capital expenditure for the period is forecast at £37.122m, with associated funding including £27.0m of additional borrowing. The majority of the borrowing requirement relates to the commercial investment programme of £25.0m.

Commentary

We have identified significant weaknesses with regard to the Council's financial planning arrangements in 2019/20. These include an in-year overspend of £0.517m that was funded through the General Fund (GF) balance, bringing it close to the minimum agreed prudent level, and reducing the resources available to mitigate financial risk in future years.

The budget 2020/21 and MTFS 2020-25 identified significant income targets from the Commercial Strategy and additional efficiency savings. These targets were not the result of worked up schemes or agreed business cases. The targets were not delivered and were subsequently removed from the Council's financial plans.

The MTFS 2020-25 would be strengthened through the inclusion of sensitivity and scenario analysis for key financial risks, for example the potential impact of changes to government funding streams. There is a lack of explicit information within the budget report on the revenue impact, and associated risks, of the significant level of borrowing required to fund the capital programme.

We reported a statutory recommendation in March 2022 that the Council should address critical governance weaknesses in financial planning. 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 £3.998m budget deficit for 2023/24, which was inherited by the new Cumberland Council. The reliance on one-off resources to balance the budget also eroded the level of reserves available to mitigate financial risk in the future.

We recommend that the financial planning weaknesses that have been identified at Copeland Borough Council are considered by Cumberland Council, in order to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.

We have identified that a significant weakness existed in 2019/20 with regard to the financial risk within the capital programme. This risk relates to the significant borrowing required to fund the programme, and the assumption that the associated costs would be funded through the additional income generated from capital schemes. Although this risk was identified in the budget report it was not quantified.

The Council reviewed the capital programme, approving 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 provide more information regarding the revenue implications of the capital programme. Therefore, the Council made progress in addressing the statutory recommendation we reported in March 2022 relating to protecting against overcommitment on the capital programme.

While Copeland Borough Council did not take on 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 Copeland's legacy capital programme. We recommend that the risks that have been identified are considered by Cumberland Council and are used to inform the design of arrangements to ensure the capital programme is affordable and financing risk is mitigated.

We have identified a further significant weakness in treasury management arrangements as Copeland Borough Council did not provide an annual treasury management report for Member scrutiny in 2019/20. The Council did not comply with the requirements of the CIPFA Treasury Management in Public Services Code of Practice.

Significant findings – audit risks

Risks identified in our Audit Plan

Management's capacity to produce financial statements by the prescribed deadline and to sufficient quality.

There was a delay in closing the 2017/18 financial statements and a consequent delay in producing the 2018/19 draft financial statements for audit with deficiencies noted in property valuation.

The 2017/18 and 2018/19 accounts contained material errors. The Council has produced draft statement of accounts for 2019/20, but not 2020/21 or 2021/22.

Management's capacity to produce financial statements by the deadline and of sufficient quality is 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 capacity, skill and experience within the finance team to clear the backlog of accounts, provide business as usual activity, implement improvements to financial planning, and support local government reorganisation effectively.

The recruitment and retention of skilled and qualified finance staff is an ongoing issue. The finance team did not have a qualified permanent technical chief accountant with local government experience for an extended period of time, until October 2020.

Efforts need to be made to fill vacancies in the Finance Team and ensure they receive suitable support and training.

Additional demands on officers and Members will be made due to local government reorganisation in Cumbria as the council transitions to a successor unitary body on 31 March 2023.

Commentary

The 2018/19 audit was significantly delayed due to the financial statements continuing to be deficient in the valuation of land buildings and investment properties. To avoid an audit qualification in relation to the valuation of land and buildings and investment properties, management have instructed a new external valuer to prepare valuation reports covering the 31 March 2018 prior year comparator and subsequent years. The updated valuations identified material adjustments to the draft financial statements.

In January 2024, we resumed the audit of the 2018-19 financial statements and we expect to complete the audit by 31 March 2024. We have discussed the requirements to provide the outstanding audit evidence with Finance officers at the Cumberland unitary council and agreed to conclude the audit testing on the basis of evidence received to date.

Due to the lack of sufficient supporting evidence for material areas of the financial statements and risks in relation to management override of controls, we expect to issue a qualified audit opinion for the 2018-19 financial statements.

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 have significant concerns around the Council's capacity and capability to deal with what is a large volume of significant recommendations raised through a combination of the DLUHC review of financial sustainability on December 2021, CIPFA's reviews of Internal Audit and Audit Committee effectiveness as generated by our previous Statutory recommendation and several other external audit key findings.

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.

Significant findings – audit risks

Risks identified in our Audit Plan

The robustness of risk management arrangements and compliance with the requirements of the risk management framework.

We identified a weakness in 2018/19 that the Council's risk management framework is not operating as designed and that there is insufficient oversight by those charged with governance. Effective risk management arrangements are essential to the Council's internal control framework.

We made a recommendation in 2018/19 that the Council should review its risk management arrangements and ensure that the strategic risk register is reported in line with the Risk Management Policy.

The Council suffered a severe cyber attack in 2017 which had a significant impact on systems, services and financial reporting. An independent IT health check in May 2019 identified 99 recommendations, with many critical recommendations similar to those identified in a previous health check. There is a risk that the Council has not made sufficient progress in strengthening its risk management arrangements for IT systems and that the network is not adequately protected against malicious cyber activity.

Commentary

We have not identified any significant weaknesses in the Council's general arrangements for reporting and managing risk in 2019/20. We have made a recommendation to strengthen arrangements by mapping risks within the strategic risk register to corporate priorities, and by allocating required actions to named officers with a target date for implementation.

However, we judge the lack of regular reporting of risk to Members for the last three financial years (2020/21 – 2022/23) to be a significant weakness as it has not provided proper oversight of arrangements for those charged with governance. The Audit Committee received just one risk management report for each of the financial years since 2019/20. No annual risk management reports were provided to the Executive. We have made a recommendation that risk management arrangements should be reported quarterly to the Audit Committee and annually to Executive in accordance with the Risk Management Policy.

We have identified significant weaknesses in the ICT control environment and ICT risk management arrangements for 2019/20. Weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017 and these continued into 2019 and beyond. Defences against cyber-attack such as network segmentation and intrusion detection systems were not in place. The Council was slow to address identified weaknesses as evidenced through the findings of the May 2019 and December 2020 IT Health Checks. The Council did not address previous statutory recommendations relating to ICT and business continuity and did not develop and test a disaster recovery plan. We also have concerns with the reduction in scope to the planned internal audit review 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. This represents a significant diminution of scope from the previous plan during a period of heightened risk and identified weaknesses in the ICT control and governance environment.

We have made a recommendation that 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.

Significant findings – audit risks

Risks identified in our Audit Plan

The effectiveness of the Council's internal audit function and Audit Committee.

We reported a statutory recommendation in February 2021 that the Council should carry out independent internal audit and Audit Committee effectiveness reviews.

The CIPFA review of internal audit confirms partial compliance with Public Sector Internal Audit Standards (PSIAS). The review of the effectiveness of the Audit Committee concludes that there is scope to enhance the skills and knowledge of Members and improve the Committee's effectiveness.

We reported a statutory recommendation in March 2022 that immediate action is required to strengthen the Council's internal governance arrangements, especially its internal audit service and Audit Committee effectiveness

Commentary

Due to the significant reduction in coverage against the Internal Audit Plan for 2019/20, we do not consider that there was enough breadth of review of the control environment to provide a reasonable assurance annual audit opinion. We recommend that the Council revisits this assessment for 2019/20. We have identified weaknesses with regard to the reporting of outstanding internal audit recommendations. We also consider that the arrangements for the Director of Financial Resources (S151 Officer) to take over responsibility for managing internal audit represented a potential impairment to the independence of the function.

Due to the significance of these findings, we have concluded that there were significant weaknesses in arrangements for an effective internal audit function in 2019/20.

The Council made reasonable progress during 2022/23 in implementing the recommendations raised as a result of the CIPFA review of internal audit compliance with PSIAS, and we recommend that the positive direction of travel with regard to PSIAS compliance is maintained.

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

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.

The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate. The Audit Committee received the Fraud and Corruption Strategy and Anti Money Laundering Policy in April 2019. There have been no further policies reviewed to date and there was no annual counter fraud plan, progress report, or annual report presented to the Audit Committee.

We recommend that Cumberland Council 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.

In response to whistle blowing allegations relating to Copeland Borough Council that were brought to our attention, we have undertaken additional procedures. We formally wrote to Cumberland Council regarding our findings in November 2023 in order for the Council to consider what steps it wishes to pursue. While the detail of the allegations and our key findings are not provided in this Audit Findings Report, some of the findings reinforce the need for robust procurement controls and IT security controls at Cumberland Council going forward. The findings therefore reinforce the significant weaknesses identified in this Audit Findings Report regarding the procurement and ICT risk management arrangements at Copeland Borough Council.

Significant findings – audit risks

Risks identified in our Audit Plan

Management's capacity to respond to and deliver the recommendations and action plans required of external regulators including external audit (including statutory recommendations), CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC).

DLUHC and CIPFA conducted a financial assurance review of the Council in response to the request for a capitalisation directive. Their report identified a number of recommendations relating to improving financial planning and financial governance.

CIPFA have conducted reviews of the effectiveness of the Audit Committee and compliance with Public Sector Internal Audit Standards. These two reviews have also resulted in action plans to address weaknesses in arrangements.

Grant Thornton issued statutory recommendations to the Council in February 2021 and March 2022 aimed at improving financial governance, and which overlapped with the recommendations made by other external regulators.

A statutory recommendation was issued that the Council should develop a composite and robust action plan consisting of the recommendations from all the external regulator reports, ensuring there is appropriate capacity and capability in place to implement the required governance improvements with regular oversight and challenge.

Commentary

A composite action plan was developed from the recommendations made by external regulators and progress was reported to Members.

Progress was made in addressing some of the weaknesses identified in the DLUHC finance review, particularly in relation to the capital programme, sensitivity analysis and identification of the revenue implications of borrowing. However, we have identified that there were still significant weaknesses in financial planning arrangements and that progress was not made in key areas such as balancing the MTFS and addressing the backlog in producing financial statements. We have made specific recommendations in relation to financial planning and the financial statements in this report.

The Council made reasonable progress during 2022/23 implementing the recommendations to improve internal audit's compliance with PSIAS, but was slow to secure improvements to increase the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas in this report.

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 have not been sufficiently progressed, in particular those relating to financial planning, addressing the backlog of the audit of financial statements, developing IT disaster recovery plans, and strengthening the Audit Committee.

We endorse the recommendations that internal audit made as a result of their action plan progress review in January 2023. These related to monitoring the progress made implementing recommendations through the Pentana system, and regularly reviewing the status of all recommendations to consider whether further action is required to mitigate risk.

Significant findings – audit risks

Risks identified in our Audit Plan

The robustness of procurement arrangements, including timely review of policies, performance monitoring, and the publication of key documents on the Council's website.

A review of the Procurement and Contract Management Strategy was undertaken in 2019/20, with Executive approving the revised Strategy in March 2020. Changes were made to reflect updates to Contract Standing Orders (CSOs), the new Corporate Strategy 2020-24, and the new Commercial Strategy 2019-23.

The Strategy should be subject to an annual update and also includes performance indicators with targets that should be monitored as part of quarterly performance reports.

The capital programme includes significant capital schemes relating to fleet replacement, regeneration and Towns Fund. These will require adequate procurement and contract management processes to manage financial and delivery risk and secure value for money.

Commentary

We have identified significant weaknesses in the Council's procurement arrangements.

The Council did not maintain a register of procurement waivers to allow for the systematic review of procurements that did not follow approved Contract Standing Orders (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 and improvements to contract performance were achieved through the procurement process.

During our review of procurement arrangements, we requested evidence from officers that procurement exercises undertaken during 2019/20 complied with CSOs, Financial Regulations and public procurement regulations. The Council was unable to provide any such evidence, in the form of contract tender documents, tender appraisals, or procurement award documents. Therefore, the Council was unable to demonstrate that procurements were undertaken in accordance with approved procedures and legislation that is aimed at ensuring transparency, competition, and value for money through procurement activity.

The failure to demonstrate compliance with its own procedures means the risk of fraud and corrupt practice was significantly enhanced.

The Procurement Strategy identifies performance indicators that will be monitored as part of quarterly performance reports and are set out in the Performance Management and Improvement Framework. The Council did not formally report on these procurement performance indicators, that include savings achieved, contract review targets, and regular publishing of the contract register, to Members.

There is no evidence that the CSOs or the Procurement Strategy have been reviewed since 2019/20 in accordance with the policy, and so there is a risk that they did not reflect organisational priorities, changes in organisational structure or current public procurement regulations. We also note that the Contract Register was not kept up to date and documents on the Council's website were not current versions.

Therefore, 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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.</p> <p>There is pressure on the Council to identify significant savings over the period of the medium term financial strategy. As well as the cost, demand and inflation pressures that impact on the Council's budget, there are also uncertainties in the timing and impact of changes to the local government funding regime relating to the fair funding review and business rate baseline reset.</p> <p>The Council has become reliant on the use of one-off resources to balance the budget position in recent years rather than developing plans to deliver significant recurring savings. The new Cumberland Council will inherit any underlying budget gap from Copeland Borough Council on 1 April 2023.</p> <p>We reported a statutory recommendation in March 2022 that the Council should ensure the critical</p>	<p>Financial planning arrangements during 2019/20:</p> <p>The Council set a balanced budget for 2019/20 in February 2019, but due to Covid-19 related costs, reductions in income, and ICT staffing and network costs, the final outturn position was a £0.517m overspend. This position indicates potential shortcomings in budgetary control and setting, for example the variances within refuse and recycling were due to lower income from sale of recyclates and lower than budgeted recycling tonnages. Budget growth for waste of £0.599m was built into the 2021/22 budget to reflect historical budget pressures.</p> <p>The 2019/20 overspend was funded through the GF balance, creating additional pressure on the reserves available to mitigate financial risk in the future. The GF balance reduced from £2.756m as at 1 April 2019 to £2.058m as at 31 March 2020, leaving little headroom to the minimum prudent balance of £2m.</p> <p>The Council was able to set a balanced budget for 2020/21 through a contribution from reserves of £1.188m and efficiencies totalling £1.425m. Efficiencies related to the Copeland Centre (£0.837m), Commercial Strategy (£0.338m) and other efficiencies (£0.25m). 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.</p> <p>In February 2020 financial planning recognised that the fair funding review and changes to the business rate retention scheme were delayed until April 2021. Due to the difficulties quantifying potential changes in government funding, the MTFS 2020-25 did not include changes to these government funding streams, although it did identify that the Council benefits from £0.5m of retained business rate growth that could be at risk. The MTFS would be strengthened, and financial risk better understood if a sensitivity analysis were provided for the potential range of financial impacts relating to changes in government funding.</p> <p>The February 2020 MTFS identified that significant savings and contributions from reserves of approximately £2.6m per annum were required to balance the financial position from 2020/21 to 2024/25. These included a cumulative commercial income target of £1.35m, savings from the Copeland Centre of £0.837m, and other efficiencies of £0.5m by 2024/25. In addition, the balancing of the financial position required a £1.721m drawdown from reserves.</p>	<p>Auditor view</p> <p>We have identified significant weaknesses with regard to the Council's financial planning arrangements in 2019/20. These include an in-year overspend of £0.517m that was funded through the General Fund balance, bringing it close to the minimum agreed prudent level and reducing the resources available to mitigate financial risk in future years.</p> <p>The budget 2020/21 and MTFS 2020-25 identified significant income targets from the Commercial Strategy and additional efficiency savings. These targets were not the result of worked-up schemes or agreed business cases, were not delivered, and were subsequently removed from financial plans.</p> <p>The MTFS 2020-25 would be strengthened through the inclusion of sensitivity and scenario analysis for key financial risks, for example the potential impact of changes to government funding streams.</p> <p>There is a lack of explicit information within the budget report on the revenue impacts and risks associated with the significant level of borrowing required to fund the capital programme.</p> <p>We reported a statutory recommendation in March 2022 that the Council should address critical financial governance</p>

Key findings

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.</p> <p>(Continued)</p> <p>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.</p>	<p>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 in 2019/20 and beyond.</p> <p>The General Fund outturn position for 2020/21 was a £0.012m overspend after accounting for £1m in government funding relating to the pandemic. Within this net position the Council did not achieve any of the £0.338m commercial income target or the £0.25m efficiency saving target.</p> <p>It is noted that the Council did achieve the £0.837m saving relating to the Copeland Centre. This is a positive outcome where the Council was able to exit the Private Finance Initiative arrangement for its headquarters which did not provide value for money, and where the contract could not be renegotiated. After developing a business case, the Council received a £5m grant from the government to purchase the asset. This allowed the building to be refurbished and better utilised, generating additional income through the letting of surplus floorspace.</p> <p>The financial plans approved in February 2020 contained additional financial risk with regard to the revenue implications of borrowing to fund the capital programme. The capital programme required £27m of borrowing to fund approved schemes. There is a lack of explicit information within the budget report on the revenue impacts and risks associated with this level of borrowing. The assumption for the purposes of financial planning was that future costs of borrowing would be financed through additional net operating income from future capital investments.</p> <p>We have concluded that there were significant weaknesses within the Council's financial planning arrangements for 2019/20. These include in-year overspends that are placing pressure on reserves, reliance on one-off resources to balance the medium-term financial plan, not achieving recurring savings targets, and a lack of detail and sensitivity analysis for key budget assumptions.</p>	<p>Auditor view</p> <p>weaknesses in financial planning. While some progress was made in improving financial planning during 2022/23, the budget gap has not been closed. The strategy since 2020/21 of relying on one-off resources to balance the budget has resulted in a projected £3.998m budget deficit for 2023/24, which was inherited by the new Cumberland Council.</p> <p>The Council's strategy of using GF and earmarked risk reserves to balance the revenue budget has eroded the level of reserves available to mitigate financial risk and has not represented a financially sustainable strategy. This is a significant weakness in financial planning arrangements.</p> <p>We recommend that the financial planning weaknesses that have been identified at Copeland Borough Council are considered by Cumberland Council, and are used to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.</p> <p>See VFM Recommendation 1.</p>

Key findings.

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.</p>	<p>Financial planning arrangements 2020/21:</p> <p>In February 2021 the Council set a balanced budget for 2021/22 and approved the MTFS 2021-23. Balancing the budget required a £1.5m capitalisation directive and a £1.845m drawdown from reserves. No efficiency or commercial income targets were set for 2021/22 and these were removed for the period of the MTFS.</p> <p>The removal of income and savings targets was due to the changing economic outlook caused by the impact on the pandemic, a lack of management capacity to deliver the Commercial Strategy, and recognition of impending local government reorganisation in the county. The focus of the Commercial Strategy had included commissioning and procurement, assets and investments, income generation and companies. The Council did not consider how this focus could be refreshed within the Commercial Strategy to reflect potential opportunities during the recovery phase of the pandemic.</p> <p>The MTFS 2021-23 forecast a budget gap of £4.261m for 2022/23. A high-level scenario analysis of the budget gap was provided in the MTFS, with current, best, and worst-case scenarios. The analysis however did not provide detail for how assumptions had been changed for each scenario, and so did not significantly increase understanding of financial risk. The MTFS approved in February 2021 only covered two years to 2022/23, with no reference to how the Council would develop a sustainable financial strategy to balance the budget gap.</p> <p>While the MTFS covered two years to 2022/23, the capital programme extended to 2025/26. This, coupled with the ongoing assumption that borrowing costs would be funded from the net income from future investment, created a financial risk that the revenue costs of future borrowing were not being planned for. The MTFS did not set out the quantum of this risk by disclosing the value of minimum revenue provision and interest costs associated with the capital programme.</p> <p>The outturn position for 2021/22 was a £0.487m underspend which was added to the General Fund balance, resulting in a balance as at 31 March 2022 of £2.533m.</p> <p>Financial planning arrangements 2021/22:</p> <p>In February 2022 the Council set a balanced budget for what will be the last year of operation for Copeland Borough Council before vesting day for Cumberland Council on 1 April 2023.</p> <p>Balancing the 2022/23 budget was based on the use of £4.008m of one-off resources. This included the assumption that the Council would receive another £1.5m</p>	<p>Auditor view</p>

(Continued)

Key findings

Significant risk	Findings	Conclusion
<p data-bbox="45 235 497 264">Sustainable resource deployment:</p> <p data-bbox="45 314 497 564">Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.</p> <p data-bbox="45 578 186 606">(Continued)</p>	<p data-bbox="497 235 1471 406">capitalisation directive from the government to balance the annual budget, plus the utilisation of £0.74m of an additional £2m capitalisation directive to provide the resources to deliver the Towns Fund programme. In addition, a further £1.168m drawdown from reserves was required as well as the release of the remaining £0.6m of Covid-19 emergency funding. There were no efficiency targets included within the budget.</p> <p data-bbox="497 421 1471 499">The financial planning horizon was extended to three years, covering the period 2022/23 to 2024/25. A budget gap of £3.998m was forecast for 2023/24, rising to £4.227m in 2024/25.</p> <p data-bbox="497 514 1471 763">We note that some improvements were made to make financial planning more robust, 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 £1.479m 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. Therefore, the Council started to address some of the weaknesses identified in the statutory recommendation made in March 2022.</p> <p data-bbox="497 778 1471 978">However, the strategy in recent years of relying on reserves and capitalisation directives to balance the budget, rather than the delivery of recurring efficiencies, resulted in a projected budget gap of £3.998m in 2023/24. This is the financial position that Cumberland Council inherited, to be addressed as part of the budget process for the new council. The increasing reliance on one-off resources to balance the budget is demonstrated in the graph and table below which analyses budgeted recurring efficiencies and the use of one-off resources against recurring efficiencies delivered.</p> <p data-bbox="497 992 1471 1100">We recommend that the financial planning weaknesses that have been identified at Copeland Borough Council are considered by Cumberland Council and are used to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.</p>	<p data-bbox="1471 235 1968 264">Auditor view</p>

Key findings

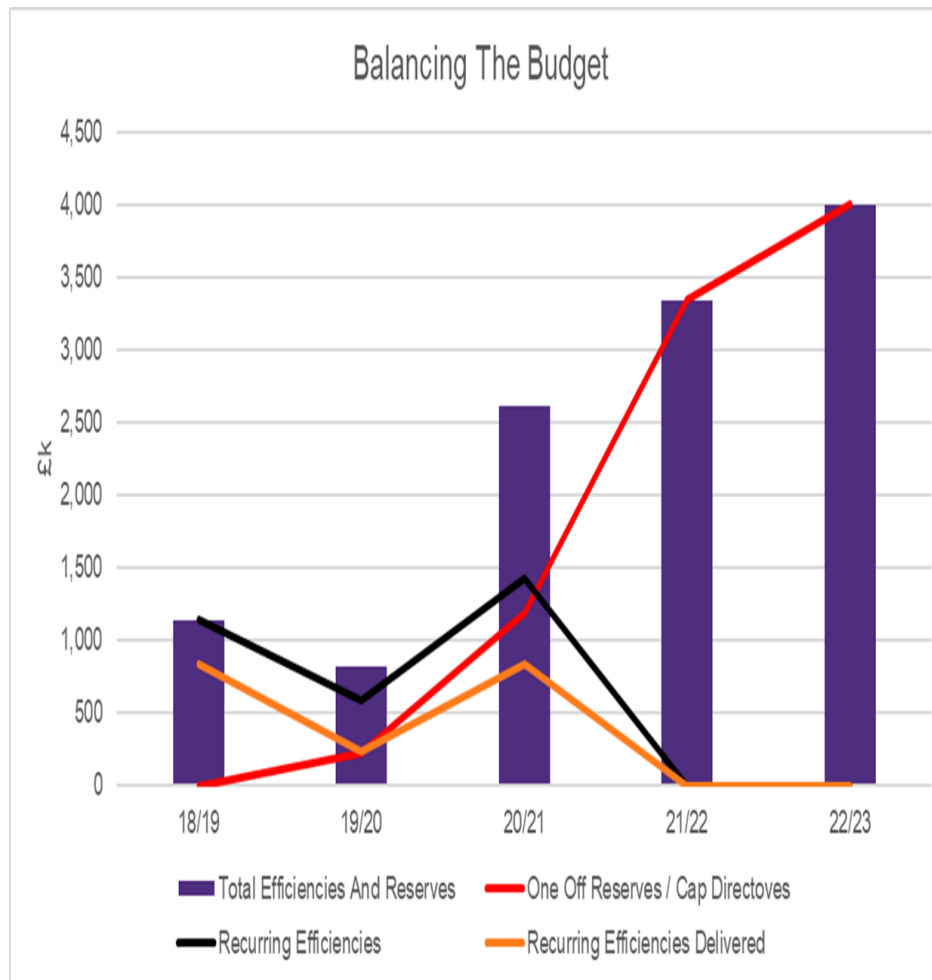
Significant risk

Sustainable resource deployment:

Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.

(Continued)

Findings



Conclusion

Auditor view

Key findings

Significant risk

Findings

Conclusion

Sustainable resource deployment:

Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.

(Continued)

Year	Total Budgeted Efficiencies and Reserves	Budgeted Reserves and Cap Directives	Budgeted Recurring Efficiencies	Delivered Recurring Efficiencies
	£k	£k	£k	£k
2018/19	1,141	0	1,141	841
2019/20	818	227	591	241
2020/21	2,613	1,188	1,425	837
2021/22	3,345	3,345	0	0
2022/23	4,008	4,008	0	0

Auditor view

Reserves Strategy:

The GF balance remained at or above the minimum prudent limit of £2m for the period 2018/19 to 2022/23, as demonstrated in the table below. 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 forecast GF balance was £2.533m as at 31 March 2023, this has reduced significantly since the £3.251m balance as at 31 March 2018 (22% reduction). The annual outturn positions have 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 £4.201m has been utilised, in addition to the release of the £0.6m Covid grant in 2022/23, has had the effect of eroding the Council-funded earmarked reserves. The forecast balance for these reserves as at 31 March 2023 was £2.982m, a significant reduction from the £9.979m available as at 31 March 2019 (70.1% reduction).

The Council's strategy of using GF and earmarked risk reserves to balance the revenue budget has eroded the level of reserves available to mitigate financial risk and has not represented a financially sustainable strategy. This is a significant weakness in financial planning arrangements.

Key findings.**Significant risk****Sustainable resource deployment:**

Risk 1: A potential significant risk has been identified that medium term financial planning is not robust, relies on one-off resources to balance the budget, and is not addressing significant forecast budget gaps through sustainable efficiency plans. There is a risk that reserves will fall below minimum prudent levels.

(Continued)

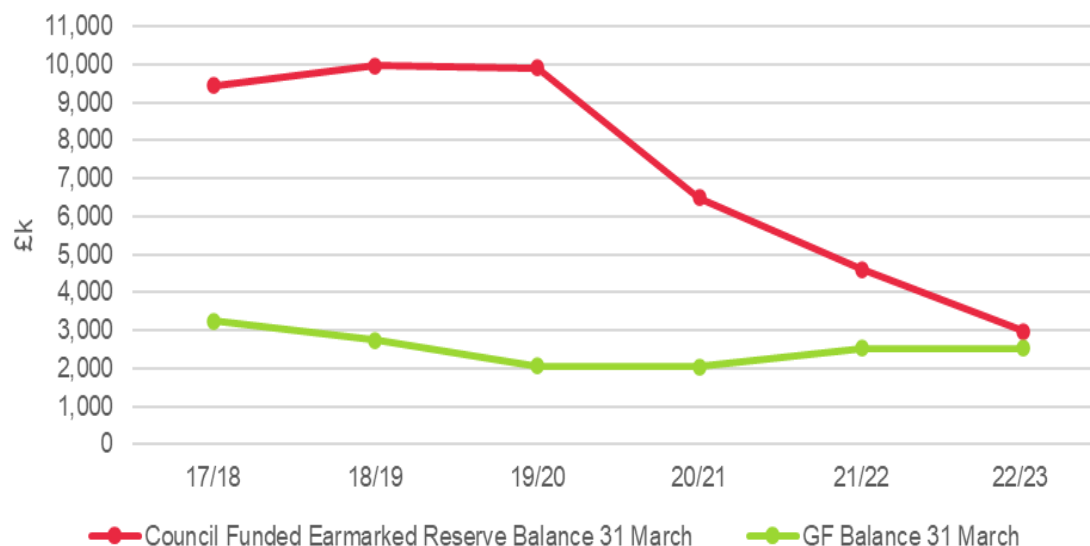
Findings

General Fund Balance:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£k	£k	£k	£k	£k	£k
GF Balance 31 March	3,251	2,756	2,058	2,046	2,533	2,533
Council Funded Earmarked Reserves Balance 31 March	9,945	9,979	9,915	6,499	4,617	2,982

Conclusion

General Fund Balance And Council Funded Reserves



We recommend that the financial planning weaknesses that have been identified at Copeland Borough Council are considered by Cumberland Council and are used to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 2: A potential significant risk has been identified that the ambitions of the capital programme are unaffordable and could have an impact on the financial sustainability of the new Cumberland Council.</p> <p>The DLUHC review of financial sustainability identified the affordability of the capital programme as a significant challenge.</p> <p>We reported a statutory recommendation in March 2022 that the Council must protect against overcommitment on capital ambitions especially in the context of dependency on capital directions and the transition to local government reorganisation.</p>	<p>The Council approved the capital programme 2020/21–2024/25 in February 2020. Capital expenditure for the period was forecast at £37.122m, with associated funding including £27.0m of additional borrowing. The majority of the borrowing requirement related to the commercial investment programme of £25.0m.</p> <p>The Council's financial planning assumption was that the future costs of borrowing would be financed through additional net operating income from future capital investments. This represented a financial risk within financial planning if costs are more than planned, or if income less than forecast. This risk is identified in the budget report for 2020/21 but not quantified.</p> <p>The Treasury Management Strategy 2020/21 identified that the Council's capital financing requirement (CFR) was forecast to increase from £7.343m in 2018/19 to £20.0m by 2022/23 as the Council delivered capital schemes funded through additional borrowing. The associated minimum revenue provision (MRP) to repay debt was forecast to increase from £0.2m to £0.8m by 2022/23. While the Treasury Management Strategy covered the period to 2022/23, the capital programme extended to 2024/25. Projections for the CFR and MRP should cover the period of the capital programme to ensure that the impact of borrowing for capital schemes is understood.</p> <p>We have identified that a significant weakness existed in 2019/20 with regard to the financial risks within the capital programme. This risk related to the £27m of additional borrowing required to fund the programme, and the assumption that the associated costs would be funded through the additional income generated from capital schemes.</p> <p>The capital programme 2021/22 to 2025/26 was approved in February 2021. The capital expenditure forecast for the period increased to £43.724m due to the inclusion of new schemes relating to the Leconfield Industrial Estate, vehicle replacements and capitalisation directives. The borrowing required to fund the approved capital programme increased to £33.319m, and therefore represented a growing risk in terms of affordability.</p> <p>The budget report for 2021/22 confirmed the assumption that that the future costs of borrowing would be financed through additional income from future capital investments, but the financial risk was not quantified. The Treasury Management Strategy 2021/22 did forecast further increases to MRP for a total of £1.195m by 2023/24.</p> <p>The Council reviewed the capital programme during 2021/22, approving the programme for 2022/23 – 2025/26 in February 2022. Although the value of the programme increased to £70.334m, this included the Towns Fund regeneration schemes that total £51.643m and were funded through government grants, external contributions and</p>	<p>Auditor view</p> <p>We have identified that a significant weakness existed in 2019/20 with regard to the financial risk within the capital programme. This risk related to the £27m of additional borrowing required to fund the programme and the assumption that the associated costs would be funded through the additional income generated from capital schemes.</p> <p>The borrowing requirement and associated MRP costs increased when the capital programme 2021/22 to 2025/26 was approved in February 2021, and therefore represented a growing risk in terms of affordability.</p> <p>The Council did review the capital programme in 2021/22, and approved a Programme in February 2022 that was 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, during 2021/22 the Council made progress in addressing the March 2022 statutory recommendation relating to protecting against overcommitment on the capital programme.</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</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 2: A potential significant risk has been identified that the ambitions of the capital programme are unaffordable and could have an impact on the financial sustainability of the new Cumberland Council.</p> <p>(Continued)</p>	<p>capital receipts. The borrowing required to fund the capital programme reduced from £33.319m to £16.5m, largely due to the removal of the commercial investment schemes.</p> <p>We note that the budget report 2022/23 and MTFS approved in February 2022 did provide more information regarding the revenue implications of the capital programme. The MRP costs relating to the borrowing required for the capitalisation directives, regeneration and fleet replacement were set out and total £1.479m by 2024/25. The budget confirmed the funding sources for the additional MRP, with the Leconfield borrowing funded from generated income, dependent on the approval of a business case. A sensitivity analysis for borrowing costs and capital investment income was also provided.</p> <p>Therefore, the Council made progress in addressing the March 2022 statutory recommendation relating to protecting against overcommitment on the capital programme by reducing the forecast CFR and additional borrowing required to fund the programme. The risks and financial implications of the capital programme were also more clearly set out in the budget report for 2022/23.</p> <p>The graph overleaf, based on the February 2022 Treasury Management Strategy and Capital Strategy projections, demonstrates that capital expenditure was forecast to peak in 2022/23 and 2023/24, as regeneration and Towns Fund projects were delivered. The majority of the programme was now funded from external sources, although borrowing was required to fund the capitalisation directives, fleet replacement and regeneration projects in 2022/23 and 2023/24. The CFR for the approved programme was forecast to flatten out at approximately £21m by 2023/24.</p> <p>The 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.</p> <p>We recommend that the risks that have been identified are considered by Cumberland Council and are used to inform the design of arrangements to ensure the capital programme is affordable and financing risk is mitigated.</p> <p>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.</p> <p>The Council did not comply with these requirements for 2019/20 as no annual report</p>	<p>Auditor view</p> <p>forward when external borrowing will need to be incurred to finance the legacy Copeland Borough Council capital programme.</p> <p>We recommend that the capital programme risks that have been identified at Copeland Borough Council are considered by Cumberland Council, and are used to inform the design of arrangements to ensure the capital programme is affordable and financing risk is mitigated.</p> <p>See VFM Recommendation 2.</p> <p>The Council did not provide an annual treasury management report for Member scrutiny and quarterly budget monitoring reports did not contain all of the information we would expect to see in a mid-year treasury review. Therefore, the Council did not comply with the requirements of the CIPFA Treasury Management in Public Services Code of Practice or the Council's Constitution.</p> <p>We have made a 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.</p> <p>See VFM Recommendation 3.</p>

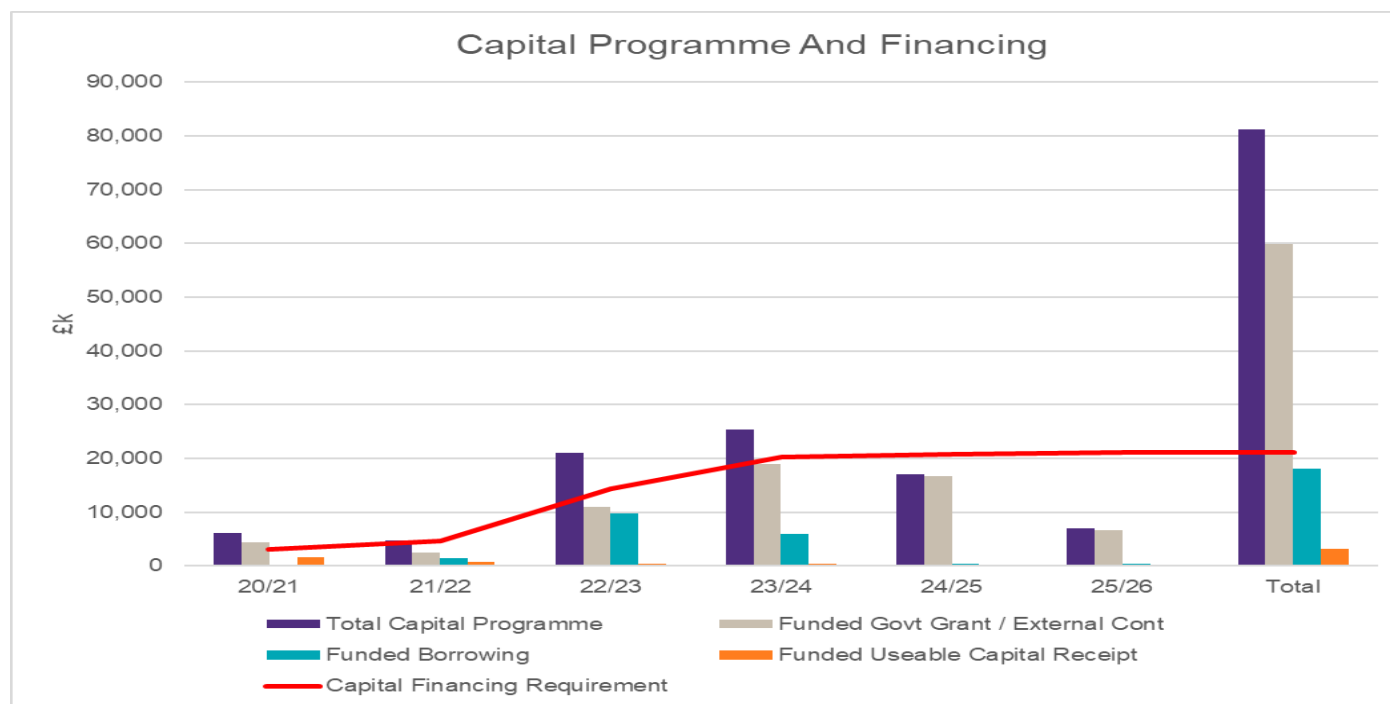
Key findings (continued)**Significant risk****Findings****Sustainable resource deployment:**

Risk 2: A potential significant risk has been identified that the ambitions of the capital programme are unaffordable and could have an impact on the financial sustainability of the new Cumberland Council.

(Continued)

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 and details of investment and debt portfolios. Non-compliance with the CIPFA Code is considered a significant weakness in arrangements.

We have made a 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.



Key findings (continued)

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 3: A potential significant risk has been identified that there is not sufficient capacity to produce the backlog of financial statements in accordance with the agreed timetable and to required quality standards.</p>	<p>The last certificate closing the audit was issued for 2017/18 in February 2021. The 2017/18 accounts were not fully supported by working papers at the time of submission for audit and contained numerous errors, including two material matters regarding buildings valuation and expenditure cut off, which resulted in limitation of scope related qualifications in the 2017/18 audit report opinion. The weaknesses prevalent also led to serious governance failings as covered in detail in our 2017/18 Audit Findings Report and qualified adverse VFM conclusion.</p> <p>The Local Government Finance Review report of the Department for Levelling Up, Housing and Communities (prepared by CIPFA) in December 2021 made the following recommendation:</p> <p><i>CIPFA supports Grant Thornton's statutory recommendations made as part of the 2017/18 audit that robust arrangements must be put in place to address the backlog of production of the Statement of Accounts 2018/19, 2019/20 and 2020/21 financial statements, which must meet statutory requirements and international financial reporting standards. Also previously, the lead auditor did not present the Statutory recommendations. We would recommend going forward the auditors, in the interest of governance and independence are present to make reports to full Council.</i></p> <p>The 2018/19 audit was significantly delayed due to the financial statements continuing to be deficient in the valuation of land buildings and investment properties.</p> <p>To avoid an audit qualification in relation to the valuation of land and buildings and investment properties, management have instructed a new external valuer to prepare valuation reports covering the 31 March 2018 prior year comparator and subsequent years. The updated valuations identified material adjustments to the draft financial statements.</p> <p>In January 2024, we resumed the audit of the 2018-19 financial statements and we expect to complete the audit by 31 March 2024. We have discussed the requirements to provide the outstanding audit evidence with Finance officers at the Cumberland unitary council and agreed to conclude the audit testing on the basis of evidence received to date.</p> <p>Due to the lack of sufficient supporting evidence for material areas of the financial statements and risks in relation to management override of controls, we expect to issue a qualified audit opinion for the 2018-19 financial statements.</p> <p>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.</p>	<p>Auditor view</p> <p>See VFM Recommendation 4.</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Sustainable resource deployment:</p> <p>Risk 4: A potential significant risk has been identified that the finance team does not have the appropriate capacity, skill and experience to clear the backlog of accounts, provide business as usual activity, implement improvements to financial planning, and support local government reorganisation effectively.</p>	<p>Copeland Borough Council has a relatively small finance team. The recruitment and retention of skilled and qualified finance staff in the locality has been an ongoing and longstanding issue, which the Council attributes primarily due to the neighbouring Nuclear Decommissioning Authority (NDA), who offer more favourable terms and conditions.</p> <p>The Council recruited a new Service Director of Financial Resources in June 2018, who commenced recruitment and filled vacancies, whilst recognising the training requirements needed for the team to function properly. Added to this, the Council has worked collaboratively with neighbouring councils and bought in skills and experience from CIPFA and LG Futures, but recognises this incurs additional cost and is not an ideal substitute for an internal fully staffed and skilled finance team. The Finance team did not have a qualified permanent technical chief accountant with local government experience for an extended period of time, until October 2020 when it appointed a suitably qualified person on a part-time basis. The retention of key finance team members remains an ongoing challenge for the Council. We do recognise that the Estates team has been strengthened.</p> <p>We have significant concerns around the Council's capacity and capability to deal with what is a large volume of significant recommendations raised through a combination of the DLUHC review of financial sustainability on December 2021, CIPFA's reviews of Internal Audit and Audit Committee effectiveness as generated by our previous Statutory recommendation and several other external audit key findings.</p> <p>Management prepared a timetable to prepare the overdue financial statements for audit to the Audit Committee in March 2022 as follows:</p> <ul style="list-style-type: none"> • 2018/19 updated draft accounts provided in June 2022 and audit completed in July 2022. These updated draft accounts were delayed and made available September 2022 • 2019/20 draft accounts provided in September 2022 and audit completed in December 2022 • 2020/21 draft accounts provided in January 2023 and audit completed in April 2023 • 2021/22 draft accounts provided in July 2023 and audit completed in September 2023 • 2022/23 draft accounts provided in November 2023 and audit completed in March 2024. <p>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.</p> <p>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.</p>	<p>Auditor view</p> <p>See VFM Recommendation 4.</p>

The recruitment and retention of skilled and qualified finance staff is an ongoing issue. The finance team did not have a qualified permanent technical chief accountant with local government experience for an extended period of time, until October 2020.

Efforts need to be made to fill vacancies in the Finance Team and ensure they receive suitable support and training.

Additional demands on officers and Members will be made due to local government reorganisation in Cumbria as the Council transitions to a successor unitary body on 31 March 2023.

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 5: A potential significant risk has been identified that risk management arrangements are not robust and do not follow the requirements of the risk management framework.</p> <p>We identified a weakness in 2018/19 that the Council's risk management framework is not operating as designed and that there is insufficient oversight by those charged with governance. Effective risk management arrangements are essential to the Council's internal control framework.</p> <p>We made a recommendation that the Council should review its risk management arrangements and ensure that the strategic risk register is reported in line with the Risk Management Policy.</p> <p>The Council suffered a severe cyber-attack in 2017 which had a significant impact on systems, services and financial reporting. An independent IT health check in May 2019 identified 99 recommendations, with many critical recommendations similar to those identified in a previous health check. There is a risk that the Council has not made sufficient progress in strengthening its risk management arrangements for IT systems and that the network is not adequately protected against malicious cyber activity.</p>	<p>Risk management arrangements:</p> <p>The Council revised its Risk Management Policy in August 2019. The Policy was approved by Corporate Leadership Team and sets out the roles and responsibilities for risk management, as well as the processes for identifying, assessing, controlling and monitoring risk.</p> <p>The Audit Committee received risk monitoring reports relating to 2019/20 in August 2019 (Quarter 1), November 2019 (Quarter 2) and June 2020 (Quarters 3 and 4). This is in accordance with the Risk Management Policy, within the context that the April 2020 Audit Committee meeting was cancelled, requiring Quarters 3 and 4 to be reported together in June 2020. However, we note that the Executive did not receive an annual report on the Strategic Risk Register.</p> <p>The Strategic Risk Register includes most of the elements of best practice that we would expect. A summary page provides the risk title, Red Amber Green (RAG) status, risk score, trend, review date, target score, and risk owner. For each risk there is a detailed schedule that provides information on contributing factors, risk triggers, risk impact, internal controls, and further required actions. The number of risks reported allows for sufficient focus on strategic issues.</p> <p>The Strategic Risk Register is supported by an appendix of changes made to each risk and this provides evidence that risks have been reviewed since the previous report to Audit Committee.</p> <p>While the Strategic Risk Register contains most of the elements we would expect, we note that strategic risks are not mapped to corporate priorities to ensure that only risks that impact on strategic issues are reported. The Strategic Risk Register would also be strengthened by allocating further required actions to named officers and providing target dates for implementation.</p> <p>The Audit Committee was also provided with a summary of the operational risk register that identifies operational risks with a red RAG status.</p> <p>We have not identified any significant weaknesses with regard to the general risk management arrangements that were in place for 2019/20.</p> <p>We note that from March 2020 the Council enacted its business continuity plan in response to the pandemic. Business critical functions were identified, and resources redeployed to ensure the delivery of statutory services. The Corporate Leadership Team assumed the role of Gold Command and recorded risk management arrangements through decision logs.</p>	<p>Auditor view</p> <p>We have not identified any significant weaknesses in the Council's general arrangements for reporting and managing risk in 2019/20.</p> <p>We have made a recommendation to strengthen arrangements by mapping risks within the strategic risk register to corporate priorities, and by allocating required actions to named officers with a target date for implementation.</p> <p>See VFM Recommendation 5.</p> <p>However, we judge the lack of regular reporting of risk to Members for the last three financial years (2020/21 – 2022/23) to be a significant weakness in arrangements as it has not provided proper oversight of arrangements for those charged with governance.</p> <p>We have made a recommendation that risk management arrangements should be reported quarterly to the Audit Committee and annually to Executive in accordance with the Risk Management Policy.</p> <p>See VFM Recommendation 6.</p> <p>We have identified significant weaknesses in the ICT control environment and ICT risk management arrangements for 2019/20 and beyond. The Council did not address previous statutory recommendations relating to ICT and business continuity. There was no disaster recovery plan in place and disaster recovery arrangements were not tested.</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 5: A potential significant risk has been identified that risk management arrangements are not robust and do not follow the requirements of the risk management framework.</p> <p>(Continued)</p>	<p>As resources were redeployed, the formal reporting of the Council's Strategic Risk Register to Members was much reduced for 2020/21, with the Audit Committee only receiving a Quarter 2 report in November 2020. This report only provided the high-level summary of the strategic risk register.</p> <p>Arrangements for the regular reporting of the Strategic Risk Register to the Audit Committee, in accordance with the Risk Management Policy, did not resume after 2019/20. The Audit Committee received just one risk management report for each of the financial years since 2019/20 as follows:</p> <ul style="list-style-type: none"> • 2020/21 - Quarter 2 report (November 2020) • 2021/22 – Quarter 4 report (July 2022) • 2022/23 – Quarter 2 report (January 2023) <p>The Risk Management Policy requires that the Executive receive annual risk management reports, but these were not provided for 2019/20, 2020/21 or 2021/22.</p> <p>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.</p> <p>We recommend that risk management arrangements should be reported quarterly to the Audit Committee and annually to the Executive.</p> <p>Improvements to the ICT control environment:</p> <p>Weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017. Weaknesses in control and the Council's response to the cyber-attack included the lack of an ICT asset register, rebuilding critical ICT systems on end-of-life equipment, and the use of contractors to assist with the recovery who were not cyber incident recovery specialists. Defences against cyber-attack such as network segmentation and intrusion detection systems were not in place when the attack happened.</p>	<p>Auditor view</p> <p>We have made a recommendation that 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.</p> <p>See VFM Recommendation 7.</p>

Key findings (continued)**Significant risk****Informed decision making:**

Risk 5: A potential significant risk has been identified that risk management arrangements are not robust and do not follow the requirements of the risk management framework.

(Continued)

Findings

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. An independent IT healthcheck (ITHC) was undertaken in May 2019, which identified 99 findings, of which 36 were critical or high. Critical issues were similar to those identified in an independent healthcheck carried out in November 2017, demonstrating that the Council was slow to recognise and mitigate the risks relating to ICT and cyber security.

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 table below summarises the quantum and rating of findings identified by the 2019 and 2020 ITHCs.

Rating	May 2019	December 2020
Critical	5	4
High	31	24
Medium	41	32
Low	22	31
Total	99	91

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 Strategic Risk Register for Quarter 1 2019/20 included the risk that Council ICT systems do not demonstrate resilience. The associated risk score was 9, suggesting low likelihood but critical impact, and had been reduced from 20 during 2018/19. This reduced risk rating was in place throughout 2019/20. The reduction in the assessment of risk relating to ICT resilience through 2018/19 to 2019/20 suggests that there was not sufficient oversight and awareness of risk to IT systems.

Considering the continued significant weaknesses within the ICT control environment after the cyber-attack and the subsequent approval of a £0.95m budget to replace ICT

Conclusion**Auditor view**

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 5: A potential significant risk has been identified that risk management arrangements are not robust and do not follow the requirements of the risk management framework.</p> <p>(Continued)</p>	<p>network and server infrastructure, we have concerns over the lack of internal audit coverage of ICT governance from 2019/20 to 2022/23. The 2019/20 Internal Audit Plan included reviews of the ICT Strategy and an audit of ICT Purchasing, Associated Contracts and Support. These audits were subsequently carried forward and combined into one review scheduled for 2020/21.</p> <p>However, the Internal Audit Update Report to the Audit Committee in May 2021 confirmed that the ICT Strategy and Purchasing Audit brought forward from 2019/20 was now focussing on just two areas of the ISO27001 Information Security Management Standard. These relate to Information Security Policies and Human Resource Security. This represents a significant diminution of scope from the previous plan. There were no other internal audit reviews of ICT governance arrangements from 2019/20 to 2022/23.</p> <p>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.</p> <p>Therefore, we have significant concerns with regard to the arrangements to manage ICT risks and ensure an effective ICT control environment. These relate to:</p> <ul style="list-style-type: none"> • significant weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017 and these continued into 2019/20 and beyond; • the Council was slow to address identified weaknesses as evidenced through the findings of the May 2019 and December 2020 ITHCs; • the reduced Strategic Risk Register assessment of ICT resilience risk suggests that there was not sufficient oversight and awareness of risk to IT systems; • a disaster recovery plan was not developed, and disaster recovery arrangements were not tested; • during a period of heightened risk, the scope of internal audit coverage of the ICT Strategy and ICT Purchasing was significantly reduced to a review of Information Security Policies and Human Resource Security; • the Council did not address previous statutory recommendations relating to ICT and business continuity. <p>Therefore, we have made a recommendation that 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.</p>	Auditor view

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 6: A potential significant risk has been identified that the Council does not have an effective internal audit function and Audit Committee.</p> <p>We reported a statutory recommendation in February 2021 that the Council should carry out independent internal audit and Audit Committee effectiveness reviews and implement outstanding audit recommendations.</p> <p>The CIPFA review of internal audit in August 2021 confirms partial compliance with Public Sector Internal Audit Standards, with 7 high priority and 10 other recommendations made.</p> <p>CIPFA reviewed the effectiveness of the Audit Committee in September 2021, concluding that there is scope to enhance the skills and knowledge of Members and improve the Committee's effectiveness. CIPFA made 11 recommendations which included completion of an annual self-assessment, submitting an annual report to full council, increased Member training, and regular briefings from officers.</p> <p>We reported a statutory recommendation in March 2022 that immediate action is required to strengthen the Council's internal governance arrangements, especially its internal audit service and Audit Committee effectiveness.</p>	<p>Internal audit arrangements:</p> <p>The approved Internal Audit Plan for 2019/20 was based on 421 audit days that included risk-based and cyclical system reviews. This level of cover was consistent with previous years, and in the plan the Internal Audit Manager confirmed that these planned days were the minimum acceptable level of cover for an annual internal audit opinion to be provided.</p> <p>Audit monitoring reports were provided to each Audit Committee meeting during 2019/20 which provided the detailed findings, assurance opinion, recommendations and agreed action plan for completed audits. Progress against the annual Internal Audit Plan was also summarised.</p> <p>The Internal Audit Manager left the employment of the Council in July 2019, and this impacted on the delivery of the planned audits. Several audits were deferred to future years, including those relating to key areas assurance such as cash receipting, ICT purchasing, data protection and accounts quality assurance. In total 110 days of the planned 421 days were deferred, with only 11 out of 17 (65%) planned audits completed.</p> <p>A reasonable assurance opinion was provided by internal audit on the Council's overall arrangements for governance, risk management and internal control. This was based on the work completed and reasonable or substantial assurance opinions provided for individual audits.</p> <p>We note that subsequent year's Internal Audit Plans were based on fewer days, reflecting the resources available within the internal audit team. The 2020/21 Plan was based on 206 days, with a significant reduction in the number of risk-based review days to 40, in comparison to 210 for 2019/20. Similarly, the 2021/22 Plan was based on 281 days, including 60 days for risk-based audit reviews.</p> <p>For both 2020/21 and 2021/22 only approximately 65% of the Internal Audit Plan was delivered, and only a partial assurance annual opinion was provided in these years based on the limited level of coverage.</p> <p>Due to the significant reduction in coverage against the Internal Audit Plan for 2019/20, we do not consider that there was enough breadth of review of the control environment to provide a reasonable assurance annual audit opinion. We have made further comment on the reduction of internal audit scope in relation to the review of the ICT Strategy and ICT Purchasing, Associated Contracts and Support within our commentary on risk management arrangements. We recommend that the Council revisits this assessment for 2019/20. The reduced delivery of the audit plan in subsequent years resulted in a partial assurance opinion being issued.</p>	<p>Auditor view</p> <p>Due to the significant reduction in coverage against the Internal Audit Plan for 2019/20, we do not consider that there was enough breadth of review of the control environment to provide a reasonable assurance annual audit opinion. We recommend that the Council revisits this assessment for 2019/20.</p> <p>See VFM Recommendation 8.</p> <p>Detailed information on overdue internal audit recommendations was only provided to the Audit Committee for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented. We recommend that the quality of reporting on the implementation of internal audit key recommendations is improved.</p> <p>See VFM Recommendation 9.</p> <p>The Internal Audit Manager left the employment of the Council in July 2019, when the Director of Financial Resources (S151 Officer) took over responsibility for managing the function. This arrangement created potential conflicts of interest and impairments to the independency of the internal audit function and was a departure from best practice.</p> <p>Due to the significance of these findings, we have concluded that there were significant weaknesses in arrangements for an effective internal audit function in 2019/20.</p>

Key findings (continued)**Significant risk****Findings****Conclusion****Informed decision making:**

Risk 6: A potential significant risk has been identified that the Council does not have an effective internal audit function and Audit Committee.

(Continued)

We have previously noted weaknesses in the reporting of the implementation of internal audit recommendations. We reported a statutory recommendation in February 2021 that outstanding internal audit recommendations should be implemented.

During 2019/20, while all overdue Priority 1 and Priority 2 recommendations were reported in detail in Quarter 1, for the remainder of the financial year detail was only provided for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented. The practice of only reporting Priority 2 recommendations that are less than 50% implemented has continued through 2020/21 to 2022/23.

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. We recommend that the quality of reporting on the implementation of internal audit key recommendations is improved.

We note that the Council made progress in reducing the number of key recommendations that are overdue over recent years, as demonstrated in the table below. However, while there were 19 Priority 2 recommendations overdue as at 31 December 2022, as none of these were less than 50% implemented, the Audit Committee did not receive any information on what control improvements they related to or when they were due. This reinforces the requirement to improve reporting in this area.

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
31 Dec 2022	24	5	19

Auditor view

The Council made reasonable progress during 2022/23 in implementing the recommendations raised as a result of the CIPFA review of internal audit compliance with PSIAS.

We recommend that the Council continues to strengthen its internal audit function and ensures that the positive direction of travel with regard to PSIAS compliance is maintained.

See VFM Recommendation 10.

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 still outstanding as at 31 March 2023. Areas for focus include Member training, undertaking self-assessments, producing annual reports, and reporting on risk management arrangements.

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.

See VFM Recommendation 11.

The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate. The Audit Committee received the Fraud and Corruption Strategy and Anti Money Laundering Policy in April 2019. There have been no further policies reviewed and there was no annual counter fraud plan, progress report or annual report.

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 6: A potential significant risk has been identified that the Council does not have an effective internal audit function and Audit Committee.</p>	<p>The Council had a small internal audit team with an establishment in 2019/20 comprising the Internal Audit Manager and 1.6 full time equivalent auditors (made up of two posts). The Internal Audit Manager left the employment of the Council in July 2019, when the Director of Financial Resources (S151 Officer) took over responsibility for managing the function.</p> <p>This vacancy had an impact on the delivery of the Audit Plan, but the arrangements for the roles of S151 Officer and Chief Audit Executive to be undertaken by the Director of Financial Resources also created potential conflicts of interest and impairments to the independency of the internal audit function. 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.</p> <p>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 2019/20.</p> <p>CIPFA assessment of conformance to Public Sector Internal Audit Standards:</p> <p>In response to previous recommendations from Grant Thornton and the Department for Levelling Up, Housing and Communities (DLUHC), the Council commissioned an independent CIPFA review of conformance to Public Sector Internal Audit Standards (PSIAS). The conclusion of the review, that the internal audit service partially conforms to PSIAS, was reported to the Audit Committee in September 2021.</p> <p>Weaknesses and partial conformance was 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 Audit Plan should be enhanced in terms of audit scope and relevance to Council priorities.</p> <p>Progress in implementing the recommendations resulting from the CIPFA review were reported to the Audit Committee through subsequent audit plans and internal audit update reports.</p> <p>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.</p>	<p>Auditor view</p> <p>We recommend that Cumberland Council 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>See VFM Recommendation 12.</p>
(Continued)		

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 6: A potential significant risk has been identified that the Council does not have an effective internal audit function and Audit Committee.</p>	<p>The Council did not progress the recommendation that auditors undertake further professional training.</p> <p>The Council was successful in recruiting an Internal Audit Manager in April 2022, which was a shared post with other local councils, and so the potential conflicts of interest weakness was resolved.</p> <p>We recommend that the Council continues to strengthen its internal audit function and ensures that the positive direction of travel with regard to PSIAS compliance is maintained.</p> <p>Audit Committee arrangements:</p> <p>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 <i>“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”</i>.</p> <p>The review identified limited challenge by Members on the agenda items being presented to the Audit Committee. This was consistent with our observations of the Audit Committee.</p> <p>The associated action plan identified eleven recommendations aimed at increasing the effectiveness of the Audit Committee, raising the Committee’s profile within the Council, and supporting Committee Members through training, briefings, and access to the CIPFA better governance forum in order to develop skills and knowledge.</p> <p>Internal Audit undertook an audit of the progress made in implementing these recommendations and reported to the Audit Committee in January 2023, concluding that of the eleven recommendations, one was fully implemented, eight were ongoing and two were outstanding.</p> <p>As part of our value for money work we have reviewed the progress the Council made in implementing the CIPFA recommendations to improve the effectiveness of the Audit Committee. From review of the Internal Audit progress report and Audit Committee agenda papers, and discussions with officers, our view is that the Council has been slow to implement the required improvements, and that the majority of the recommendations remained outstanding as at 31 March 2023.</p> <p>The report presenting the CIPFA recommendations was provided to the Audit Committee in March 2022, with the report dated September 2021. There was an opportunity to implement many of the recommendations to be effective during 2022/23, and also to improve year-end reporting and review for 2021/22. Many of these actions</p>	Auditor view
(Continued)		

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 6: A potential significant risk has been identified that the Council does not have an effective internal audit function and Audit Committee.</p>	<p>could have been implemented quickly without significant cost.</p> <p>Deep dives became a standing agenda item, and covered topics such as asset valuations, treasury management and local government reorganisation. Deep dives are a tool for better understanding key areas of risk or significant current issues, but were used as a proxy instead of implementing other key recommendations that were designed to better support Members of the Audit Committee. Recommendations relating to developing a programme of Member training, Member working parties, and the provision of a key library of documents, were replaced by the inclusion of deep dives on the Audit Committee's agenda.</p> <p>Opportunities to improve governance arrangements and raise awareness of the work of the Audit Committee through the production of an annual report and self-assessment for 2021/22 were not taken. The Council did not implement the CIPFA recommendation to subscribe to the Better Governance Forum in order to provide access to specialist advisors and training, although it is recognised that this proposal would have required a financial investment.</p> <p>The CIPFA recommendation that risk management should be included on every Audit Committee Agenda was not fully implemented. The only risk management report that the Audit Committee received in relation to 2022/23 arrangements was in January 2023, which related to Quarter 2 2022/23.</p> <p>Therefore, we conclude that there were still weaknesses with regard to the effectiveness of the Audit Committee as at March 2023. 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. 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>The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee was not adequate. The Audit Committee received the Fraud and Corruption Strategy and Anti Money Laundering Policy in April 2019, before approval by Executive in June 2019. There have been no further policies reviewed and there was no annual counter fraud plan, progress report or annual report.</p> <p>Audit Plans included minimal provision for anti-fraud work, comprising of National Fraud Initiative (NFI) reviews and limited capacity for reactive work. The 2019/20 Audit Plan had only 10 days for NFI and counter fraud work, with 15 days for 2020/21. Updates on fraud work through annual internal audit reports and update reports were confined to the NFI data matching exercise.</p> <p>We recommend that the reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee is improved.</p>	<p>Auditor view</p>

(Continued)

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 7: A potential significant risk has been identified that the Council does not have the capacity and capability to deliver the large volume of recommendations raised through DLUHC, CIPFA and Grant Thornton reviews and that there is not adequate oversight by Members on the progress made in implementing these recommendations.</p>	<p>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 monitored by the Director of Financial Resources using a spreadsheet of individual recommendations. Progress was formally reported to Members of the Overview and Scrutiny Committee (July 2022) and Audit Committee (October 2022 and January 2023).</p> <p>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 to allow for regular monitoring, and for SMT to regularly review the status of all recommendations to consider if further action is required.</p> <p>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.</p> <p>For the improvements required as a result of the DLUHC finance review, we recognise that some improvements were made to financial planning during 2022/23, such as the review of the capital programme, extension of the MTFs horizon, more detailed scenario analysis, and the quantification of the impact of MRP on the budget. Some key areas however were not implemented, such as clearing the backlog in the production and audit of the financial statements, and balancing the MTFs. We recommend that the financial planning weaknesses that have been identified at Copeland Borough Council are considered by Cumberland Council, in order to inform the design of arrangements to ensure financial planning is robust and provides sustainability for the delivery of services.</p> <p>The Council made reasonable progress during 2022/23 in implementing the recommendations to improve compliance with PSIAS. We recommend that the Council continues to strengthen its internal audit function and ensures that the positive direction of travel with regard to PSIAS compliance is maintained.</p> <p>Our view is that the Council was slow to implement the required improvements in response to the CIPFA review of the effectiveness of the Audit Committee, and that the majority of the recommendations were outstanding as at March 2023. 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>Auditor view</p> <p>A composite action plan was developed from the recommendations made by external regulators and progress was reported to Members.</p> <p>Progress was made in addressing some of the weaknesses identified in the DLUHC finance review, particularly in relation to the capital programme, sensitivity analysis and identification of the revenue implications of borrowing. However, we have identified that there were still significant weaknesses in financial planning arrangements and that progress was not made in key areas such as balancing the MTFs and addressing the backlog in producing financial statements. We have made specific recommendations in relation to financial planning and the financial statements elsewhere in this report.</p> <p>The Council made reasonable progress during 2022/23 implementing the recommendations to improve internal audit's compliance with PSIAS, but was slow to secure improvements to increase the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas elsewhere in this report.</p> <p>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 have not been</p>

The Department for Levelling Up, Housing and Communities and CIPFA conducted a financial assurance review of the Council in response to the request for a capitalisation directive. Their report was issued in December 2021 and identified a number of recommendations relating to improving financial planning and financial governance.

CIPFA have conducted reviews of the effectiveness of the Audit Committee (September 2021) and compliance with Public Sector Internal Audit Standards (August 2021). These two reviews have also resulted in action plans to address weaknesses in arrangements.

Grant Thornton issued statutory recommendations to the Council in February 2021 and March 2022 aimed at improving financial governance, and which overlapped with the recommendations made by other external regulators.

Grant Thornton raised a statutory recommendation in March 2022 to develop a composite and robust action

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 7: A potential significant risk has been identified that the Council does not have the capacity and capability to deliver the large volume of recommendations raised through DLUHC, CIPFA and Grant Thornton reviews and that there is not adequate oversight by Members on the progress made in implementing these recommendations.</p>	<p>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 have not been 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.</p> <p>In addition to the specific recommendations we have made elsewhere in this Audit Findings Report regarding financial planning, risk, internal audit and the Audit Committee, we endorse the recommendations that internal audit have made as a result of their progress review.</p>	<p>Auditor view</p> <p>sufficiently progressed as at March 2023.</p> <p>We endorse the recommendations that internal audit made as a result of their progress review. These relate to monitoring the progress made implementing recommendations through the Pentana system, and regularly reviewing the status of all recommendations to consider whether further action is required to mitigate risk.</p> <p>See VFM Recommendation 13.</p>

(Continued)

plan comprising recommendations from all external regulators, ensuring there is appropriate capacity and capability in place to implement the required governance improvements with regular oversight and challenge.

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 8: A potential significant risk has been identified with regard to procurement arrangements and whether policies are reviewed, performance monitored and reported, and whether key documents such as an up to date contracts register are published on the Council's website.</p>	<p>The Council approved new Contract Standing Orders (CSOs) in September 2019. The CSOs set out the processes for determining the contract value and for procuring and authorising goods and services for different thresholds of spend. Contract monitoring processes and the requirement to maintain a contract register are also confirmed.</p> <p>The expectation set out in the CSOs was that they would be reviewed annually by the Standards and Ethics Committee and 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.</p> <p>The Executive approved the Procurement and Contract Management Strategy 2018-21 in March 2020, in order to incorporate the revised CSOs, the new Corporate Strategy and the Commercial Strategy. 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 have been no further updates since March 2020.</p> <p>The Procurement Strategy identified performance indicators to be monitored as part of quarterly performance reports and are set out in the Performance Management and Improvement Framework. These included the number of 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.</p> <p>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 and improvements to contract performance were achieved through the procurement process.</p> <p>During our review of procurement arrangements, we requested evidence from officers that procurement exercises undertaken during 2019/20 complied with CSOs, Financial Regulations and public procurement regulations. The Council was unable to provide any such evidence, in the form of contract tender documents, tender appraisals, or procurement award documents. Therefore, the Council was unable to demonstrate that procurements were undertaken in accordance with approved procedures and legislation that is aimed at ensuring transparency, competition, and value for money through</p>	<p>Auditor view</p> <p>The Council did approve revised CSOs and a Procurement Strategy during 2019/20, and could demonstrate that the contract register was updated during the year. However significant weaknesses have been identified with regard to the absence of reporting of procurement waivers to Members, not being able to provide evidence that appropriate procurement processes were followed, and not formally reporting procurement key performance indicators to Members.</p> <p>There is no evidence that the CSOs or the Procurement Strategy have been reviewed since 2019/20 in accordance with the policy. We also note that the Contract Register was not kept up to date and documents on the Council's website were not current versions.</p> <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>See VFM Recommendation 14.</p>
<p>A review of the Procurement and Contract Management Strategy was undertaken in 2019/20, with Executive approving the revised Strategy in March 2020. Changes were made to reflect updates to Contract Standing Orders, the new Corporate Strategy 2020-24 and the new Commercial Strategy 2019-23. The Strategy sets out the Council's strategic approach to Procurement and Contract Management.</p> <p>The Strategy should be subject to an annual update and also includes performance indicators with targets that should be monitored as part of quarterly performance reports.</p> <p>The capital programme includes significant capital schemes relating to fleet replacement, regeneration and Towns Fund. These will require adequate procurement and contract management processes to manage financial and delivery risk and secure value for money.</p>		

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Informed decision making:</p> <p>Risk 8: A potential significant risk has been identified with regard to procurement arrangements and whether policies are reviewed, performance monitored and reported, and whether key documents such as an up to date contracts register are published on the Council's website.</p>	<p>procurement activity. This is a significant weakness in arrangements, as we would expect organisations to maintain such records and be able to provide them in the event of audit requests or external challenge.</p> <p>We note that 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, with a target to move to monthly updates. 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.</p> <p>Therefore, we have identified significant weaknesses in the Council's procurement arrangements. The Council did approve revised CSOs and a Procurement Strategy during 2019/20, and could demonstrate that the contract register was updated during the year. However, significant weaknesses have been identified with regard to the absence of reporting of procurement waivers to Members, not being able to provide evidence that appropriate procurement processes were followed, and not formally reporting key procurement performance indicators to Members.</p> <p>There is no evidence that the CSOs or Procurement Strategy have been reviewed since 2019/20 in accordance with the policy, and so there is a risk that they did not reflect organisational priorities, changes in organisational structure or current public procurement regulations. We also note that the Contract Register was not kept up to date and documents on the Council's website were not current versions.</p> <p>Therefore, 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. This includes:</p> <ul style="list-style-type: none"> • maintaining evidence that procurement activity complies with CSOs, financial regulations and public procurement regulations; • 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. 	<p>Auditor view</p>

(Continued)

Action plan – value for money

We have identified 14 recommendations for the Council as a result of issues identified during the course of our audit. While the recommendations that we have raised to improve the arrangements to secure value for money relate to Copeland Borough Council, 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.

1



We have identified significant weaknesses with regard to the Council's financial planning arrangements in 2019/20.

The Council increasingly relied on the use of one-off resources to balance annual budgets since 2020/21, rather than deliver sustainable efficiencies. This included significant use of reserves and capitalisation directions. This resulted in a projected budget gap of £3.998m for 2023/24 which the new Cumberland Council inherited.

The Council's strategy of using GF and earmarked risk reserves to balance the revenue budget eroded the level of reserves available to mitigate financial risk and did not represent a financially sustainable strategy.

Recommendations

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.

This includes:

- 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.

Management response

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.

Action plan – value for money

- 2 ● We have identified that a significant weakness existed in 2019/20 with regard to the financial risk within the capital programme. This risk related to the £27m of additional borrowing required to fund the programme and the assumption that the associated costs would be funded through the additional income generated from capital schemes.
- The borrowing requirement and associated MRP costs increased when the capital programme 2021/22 to 2025/26 was approved in February 2021, and therefore represented a growing risk in terms of affordability.
- We note that for 2022/23 the Council reviewed the capital programme and reduced the associated borrowing requirement. Additional information was also provided in the budget report on the revenue costs associated with borrowing.

Recommendations

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.

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 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.

Management response



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

Action plan – value for money

Assessment	Issue and risk	Recommendations
3	<p> 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 set out that the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.</p> <p>The Council did not comply with these requirements for 2019/20 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 and details of investment and debt portfolios.</p>	<p>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. This should include:</p> <ul style="list-style-type: none"> • providing to Members as a minimum an annual treasury strategy report, a mid-year review, and an annual treasury report; • ensuring that the Audit Committee undertake effective scrutiny of the Treasury Management Strategy and policies. <p>Management response</p> <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>
4	<p> The Council has not fulfilled its statutory requirements to produced 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 is a significant risk, with associated risks relating to reporting outturn and setting a budget without a prior year audited position.</p> <p>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.</p> <p>Additional demands on officers and Members will be made due to local government reorganisation in Cumbria as the Council transitions to Cumberland unitary council on 31 March 2023. The lack of audited closing Statement of Accounts for Copeland Borough Council will impact Cumberland Council's opening Statement of Accounts.</p>	<p>The 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.</p> <p>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.</p> <p>Management response</p> <p>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.</p>

Action plan – value for money

	Assessment	Issue and risk	Recommendations
5		<p>We have not identified any significant weaknesses in the Council's general arrangements for reporting and managing risk in 2019/20.</p> <p>The Strategic Risk Register was reported regularly to the Audit Committee during the year and contains most of the elements of best practice we would expect.</p> <p>We note that strategic risks were not mapped to corporate priorities to ensure that only risks that impact on strategic issues were reported. The Strategic Risk Register would also be strengthened by allocating further required actions to named officers and providing target dates for implementation.</p>	<p>Risk management reporting arrangements should be strengthened by:</p> <ul style="list-style-type: none"> mapping risks in the Strategic Risk Register to corporate priorities; allocating further required actions to named officers and providing target dates for implementation. <p>Management response</p> <p>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.</p> <p>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.</p>
6		<p>Arrangements for the regular reporting of the Strategic Risk Register to the Audit Committee did not resume after 2019/20. The Audit Committee received just one risk management report for each of the financial years since 2019/20 as follows:</p> <ul style="list-style-type: none"> 2020/21 - Quarter 2 report (November 2020) 2021/22 – Quarter 4 report (July 2022) 2022/23 – Quarter 2 report (January 2023) <p>The Risk Management Policy required that the Executive receive annual risk management reports, but these were not provided for 2019/20, 2020/21 or 2021/22.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>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).</p> <p>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.</p>

Action plan – value for money

	Assessment	Issue and risk	Recommendations
7	●	<p>We have significant concerns with regard to the arrangements to manage ICT risks and ensure an effective ICT control environment. These relate to:</p> <ul style="list-style-type: none"> significant weaknesses were identified in the ICT control environment following the severe cyber-attack in 2017 and these continued into 2019/20 and beyond; the Council was slow to address identified weaknesses as evidenced through the findings of the May 2019 and December 2020 IT Health Checks; the reduced Strategic Risk Register assessment of ICT resilience risk suggests that there was not sufficient oversight and awareness of risk to ICT systems; a disaster recovery plan was not developed and disaster recovery arrangements were not tested; during a period of heightened risk, the scope of internal audit coverage of the ICT Strategy and ICT Purchasing was significantly reduced to a review of Information Security Policies and Human Resource Security; the Council did not address previous statutory recommendations relating to ICT and business continuity. 	<p>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.</p> <p>Management response 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Disaster Recovery is addressed in the response to follow-ups.</p>
8	●	<p>The approved Internal Audit Plan for 2019/20 was based on 421 audit days with the Internal Audit Manager confirming that these planned days were the minimum acceptable level of cover for an annual audit opinion to be provided.</p> <p>During the year several key assurance audits were deferred that totalled 110 days, and by the year-end only 11 out of 17 (65%) planned audits were completed. A reasonable annual internal audit opinion was provided for 2019/20.</p> <p>Due to the significant reduction in coverage against the plan we do not consider that there was enough breadth of review of the control environment to provide a reasonable assurance opinion.</p>	<p>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 for the year.</p> <p>Management response While the findings are accepted, this was a historic decision made by previous Head of Internal Audit at Copeland Borough Council.</p> <p>Audit opinions at Copeland for 2021/22 and 2022/23 (draft) both provided partial assurances and the 2021/22 opinion included significant caveats relating to the limited audit coverage in that year (which was identified by the incoming Head of Internal Audit when appointed in April 2022).</p> <p>Internal Audit coverage at Cumberland has been monitored and reported regularly and actions have been taken to address resource difficulties faced by the service (which will be referred to in the 2023/24 annual Head of Internal Audit opinion).</p>

Action plan – value for money

Assessment	Issue and risk	Recommendations
9	<p>● The Audit Committee was only provided with detailed information on overdue internal audit recommendations for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented.</p> <p>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.</p>	<p>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.</p> <p>Management response</p> <p>The Cumberland Audit Committee receives regular updates on the follow-up of all internal audit recommendations, including outstanding legacy recommendations from the three district councils.</p>
10	<p>● In response to previous recommendations from Grant Thornton and DLUHC, the Council commissioned an independent CIPFA review of conformance to Public Sector Internal Audit Standards. The conclusion of the review was that the internal audit service partially conforms to these standards.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • embedding the new working methodology to deliver internal audit work; • continued review and reporting to Audit Committee of compliance with PSIAS; • continue to develop the quality and improvement process; • ensure that auditors undertake sufficient professional training. <p>Management response</p> <p>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.</p> <p>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.</p> <p>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.</p>

Action plan – value for money

Assessment	Issue and risk	Recommendations
11	<p data-bbox="196 264 238 307">●</p> <p data-bbox="321 264 901 521">The report presenting the CIPFA recommendations relating to the effectiveness of the Audit Committee was provided to the Audit Committee in March 2022. The report is dated September 2021. There was an opportunity to implement many of the recommendations to be effective during 2022/23, and also to improve year-end reporting and review for 2021/22. Many of these actions could have been implemented quickly without significant cost.</p> <p data-bbox="321 535 901 671">The Council was slow to implement the required improvements to increase the effectiveness of the Audit Committee, and the majority of the CIPFA recommendations were still outstanding at March 2023.</p>	<p data-bbox="922 264 1976 349">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 data-bbox="922 364 1067 392">In particular:</p> <ul data-bbox="922 406 1976 592" style="list-style-type: none"> • ensuring sufficient training and support is provided in order to increase the 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; • governance arrangements are improved through the production of an Audit Committee Annual Report and self-assessment. <p data-bbox="922 642 1191 671">Management response</p> <p data-bbox="922 706 1976 763">A significant training programme has been developed for Cumberland Council Audit Committee members, including:</p> <ul data-bbox="922 771 1976 878" style="list-style-type: none"> • 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. <p data-bbox="922 913 1976 971">The Committee have also appointed a suitably qualified independent member following a competitive interview process, who will commence in post from March 2024.</p> <p data-bbox="922 999 1976 1056">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.</p> <p data-bbox="922 1085 1976 1142">Regular risk management updates are provided and an annual report and self- assessment will be delivered in May 2024.</p>

Action plan – value for money

Assessment	Issue and risk	Recommendations
12	<p>● Arrangements for reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate. The Audit Committee received the Fraud and Corruption Strategy and Anti Money Laundering Policy in April 2019 before approval by Executive in June 2019. There have been no further policies reviewed and there was no annual counter fraud plan, progress report or annual report.</p>	<p>We recommend that Cumberland Council 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>Specifically:</p> <ul style="list-style-type: none"> • an annual counter fraud plan should be approved by the Audit Committee that includes adequate resource for risk-based work, reactive work, investigations and counter fraud training and awareness; • regular progress reports and an annual report that summarise counter fraud activity and the results of fraud investigations should be presented for Audit Committee scrutiny. <p>Management response</p> <p>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.</p> <p>The Committee received and approved the Council's Counter-fraud and Confidential Reporting policies.</p> <p>Internal Audit progress reports include an update on counter-fraud activity, including outcomes of any finalised fraud investigations.</p> <p>From 2024/25 an annual self -assessment will be provided against best practice in relation to counter-fraud.</p>

Action plan – value for money

Assessment	Issue and risk	Recommendations
13	<p data-bbox="209 275 250 315">●</p> <p data-bbox="339 268 1038 379">The recommendations from the DLUHC, CIPFA and Grant Thornton external reviews were combined into a composite action plan. Progress was formally reported to Members of the Overview and Scrutiny Committee and Audit Committee.</p> <p data-bbox="339 394 1038 505">Internal Audit undertook a review of the progress made against the action plan, providing to the Audit Committee in January 2023 a reasonable assurance opinion for the controls for progressing statutory recommendations.</p> <p data-bbox="339 519 1038 715">Our review of progress made has identified that while progress has been made in some areas, key recommendations relating to balancing the MTFs, addressing the backlog in producing financial statements, developing IT disaster recovery plans, and improving the effectiveness of the Audit Committee have not been implemented. We have made specific recommendations relating to these areas elsewhere in this report.</p> <p data-bbox="339 729 1038 809">We also endorse the recommendations made by internal audit as a result of their review of the progress made implementing the recommendations within the composite plan.</p>	<p data-bbox="1073 268 1958 354">Implement the recommendations made by internal audit regarding the monitoring of progress with the composite action plan developed from external regulator reviews. Specifically:</p> <ul data-bbox="1073 368 1958 486" style="list-style-type: none"> <li data-bbox="1073 368 1958 422">• outstanding statutory recommendations should be added to the corporate performance management system, Pentana Risk, to allow for regular monitoring; <li data-bbox="1073 436 1958 486">• SMT should regularly review the status of all recommendations and consider whether further action is required to mitigate any overarching risks. <p data-bbox="1073 539 1334 568">Management response</p> <p data-bbox="1073 608 1958 662">Cumberland Council does not currently have a performance management system in place.</p> <p data-bbox="1073 694 2026 779">In order to adhere to this recommendation a review of statutory recommendations will be undertaken to identify those that are still applicable to Cumberland, these will be assigned actions, with progress reported to SLT on a regular basis.</p>

Action plan – value for money

Assessment	Issue and risk	Recommendations
14	<p data-bbox="207 271 248 314"></p> <p data-bbox="331 264 1015 321">We have identified significant weaknesses in the Council's procurement arrangements. These include:</p> <ul data-bbox="331 328 1015 685" style="list-style-type: none"> <li data-bbox="331 328 1015 385">• not being able to provide evidence that appropriate procurement processes were followed; <li data-bbox="331 392 1015 449">• an absence of reporting procurement waivers to those charged with governance; <li data-bbox="331 456 1015 514">• not reporting key procurement performance indicators formally to Members; <li data-bbox="331 521 1015 578">• not regularly reviewing the Procurement Strategy and Contract Standing Orders; <li data-bbox="331 585 1015 685">• not maintaining an up to date contract register and not ensuring procurement information published on the website is up to date. <p data-bbox="331 692 1015 813">These weaknesses create a risk that procurement activity is not achieving value for money and that there is insufficient oversight of procurement activity from those charged with governance.</p>	<p data-bbox="1015 264 2018 349">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. This includes:</p> <ul data-bbox="1015 357 2018 642" style="list-style-type: none"> <li data-bbox="1015 357 2018 414">• maintaining evidence that procurement activity complies with CSOs, financial regulations and public procurement regulations; <li data-bbox="1015 421 2018 478">• maintaining a register of procurement waivers, and reporting waivers regularly to those charged with governance; <li data-bbox="1015 485 2018 521">• reporting on the key performance indicators as set out in the Procurement Strategy; <li data-bbox="1015 528 2018 564">• reviewing Contract Standing Orders and the Procurement Strategy regularly; <li data-bbox="1015 571 2018 606">• ensuring the contract register is maintained and published; <li data-bbox="1015 614 2018 642">• ensuring procurement information published on the Council's website is up to date. <p data-bbox="1015 685 1284 721">Management response</p> <p data-bbox="1015 756 2018 842">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.</p> <p data-bbox="1015 871 2018 928">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.</p> <p data-bbox="1015 956 1699 992">A register of procurement waivers is maintained by the service.</p> <p data-bbox="1015 1013 2018 1156">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.</p> <p data-bbox="1015 1185 2018 1270">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.</p> <p data-bbox="1015 1299 2018 1385">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.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>Risk 1: Financial Sustainability and the Medium Term Financial Plan (MTFP)</p> <p>The Council recognises that it faces a challenging financial environment in the short to medium-term and any financial legacy will be inherited by the new Cumberland Unitary Authority in April 2023. Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Copeland Borough Council, this contributed to pressure to identify significant savings to achieve a balanced budget. There continues to be significant uncertainty over the future of Local Government funding beyond 2020. The Medium Term Financial Strategy (MTFS) 2017/18 to 2020/21 was refreshed in February 2018 and shows that efficiencies and additional income totalling £2.430m was required to ensure delivery of balanced budgets in each of the three remaining years of the MTFS (2018/19 to 2020/21). The efficiencies required have increased for the period covered by the MTFS from 2018/19 to 2021/22 approved in February 2019 to £4.659 million. There are considerable uncertainties over various revenue streams in the medium term.</p> <p>As a result the Council has to apply a number of estimates and key judgements to compile the MTFP, including an assumption that a £1.5m capital directive is granted for 2021/22 and an expectation that it will be repeated for 2022/23.</p>	<p>In October 2020, the Council sought a capitalisation directive for 2021/22 of £1.5m, using existing monies it had previously borrowed for capital purposes but now needed for balancing the revenue budget. Confirmation of a provisional offer from DLUHC was received in February 2021 enabling a balanced budget to be approved by full Council on 2 March 2021. The reported gap for the 2022/23 Budget was £4.2m, which the S151 Officer has reported will require a further £1.5m capitalisation direction in 2022/23 and without further exceptional support and use of reserves it will leave the Council in the territory of issuing a section 114 notice, meaning the Council is unable to set a balanced budget and no new expenditure would be permitted.</p> <p>Subsequently the 2021/22 capital direction was conditionally approved, subject to meeting the conditions set by the Department for Levelling Up, Housing and Communities (DLUHC). The Senior leadership team believe that if either or both of the capital directions to the value of £3m do not materialise then the Council can cover this gap with the use of redirected earmarked reserves. We find this to be a risky assumption especially in the context of not having an expected audited financial position up to March 2021 and the numerous financial budgeting and reporting governance weaknesses, highlighted by both us as the appointed auditor and the DLUHC CIPFA commissioned review/ Ministerial letter (DLUHC review) issued on 8 December 2021. In addition to the cost pressures, the Council made a £1.6m contribution to LGR for transitioning costs to the new Cumberland Unitary Authority.</p> <p>One of the significant challenges presented in the DLUHC review was the affordability of a very ambitious capital programme. We acknowledge that, the Council has not committed significant borrowing as yet and has subsequently set a 3 year capital programme in 2022/23, spanning post LGR. However, given the precarious revenue position the Council faces, it has to be extremely careful not to overcommit on its capital ambitions especially in the context of LGR and any legacy decisions, which will impact the financial sustainability of the new Cumberland Unitary Authority.</p> <p>As explained by management in their Narrative Report to the 2018/19 financial statements there was a delay in closing the 2017/18 financial statements and a consequent delay in producing the 2018/19 draft financial statements for audit. This is attributed to the ongoing impact of the cyber-attack on the Council's IT systems, including the finance and related systems together with a shortage of technical accounting staff. The deadline for submitting draft statements was 30 June 2019 with the first draft versions presented for audit on 15 January 2021. Setting a budget without an audited prior year position is a risk to financial sustainability because the outturn position and liabilities may change. This is particularly critical given the dependency on capital directives to arrive at a balanced future position.</p> <p>Delays in the accounts production process are addressed later in this report.</p>	<p>Auditor view</p> <p>Our review of the MTFS identified risks and pressures which could cause the general fund reserve to dip below the minimum level of £2m by 31 March 2023, at the point that the Local Government Reorganisation is planned to take place. Management should ensure that the financial plan for 2022/23 contains sufficient consideration of financial pressures to maintain Council's general fund reserves at the required level of £2m. This should include consideration of sensitivity analysis for the pressures faced such as interest rate increases and MRP costs arising from increased borrowings. Management should also closely monitor the run rate and pressure on General Fund unearmarked reserves. (see Appendix C - VFM recommendation 2)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Risk 1: Financial Sustainability and the Medium Term Financial Plan (MTFP)</p> <p>Continued</p>	<p>Looking more specifically at the arrangements for the 2018/19 value for money requirements, a Medium Term Financial Strategy (MTFS) covering the period 2018/19 to 2020/21 was approved by the Council on 20 February 2018. The 2018/19 revenue budget was set within the wider context of the MTFS. The MTFS identified a funding gap of £1.3m in 2020/21 which would need addressing.</p> <p>The 2018/19 budget was agreed in March 2018, before the approval of the 2017/18 accounts or financial position at 31 March 2018, meaning that Members approving the budget did not have an agreed baseline position upon which to agree the budget. A 2018/19 Revenue and Capital Budget Outturn Report was presented to Executive meeting on 24 June 2019 however the figures were revised by the time that draft financial statements were prepared for audit. These delays were initially due to the lack of capacity of the Council to provide financial and other key budget reports in the period August 2017 until October 2018 due to the cyber-attack disabling key financial systems after which a period of catching up was required.</p> <p>The 2018/19 revenue budget was set at a balanced position of £8.939m with a planned surplus of £0.176m. The majority of funding was expected from Council tax (£4.152m) and Business Rates (£2.815m). Actual draft outturn expenditure is reported as £9.175m being an overspend of £0.412m. This is made up of a number of factors including an overspend within Corporate Services of £1.384m offset by an underspend within the Planning and Economic Development service area of £1.703m. Both of these items are attributed to increased expenditure arising from the August 2017 cyber-attack and associated capital direction of certain cyber related costs incurred.</p> <p>Alongside the overspent expenditure budget was an increase in income of £0.879m against plan. Overall there was an improved outturn position of £0.467m on provision of services.</p> <p>The overall impact on the General fund for 2018/19 was a deficit outturn position of £0.251m. This is due to an unplanned transfer to earmarked reserves of £1.885m offset by funding of cyber related costs and lost income of £0.991m from capital receipts by capital directive. This was in addition to the capital directive of £0.788m taking the total cyber related capital directive to £1.779m to cushion the financial impact of the cyber-attack on the Council's General Fund. The Council's General Fund reduced from £3.251m at the start of the year to £2.75m at 31 March 2019. Earmarked revenue reserves increased from £10.648m to £12.776m in the same period.</p> <p>The Council's Capital Programme for 2019/20 was planned at £1.664m. The financial statements report an outturn of £1.401m with funding equally balanced between capital receipts and grants and contributions.</p>	

Key findings (continued)

Significant risk	Findings	Conclusion
Risk 1: Financial Sustainability and the Medium Term Financial Plan (MTFP) Continued	The Council faced a successful business rate appeal from the Nuclear Decommissioning Authority (NDA) in 2015, resulting in substantial losses of £13m recurrently per annum from 2016/17 onwards. The NDA remains the largest rate paying business in the borough generating 75% of Borough's business rates. The dependency on NDA for business rates has created an ongoing substantial risk for the Council's financial standing.	

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Focus area arising from significant risks:</p> <p>Cyber-attack, capital direction spend of £1.8m and IT capacity</p>	<p>The Council suffered a cyber-attack in August 2017, which had a significant impact on core IT systems, council services and financial reporting for a extended period of time. The Council's immediate response to the cyber-attack was to contain the virus, and to work with partners across the County to ensure key services could continue to be provided during system recovery. The recovery period was extended and required the replacement of hardware, improving software and security systems, and the use of experts to attempt to recover data loss and rebuild systems. The cost of the cyber-attack has been significant at over £2.5m excluding staff costs.</p> <p>Despite the investment the Council's IT control environment and Business Continuity Plan arrangements remained deficient during 2018/19 and beyond. In particular we have identified deficiencies regarding monitoring and control of cyber-attack related IT overspends and the lack of information provided to support the capital direction for cyber costs of £1.779m over the financial years 2017 to 2019, meaning there is limited evidence to support that value for money was delivered from this investment.</p> <p>As mentioned above, the Council received a capital directive of £1.779m from central government to prevent cyber related costs from impacting the General Fund. The directive was allocated as £0.991million in 2018/19 and £0.788million in 2017/18.</p> <p>The Council provided a schedule of expenditure and lost income relating to the August 2017 cyber-attack. This schedule was provided to central government when the application for the directive was first made in October 2018. We have challenged the breakdown of costs and income and have raised concerns that a significant amount cannot be supported or properly explained by management. Inadequate tracking and monitoring of the spend was taken at the time. One of the conditions was that the directive was only to be used on the expenditure and lost income detailed in the schedule provided with the initial application. We have also raised concerns regarding the lack of governance arrangements in place at the time to approve cyber related costs and management of the overall budget.</p> <p>An independent IT Health Check (ITHC) was conducted in November 2017 and a further ITHC in May 2019. The latter report identified 99 findings at which point the review was stopped. 36 of the 99 recommendations were graded critical or high. This identified similar critical issues as the ITHC conducted in November 2017 following the cyber-attack. This confirms that the Council had not sufficiently strengthened its network during 2017/18 or 2018/19 to protect itself against malicious cyber activity.</p>	<p>Auditor view</p> <p>Management were unable to fully explain the make-up of the cyber related costs and lost income to support the capitalisation directive of October 2018 due to records being unavailable and staff transition brought about by the passage of time. It is therefore not possible to conclude that that the expenditure incurred delivered value for money to the residents of Copeland during 2018/19.</p> <p>Management must retain key evidence to support future capital directions. (see Appendix C - VFM recommendation 12)</p> <p>The Council has subsequently made progress in rebuilding and strengthening its IT environment since the appointment of the Head of ICT in December 2018. Key milestones such as the achievement of the Cyber Essentials Plus certification in April 2020, and subsequent recertification in August 2021 and the implementation of a brand new network and ERP system in 2021, show that the direction of travel on ICT control environment is becoming more positive.</p> <p>The Audit Findings Report 2016/17 contained an action for management to develop and test an IT disaster recovery plan. This action remains outstanding and should be addressed. (see Appendix C - VFM recommendation 1)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Sustainable Resource Deployment Focus area: Cyber-attack, capital direction spend of £1.8m and IT capacity</p>	<p>The Council commissioned external contractors to assist with the recovery from the cyber-attack; however, these contractors were largely general IT staff and not third-party cyber incident recovery specialists. The Council then rebuilt its critical IT systems on end-of-life equipment.</p> <p>Work commenced in quarter two of 2020/21 to replace old network equipment and continued into 2021/22. This review also identified an IT asset register was not maintained until the end of 2018/19 resulting in the Council not knowing exactly what IT equipment it had and whether that equipment was still supported by the vendor.</p> <p>The Council's strategic risk register during 2018/19 identified the following risk: <i>"Council ICT systems do not demonstrate resilience, redundancy and or high availability."</i></p> <p>The Strategic Risk Register (SRR) was presented to the Audit Committee on a quarterly basis in 2018/19 ensuring appropriate oversight. In quarter one the risk score was 20, (a very high rating) - "Take Immediate Action to Mitigate Risk and monitor/ review monthly". This risk score was revised in quarter four of 2018/19 to a risk score of 9, which is a amber risk score "risk significant – act to mitigate risk and monitor/review quarterly".</p> <p>Given the severity and pervasive nature of the findings raised by the ITHC in May 2019 and the notable reduction in the risk score for IT resilience, it is evident that the Council, both management and those charged with governance, did not have sufficient understanding, oversight, or awareness of the severity of the risks it faced because of the weaknesses present in its IT control environment during 2018/19.</p>	<p>Management should ensure any future capital directions are adequately tracked, reported and monitored to demonstrate value for money is being secured given the failings with producing supporting evidencing for the £1.8m capital direction used to cover cyber-attack costs in 2018 and 2019. (see Appendix C - VFM recommendation 12)</p>
Continued		

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Risk 2: Informed Decision Making and Financial Reporting: Late production of financial statements</p>	<p>The last certificate closing the audit was issued for 2017/18 in February 2021. The 2017/18 accounts were not fully supported by working papers at the time of submission for audit and contained numerous errors, including two material matters regarding buildings valuation and expenditure cut off, which resulted in limitation of scope related qualifications in the 2017/18 audit report opinion. The weaknesses prevalent also led to serious governance failings as covered in detail in our 2017/18 Audit Findings Report and qualified adverse VFM conclusion.</p> <p>The Local Government Finance Review report of the Department for Levelling Up, Housing and Communities (prepared by CIPFA) in December 2021 made the following recommendation:</p> <p><i>CIPFA supports Grant Thornton's statutory recommendations made as part of the 2017/18 audit that robust arrangements must be put in place to address the backlog of production of the Statement of Accounts 2018/19, 2019/20 and 2020/21 financial statements, which must meet statutory requirements and international financial reporting standards. Also previously, the lead auditor did not present the Statutory recommendations. We would recommend going forward the auditors, in the interest of governance and independence are present to make reports to full Council.</i></p> <p>Management prepared a timetable to prepare the overdue financial statements for audit to the Audit Committee in March 2022 as follows:</p> <ul style="list-style-type: none"> • 2018/19 updated draft accounts provided in June 2022 and audit completed in July 2022. <i>These updated draft accounts were delayed and made available September 2022</i> • 2019/20 draft accounts provided in September 2022 and audit completed in December 2022 • 2020/21 draft accounts provided in January 2023 and audit completed in April 2023 • 2021/22 draft accounts provided in July 2023 and audit completed in September 2023 • 2022/23 draft accounts provided in November 2023 and audit completed in March 2024. <p>The 2018/19 audit was significantly delayed due to the financial statements continuing to be deficient in the valuation of land buildings and investment properties. To avoid an audit qualification in relation to valuations, management have instructed a new external valuer to prepare valuation reports covering the 31 March 2018 prior year comparator and subsequent years. Upon receipt of the revised valuation reports the financial statements required significant updating for material adjustments.</p>	<p>Auditor view</p> <p>We recognise that the dates have lapsed for the Council to produce their 2021/22 and previous financial statements by the deadline. However slippage has been experienced in providing updated 2018/19 financial statements which will place pressure on management (and the auditor) to meet the subsequent timetable.</p> <p>Management need to commit to clearing the backlog of overdue draft financial statements supported by good quality working papers to enable audits to be completed.</p> <p>We will work closely with management to minimise any further delays in the financial reporting process.</p>
		<p>(see Appendix C - VFM recommendation 13)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Risk 3: Finance Department skills and capacity gap</p> <p>The Council has experienced difficulties in recruiting permanent qualified accountants to its senior technical accounting posts within the finance department.</p> <p>Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements.</p> <p>These roles are key to the department due to the technical accounting expertise required.</p>	<p>The Council's finance team establishment consists of a small number of finance specialists. The recruitment and retention of skilled and qualified finance staff in the locality has been an ongoing and longstanding issue, which the Council attributes primarily due to the neighbouring Nuclear Decommissioning Authority (NDA), who are considered to offer more favourable terms and conditions.</p> <p>The Council recruited a new Service Director of Financial Resources in June 2018, who commenced recruitment and filled vacancies, whilst recognising the training requirements needed for the team to function properly. Added to this, the Council has worked collaboratively with neighbouring councils and bought in skills and experience from CIPFA and LG Futures but recognises this incurs additional cost and is not an ideal substitute for an internal, fully staffed and skilled finance team. The Finance team did not have a qualified permanent technical chief accountant with local government experience for an extended period of time, until October 2020 when it appointed a suitably qualified person on a part-time basis. The retention of key finance team members remained an ongoing challenge for the Council during 2018/19 and beyond.</p> <p>We recognise that the Estates team has been strengthened with the appointment of a RICS qualified Property and Estates Manager which is key to providing ongoing valuation advice for the financial statements.</p> <p>The Council's 2018/19 and 2019/20 and 2020/21 financial statements and value for money conclusions have not yet been completed.</p>	<p>Auditor view</p> <p>The Finance Team has benefitted from staff sharing arrangements with two members of the Cumbria County Council finance team plus the recent recruitment of a finance officer (part time) in August 2022.</p> <p>It is important that the Finance Team receive suitable support and training in public sector accounting to fulfil their role. (see Appendix C - VFM recommendation 14)</p> <p>We still consider that the team faces challenges to prepare overdue financial statements and working papers to the required quality by the deadlines required.</p>

Key findings (continued)

Significant risk

Findings

Conclusion

Risk 4: Internal Control Environment: Response to recommendations

The Council has not acted on a timely basis to address weaknesses in its internal control environment, which were highlighted in recommendations made by Internal Audit and in its Annual Governance Statement Action Plan. Failure to take prompt action in response to identified weaknesses may have exacerbated the impact of the cyber-attack and contributed to the delay in restoring normal service delivery following the attack.

Furthermore there is a risk that normal control activities did not take place or were delayed, in the wake of the cyber-attack.

The effectiveness of the Council's wider third line of defence control environment has been challenged in the period, including Internal Audit and Audit Committee operating arrangements and effectiveness.

The monitoring and implementation of internal audit recommendations was the subject of an except for value for money conclusion in 2016/17. For 2017/18 this deteriorated and was the subject of an adverse conclusion and written recommendations under section 24 of the Local Audit and Accountability Act 2014 in 2017/18.

The Council has since regularly reported progress in meeting outstanding Internal Audit recommendations to the Audit Committee during late 2017/18 and 2018/19 onwards, which was an improvement on 2016/17 when this was only reported once. There remains scope to improve progress reporting as set out on the next page.

In the report of outstanding recommendations to the April 2019 Audit Committee there were 12 priority 1 recommendations and 20 overdue priority 2 recommendations, with overdue dates from 31 December 2016 to 31 March 2019. This is an overall improvement from the position in 2017/18, on which the adverse conclusion and section 24 written recommendations were based, when there were 16 priority 1 and 29 priority 2 recommendations outstanding. Since 2018/19 further progress has been made by implementing outstanding recommendations (as shown in the table below). At the time of writing, the last update on outstanding recommendations was made to the July 2022 Audit Committee, reporting 19 key audit recommendations were overdue as at 31 March 2022 (8 priority 1 recommendations and 11 priority 2 recommendations).

Overdue internal audit recommendations:

Date	Priority 1 overdue recommendations	Priority 2 overdue recommendations
31/12/17	21	51
31/3/18	16	29
31/3/19	12	20
31/3/20	7	16
31/3/21	TBC	TBC
31/3/22	8	11

Note that the impact of the August 2017 cyber attack are addressed separately in Section 3 of this report.

Auditor view

During 2018/19, the Council has made progress in monitoring and implementing outstanding recommendations. However, we have significant concerns that the Council is failing to make sufficient and adequate progress in actioning the wider suite of outstanding recommendations particularly in respect of ICT and business continuity. As well as Internal Audit there are key recommendations from the DLUHC review, CIPFA's reviews of Internal Audit and Audit Committee effectiveness, section 24 Statutory Recommendations and other external audit recommendations.

CIPFA reviews have raised deficiencies in both the Council's internal audit service and Audit Committee effectiveness. In addition, we have identified deficiencies regarding monitoring and control of cyber-attack related IT overspends and the information provided to support the capital direction for cyber costs. Our work has also identified weaknesses across the Council's governance arrangements which include insufficient scrutiny and challenge of decisions by Members, inadequate information to support decisions made and other weaknesses within the internal control environment.

(see Appendix C - VFM recommendation 3 & 4)

Key findings (continued)

Significant risk	Findings	Conclusion
Risk 4: Internal Control Environment: Response to recommendations Continued	Recommendation tracking - General The quality of internal audit reports during 2018/19 and beyond are generally weak, particularly in regard to reports on the implementation of overdue recommendations. The reports do not fully report the detail of all priority 1 and 2 recommendations outstanding and provide the detail of only priority 2 recommendations which are less than 50% implemented and all priority 1 recommendations. Without reporting all priority 2 recommendations, there is insufficient transparency over priority 2 recommendations which could be significantly overdue but more than 50% implemented. The quality of this reporting requires improvement to provide better information to support more effective scrutiny and challenge by the Audit Committee. The Council's Annual Governance Statement Action Plan for 2018/19 has one action carried forward from 2016/17 and three actions carried forward from 2017/18. One of the actions carried over from 2017/18 one relates to the cyber-attack, with 27 recommendations which the Council reports only 50% implementation with its Annual Governance Statement, as at January 2021. In 2016/17 we raised a recommendation relating to a lack of disaster recovery and business continuity procedures. This recommendation was not been implemented during 2018/19 and remains outstanding.	Auditor view (continued) We have significant concerns around the Council's capacity and capability to deal with what is a large volume of significant recommendations. With pending LGR and the demise of the Council, significant and fundamental financial and governance arrangements improvement is needed as part of Copeland Borough Council's legacy contribution to the new Cumberland Unitary Authority. (see Appendix C - VFM recommendation 15)

Key findings (continued)

Significant risk	Findings	Conclusion
Risk 4: Internal Control Environment: Response to external recommendations	<p>The Council faces capacity and capability challenges to deal with what is a large volume of significant recommendations raised through a combination of the DLUHC review, CIPFA's reviews of Internal Audit and Audit Committee effectiveness as generated by our previous Statutory Recommendation and several other external audit key findings. Despite pending LGR and the demise of the existing Council, significant and fundamental financial and governance arrangement improvements are needed as part of Copeland Borough Council's legacy contribution to the new Cumberland Unitary Authority.</p> <p>DLUHC review (Impacts each of the VFM criteria)</p> <p>The DLUHC review has identified a significant number of key and other recommendations, which the Council accepted. The S151 Officer's proposed responses to the recommendations were agreed at an exceptional general meeting held on 13th January 2022. Some of the key recommendations include:</p> <ul style="list-style-type: none"> • Refresh the Medium Term Financial Strategy (MTFS) to balance the budget to the year 2022/23 and 2023/24 when local Government reform is expected to take place • More explicit sensitivity analysis to aid management and member's understanding of the impact changes to assumptions could have on future budgets • Refresh capital programme to assess on-going achievability of schemes and as business cases are put forward robustly assess affordability • Capital programme be refreshed and aligned with a revised MTFS to capture affordability of these programmes • MTFS needs to fully recognise the costs of LGR and the impact on Minimum revenue provision to finance capital expenditure • Robust arrangements must be put in place to address the backlog of production of the statement of accounts • Segregation of the Director of Corporate Finance dual role of responsibility for both internal audit and the finance function. <p>Note some of these recommendations overlap with those previously raised by us as your external auditor.</p>	<p>Auditor view (continued)</p> <p>As set out previously, we have significant concerns around the Council's capacity and capability to deal with the large volume of significant recommendations raised through a combination of the DLUHC review, CIPFA's reviews of Internal Audit and Audit Committee effectiveness as generated by our previous Statutory Recommendation and several other external audit key findings.</p> <p>We recognise that a composite action plan is prepared and now presented to monthly to Overview and Scrutiny Committee and to each Audit Committee. We have however raised concerns that not all recommendations are included, and that some items are marked as met without sufficient consideration. This will be revisited during subsequent Value for Money reviews. (see Appendix C - VFM recommendation 15)</p>
Continued		

Key findings (continued)

Significant risk	Findings	Conclusion
<p data-bbox="70 219 478 272">Focus area arising from significant risks:</p> <p data-bbox="70 318 478 368">Effectiveness of Internal Audit and the Audit Committee</p>	<p data-bbox="540 219 1473 358">Our 2017/18 section 24 written recommendations included a recommendation that management obtain independent Internal Audit and Audit Committee effectiveness reviews to assess their impact in improving the Council's internal control environment. These reports were commissioned by the Council and carried out by CIPFA during 2021.</p> <p data-bbox="540 375 886 398">Effectiveness of Internal Audit</p> <p data-bbox="540 415 1473 611">CIPFA's External Quality Assessment of Conformance to Public Sector Internal Audit Standards report was published in August 2021 and confirms "partial compliance" with PSIA standards. Seven standards were met and seven scored partial compliance. There are seven high priority recommendations and ten further recommendations made. The assessment identified that the objectivity and independence of the Chief Audit Executive (Chief Internal Auditor) who is also the Director of Finance and Resources (s151 Officer) is potentially impaired.</p> <p data-bbox="540 628 1473 848">Recommendations were also raised in respect of staff learning and development, recording of supervisory evidence, development of the audit plan, enhancing quality assessment and improvement programme. Management has provided an action plan to address the recommendations; however, we have identified that some of the management responses do not fully address all the recommendations (in particular action plan point four, in relation to staff development). Review of the action plan to the recommendations raised within the report is required to ensure recommendations are fully responded and addressed.</p> <p data-bbox="540 865 965 888">Effectiveness of the Audit Committee</p> <p data-bbox="540 905 1473 1068">CIPFA's review of the Effectiveness of the Audit Committee was published in September 2021. The report concluded that "the foundations for an effective Audit Committee are in place at the Council, but there is a need and scope to enhance the skills and knowledge of the Members to improve the Audit Committees effectiveness". 11 recommendations were made and these are now taken regularly to the Audit Committee for review within the composite schedule of recommendations.</p> <p data-bbox="540 1085 1473 1250">The report identifies limited challenge by Members on the agenda items being presented to the Audit Committee and raises a number of recommendations to provide training and resources to Audit Committee Members to develop their skills and knowledge. This is consistent with our observations of the Audit Committee. The review also identified further weaknesses including the Committee does not undertake annual self-assessment of committee effectiveness nor prepares an annual report to full Council.</p>	<p data-bbox="1514 219 1659 242">Auditor view</p> <p data-bbox="1514 259 1955 312">We recognise the matters raised by CIPFA and the recommendations arising.</p> <p data-bbox="1514 329 1955 811">A new Chief Internal Auditor was appointed in April 2022 on a shared basis with Carlisle and Allerdale Councils. This should help with the segregation of duties from the s151 officer, although provides insufficient time required to fully address the weaknesses identified in the Internal Audit team. It is important that the new Chief Internal Auditor is given sufficient access to attend Senior Management Team (SMT) meetings and addresses core weaknesses of carrying vacancies within the team and ensuring team members hold the appropriate professional qualifications supported by training. (see Appendix C - VFM recommendations 4 & 15)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Focus area arising from significant risks:</p> <p>Effectiveness of Internal Audit and the Audit Committee (continued)</p>	<p>Effectiveness of the Audit Committee (continued)</p> <p>We issued two written section 24 recommendations following the 2017/18 audit as explained previously in this report. These matters were presented to full Council in February 2021 and in part remain valid since there was insufficient time for them to be fully addressed before the 2018/19 audit. We were requested by management not to attend this full Council meeting, which was noted as .</p> <p>Further to the recommendations made within the referred report, we have identified other areas of which are required review to strengthen the overall effectiveness of the Audit Committee. The Audit Committee's terms of reference states that the Committee is responsible for monitoring the adequacy of anti-fraud and anti-corruption arrangements. No papers relating to anti-fraud and anti-corruption were included on the Audit Committee's agenda during 2018/19. The Council's Fraud Prevention and Anti-Corruption Strategy was approved at the meeting of the April 2018 Audit Committee, however no further papers have been considered by the Committee since this meeting.</p> <p>Further areas of improvement have been identified, which include:</p> <ul style="list-style-type: none"> • Reviewing Audit Committee's terms of reference alongside the annual self-assessment of the committee effectiveness in line with best practice. • There is no formal process to monitor Audit Committee activity. We have identified instances where agreed actions do not appear to be taken forward/ implemented. • A forward plan of committee's planned activity is prepared annually to ensure the Committee is fulfilling all responsibilities laid out within its' terms of reference. • In line with best practice declarations of interests are made by Members at the start of each Audit Committee meeting. However, it is not clear, what the agreed action is taken in response to this interest. For example, the Member leaves the meeting for the relevant agenda items and documented within the minutes to the meeting. • We have identified that there is no declaration of interests for the independent Chair of the Audit Committee on the Council's website. 	<p>Auditor view (continued)</p> <p>Management should address the weaknesses identified with the Internal Audit service and Audit Committee effectiveness, and provide sufficient support to the Chief Internal Auditor to enable the role to be effective. (see Appendix C - VFM recommendation 4)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p data-bbox="70 219 476 274">Focus area arising from significant risks:</p> <p data-bbox="70 315 430 339">Control Environment weaknesses</p>	<p data-bbox="540 219 913 245">Risk management arrangements</p> <p data-bbox="540 261 1479 401">The Audit Committee approved the Council's Risk Management Policy in April 2018. This version of the policy and current version of the policy indicate that the policy was approved by full Council in May 2018. There is no evidence that the policy was received by full Council. However, we understand that this policy is not required to be approved by Council as it sits outside the Council's constitution policy framework.</p> <p data-bbox="540 415 1479 808">The Council has a risk management framework in place however this framework is not operating as designed and there is insufficient oversight by those charged with governance. Until August 2019, the policy stated that the Strategic Risk Register (SRR) is reported to the Executive and Audit Committee quarterly; however the Executive last received the SRR in July 2018 meaning the policy was not followed during 2018/19. We understand the policy was changed in August 2019, to require the SRR to only be quarterly monitored by the Audit Committee. More recently, we have noted that the Audit Committee last received the SRR in November 2020, with no further monitoring since this meeting. The Executive should receive an annual report, although no annual report was received by the Executive for 2019/20 (due to COVID-19) nor 2020/21 (due to the Performance and Risk Management Officer being required to focus/ provide additional support to statutory freedom of information requests and data protection). We understand there are arrangements in place for Corporate Leadership to regularly review and monitor the SRR.</p> <p data-bbox="540 822 1058 848">Code of Conduct and Freedom of Information</p> <p data-bbox="540 863 1479 1118">The Council's 2017/18 and 2018/19 Annual Governance Statements identified a significant increase in Code of Conduct investigations required. In response to this the Council has reviewed its Code of Conduct procedure and provided Code of Conduct training to Members (as part of the Member development training programme). Code of Conduct investigations continued during 2019/20, of an especially serious nature, which were considered by the Standards and Ethics Committee. These included Code of Conduct complaints in relation to alleged behaviour which incites racial hatred, bullying and threats of violence. Further review of the root-cause analysis of Code of Conduct complaints is required to identify and take further action to address issues identified.</p> <p data-bbox="540 1132 1479 1353">There is a lack of reporting of freedom of information and whistleblowing reporting to Members to ensure appropriate oversight and scrutiny. We note however that there is a key performance indicator in relation to freedom of information requests: <i>"Percentage of Freedom of Information requests resolved in timescales."</i> This does not provide information on the nature of the requests. No disclosure log or scheme of publication was maintained in respect of freedom of information requests. If these documents were maintained and made available on the Council's website, the number of freedom of information requests received may reduce.</p>	<p data-bbox="1510 219 1659 245">Auditor view</p> <p data-bbox="1510 261 1962 544">Our audit findings for 2018/19 overlap significantly with the findings of both the 2022 DLUHC and CIPFA reviews. However, our audit in 2018/19 and follow up to our 2017/18 findings has identified a number of other key Value for Money related recommendations that are still extant for the Council to respond to and which contribute to the wider budget setting of the Council. These include:</p> <ul data-bbox="1510 558 1962 1410" style="list-style-type: none"> <li data-bbox="1510 558 1962 808">• Review the Council's assurance framework to identify key sources of assurance, identify and reduce gaps and eliminate duplication by reviewing the three lines of assurance: management assurance, oversight of management activity and independent assurance. (see Appendix C - VFM recommendation 5) <li data-bbox="1510 822 1962 1022">• Introduce regular review of key governance policies and procedures including critical areas such as the Constitution, which has had recent delays to agreed revisions, register of interests, Whistle blowing and Confidential reporting policies. <li data-bbox="1510 1036 1962 1200">• Council's Fraud Prevention and Anti-Corruption Strategy was approved at the meeting of the April 2018 Audit Committee, however no further related papers have been considered by the Committee. <li data-bbox="1510 1215 1962 1410">• Ensure the Strategic Risk Register is regularly taken to the Audit Committee, and taken through SLT which management say it is but there is no clear audit trail of this process in place. (see Appendix C - VFM recommendation 6)

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Focus area arising from significant risks:</p> <p>Control Environment weaknesses (continued)</p>	<p>Code of Conduct and Freedom of Information (continued)</p> <p>We also noted that no bi-annual or annual report from the Monitoring Officer were received by any of the Council's committees for 2018/19 in line with best practice. This report would normally include reporting on Code of Conduct complaints, whistleblowing reports and freedom of information requests.</p> <p>Oversight and Scrutiny Committee</p> <p>The Oversight and Scrutiny Committee was active during 2018/19, however it is difficult to determine its impact. Full Council minutes and the Statement of Executive decisions confirm whether Overview and Scrutiny Committee recommendations are accepted or rejected at the initial report stage, but there is no formal process in place to monitor the actual implementation of the recommendations.</p> <p>Gifts and Hospitality</p> <p>The Council maintains individual records of Members interests and gifts and hospitality on its website. There is a requirement for Members to confirm their interests within 28 days of becoming a Member. The constitution is clear that Members ensure that their register of interests is kept up-to-date.</p> <p>Review of the Council's website shows that some Members have not updated their declared interests for a number of years. Whilst compliant with the Council's Constitution, the process could be strengthened by requesting Members to confirm annually that their register of interests and gifts/ hospitality is up-to-date, then the website could be updated to reflect this. In addition, it is also best practice for gifts and hospitality be considered by an appropriate committee to monitor and ensure and appropriateness of acceptance.</p>	<ul style="list-style-type: none"> Introduce a formal process to monitor Overview and Scrutiny Committee activity and related recommendations to improve the Council's governance and scrutiny arrangements, which is critically important given their pivotal role in monitoring appropriate action on the various external high priority and significant recommended improvements the Council currently faces. Introduce annual self-assessment of effectiveness reviews of key committees. <p>The control weaknesses identified during the 2018/19 reporting year require management attention. In particular monitoring and oversight of the Strategic Risk Register and Risk Management Policy should be transparent and evidenced as being adhered to.</p> <p>Further review of the root-cause analysis of Code of Conduct complaints is required to identify and take further action to address issues identified. (see Appendix C - VFM recommendation 7)</p> <p>Improvements are required on reporting of freedom of information and whistleblowing reporting to Members to ensure appropriate oversight and scrutiny. (see Appendix C - VFM recommendation 8)</p> <p>A bi-annual or annual report from the Monitoring Officer on Council committees should be instigated in line with best practice. This report would normally include reporting on Code of Conduct complaints, whistleblowing reports and freedom of information requests. (see Appendix C - VFM recommendation 9)</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p>Focus area arising from significant risks:</p> <p>Control Environment weaknesses (continued)</p>	<p>Constitution</p> <p>The Council began reviewing their Constitution during 2019/20. Changes to the constitution layout was approved by the full Council in November 2019 – from 19 chapters to seven parts. The second tranche of changes were due to be approved in February 2020 however this was delayed until July 2021. These approved layout changes are not reflected in the current version of the constitution available on the Council's website.</p> <p>The report on the changes to the Constitution made two recommendations, which did not include the decision to abandon the new layout of the Constitution. We understand that this decision is included within the conclusion of the report "The current constitution still holds good and remains fit for purpose" (paragraph 2.1). Therefore, there is a lack of transparency around the decision to not update the Constitution format.</p> <p>The frequency of meetings and quorum are included within the terms of reference the Audit Committee approved by full Council in November 2019 however this detail is not included on the current version of the constitution on the Council's website.</p> <p>Compromise and non-disclosure agreements</p> <p>It is worthy of note that, between April 2017 and January 2022, the Council has entered into eight compromise agreements with officers, which all contain non-disclosure agreements to the value of £0.239 million. Although we acknowledge there will be occasions when this will be the most pragmatic and financially advantageous for all parties, public sector bodies are discouraged from their use and Members must be assured that non-disclosure agreements are not used as a means of disguising poor governance or practices at the Council.</p> <p>Service performance monitoring</p> <p>The Performance Management & Improvement Framework sets out the values, processes and governance arrangements used to ensure effective performance, financial and risk management. The Council uses the Corporate Strategy Delivery Plan and a scorecard of Key Performance Indicators (KPI) to demonstrate performance against the corporate objectives. The delivery plan milestones and KPIs are updated annually, considering the prior year target and outturn as a baseline for future performance.</p> <p>It is not clear whether the Council undertakes any benchmarking of performance to provide assurance that milestones and targets are sufficiently challenging or aligned to regional and national performance for core services.</p> <p>Progress against the delivery plan and KPIs is reported quarterly to the Executive Committee. The framework also states that performance is reviewed by the Overview and Scrutiny Committee however, it is not clear whether this has operated as intended.</p>	<p>Improvements are required to ensure Members provide a transparent annual update on their declared interests and gifts and hospitality received, even if this is to confirm a nil return. (see Appendix C - VFM recommendation 11)</p> <p>Introduce a formal process to monitor Overview and Scrutiny Committee activity and related recommendations to improve the Council's governance and scrutiny arrangements.(see Appendix C - VFM recommendation 10)</p>

Follow up of prior year recommendations – value for money

We identified the following issues in the audit of Copeland Borough Council's 2018/19 value for money and financial statements, which resulted in 15 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	Develop a disaster recovery plan and perform a test of this plan at the earliest possible convenience.	<p>A disaster recovery plan has not been developed and disaster recovery arrangements have not been tested.</p> <p>Management response (March 2024)</p> <p>Cumberland Council are aware that there is no disaster recovery plan in place for the former Copeland network and following the extensive work undertaken to obtain PSN compliance at Copeland, the team are now working to develop an interim recovery plan (based on the Allerdale Borough Council plan, but adapted for Copeland). This will ensure plans are in place for all legacy networks. A significant number of former Copeland ICT architecture is now cloud-based.</p> <p>Simultaneously, ICT are developing a harmonised plan for Cumberland Council, which will form part of the Business Continuity Plan.</p>
2	X	<p>Financial sustainability</p> <p>a) Ensure that the financial plan for 2022/23 contains sufficient consideration of financial pressures to maintain the Council's General Fund reserves at the required level of £2m. This should include consideration of sensitivity analysis for the pressures faced such as interest rate increases and MRP costs arising from increased borrowings.</p> <p>b) Closely monitor the run rate and pressure on General Fund unearmarked reserves.</p>	<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 sets out the MRP costs associated with £16.5m of borrowing relating to the capitalisation directives, fleet purchase costs, and regeneration which rise to £1.479m by 2024/25. A more detailed sensitivity analysis is 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 has resulted in a projected £3.998m budget deficit for 2023/24, which was inherited by the new Cumberland Council.</p> <p>We recommend that 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>

Follow up of prior year recommendations – value for money

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	<p data-bbox="182 368 211 396">X</p> <p data-bbox="300 368 849 506">Review the formatting and structure of internal audit reports, for overdue implementation of audit recommendations to ensure reports include clear reporting including the following improvements as a minimum:</p> <ul data-bbox="393 521 849 828" style="list-style-type: none"> <li data-bbox="393 521 849 578">• a key defining the level of recommendation priority; <li data-bbox="393 585 849 706">• expand reporting to include implementation of all audit recommendations, not just those overdue; and <li data-bbox="393 714 849 828">• re-ordering and focusing the report to support impactful reporting (e.g. by ageing, stage of completion, review/report). 	<p data-bbox="907 368 1991 506">The Internal Audit Plan 2022/23 confirmed that there is a new working methodology in place to deliver work. The Audit Plan 2022/23 provided revised definitions for the four levels of assurance used and their relationship to high graded recommendations. A new audit report format was developed, and advisory recommendations were removed. A key was included to define what constitutes a high and medium audit recommendation.</p> <p data-bbox="907 521 1991 635">Detailed information on overdue internal audit recommendations was only provided to the Audit Committee for Priority 1 recommendations and Priority 2 recommendations that were less than 50% implemented. We recommend that the quality of reporting on the implementation of internal audit key recommendations is improved.</p>

Follow up of prior year recommendations – value for money

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	<p>X Internal audit and Audit Committee effectiveness.</p> <p>a) Review responses to the recommendations raised within the action plan of the Effectiveness of the Audit Committee report to ensure recommendations are fully responded and addressed.</p> <p>b) Perform an annual assessment on how well the Audit Committee are conforming to the standards. This assessment should be reported to the Audit Committee. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods</p> <p>c) Provide sufficient support to the Chief Internal Auditor to enable the role to be effective</p>	<p>Review of the progress made in implementing the recommendations from the CIPFA Review of Audit Committee Effectiveness confirmed the Council was slow to make improvements in this area. The report and recommendations were taken to the March 2022 Audit Committee and so the recommendations could have been implemented for 2022/23. However, there was been no annual self-assessment of Audit Committee effectiveness and no annual report produced. Deep dives were used as a substitute for training, briefings, working parties and access to publications. The Council did not subscribe to the Better Governance Forum. Risk management reporting was not quarterly in 2022/23.</p> <p>We have made a further 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.</p> <p>The Audit Plan 2022/23 confirmed that a Chief Audit Executive (CAE) was appointed, and audit team resources comprise the CAE (0.33FTE) and 1.6 FTE auditors providing 269 productive days which is allocated to audits within the plan.</p>
5	<p>X</p> <ul style="list-style-type: none"> • Review the Council's assurance framework to identify key sources of assurance, identify and reduce gaps and eliminate duplication. This may involve reviewing the three lines of assurance (management assurance, oversight of management activity and independent assurance). • Improvements to the Audit Committee are required to ensure its effectiveness, which are not limited to the following: <ul style="list-style-type: none"> • Developing a forward plan; • Monitoring the Council's arrangements for anti-fraud and anti-corruption; • Reviewing the Committee's terms of reference annually; • Ensure appropriate actions for declared interests are taken and fully minuted; and • Implement a formal process to monitor Audit Committee activity; 	<p>The Internal Audit Plan 2022/23 confirmed that there is a new working methodology in place to deliver work. The Audit Plan 2022/23 provided revised definitions for the four levels of assurance used and their relationship to high graded recommendations. A forward plan was developed for the Audit Committee from July 2022 and the Audit Committee reviewed the Local Code of Corporate Governance in March 2022.</p> <p>However, progress made in implementing recommendations from CIPFA to improve the effectiveness of the Audit Committee was slow as referred to above. In addition, the Committee minutes did not include actions taken when interests are declared and there is no evidence that the terms of reference have been reviewed. There was no formal process for following up Audit Committee business or actions.</p> <p>The reporting on arrangements to prevent and detect fraud and corruption to the Audit Committee were not adequate. The Audit Committee received the Fraud and Corruption Strategy and Anti Money Laundering Policy in April 2019. There have been no further policies reviewed and there was no annual counter fraud plan, progress report or annual report.</p> <p>We recommend that Cumberland Council consider the weaknesses identified at Copeland Borough Council regarding reporting on arrangements to prevent and detect fraud and corruption and ensure robust arrangements are put in place going forward.</p>

Follow up of prior year recommendations – value for money

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	X	<p>Risk management:</p> <p>a) Review the Council's arrangements for risk management to ensure they remain fit for purpose.</p> <p>b) Ensure the Strategic Risk Register is appropriately reported to the Audit Committee and Executive in line with the Risk Management Policy.</p>	<p>While the Strategic Risk Register contained most of the elements we would expect, we note that strategic risks were not mapped to corporate priorities to ensure that only risks that impact on strategic issues were reported. The Strategic Risk Register would also be strengthened by allocating further required actions to named officers and providing target dates for implementation.</p> <p>We have made a recommendation that risks should be mapped to corporate priorities and actions assigned to named officers with a target date.</p> <p>While risk was reported regularly to the Audit Committee in 2019/20, we judge the lack of regular reporting of risk to Members for the last three financial years, when only one report per year was made, 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 recommendation that risk management arrangements should be reported quarterly to the Audit Committee and annually to the Executive.</p>
7	X	<p>Further review of the root-cause analysis of Code of Conduct complaints is required to identify and take further action to address issues identified.</p>	<p>A root cause investigation was not undertaken, because the majority of the Code of Conduct complaints related to a particular parish council and Copeland Borough Council wanted to maintain its impartiality. However, there have been no further complaints from this Parish Council since changes to Councillor membership.</p> <p>Management response (March 2024)</p> <p>The Cumberland Code of Conduct and Local Arrangements for dealing with complaints was reviewed by the Standards and Governance Committee in February 2024. The updated scheme will be agreed by Council in April as part of the refreshed Constitution. Code of Conduct complaints are closely monitored for reoccurrences or numerous complaints about the same Councillor or Parish Council.</p>

Follow up of prior year recommendations – value for money

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
8	X	<p>Freedom of information requests and whistleblowing:</p> <p>a) Prepare and maintain a freedom of information requests disclosure log and scheme of publication and make these publicly available on the Council's website.</p> <p>b) Prepare and report information on freedom of information requests and whistleblowing to Members to ensure appropriate oversight. This reporting should include lessons learned and resulting improvements.</p>	<p>The Council did not maintained freedom of information request disclosure logs as this was not a priority in the run up to local government reorganisation. This will be considered through the unitary council delivery plan in the future.</p> <p>We note that information on the number of freedom of information requests and performance in providing responses was reported to Members through performance monitoring reports and Portfolio holder updates.</p> <p>The Executive approved the Whistle Blowing Policy in June 2021. The report confirms that the Standards and Ethics Committee is delegated the task of monitoring the operation of the Policy. Other than considering the Policy in June 2021, there was no further reporting to the Standards and Ethics Committee on whistleblowing arrangements.</p> <p>Management response (March 2024)</p> <p>Copeland Council had identified the need to publicise a Freedom of Information (FOI) disclosure log, but plans were disrupted due to Covid and could not be undertaken. Cumberland Council publicise all FOI requests received via the Service Centre and are currently finalising work to harmonise a process to publicise requests received through the Information Governance Team.</p> <p>Copeland reported FOI performance information to the Executive and these are now incorporated into quarterly reports to Cumberland's Senior Information Risk Owner (SIRO) group, who will provide their first annual report to the Audit Committee in 2024.</p>

Follow up of prior year recommendations – value for money

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
9	X	Regular reporting of the Monitoring Officer's statutory responsibilities, their work and governance to ensure Members are kept up-to-date of matters arising.	<p>Monitoring Officer reports were presented to the Ethics and Standards Committee and to Council in September 2019 and April 2021. These cover the role of the Monitoring Officer, changes to the Constitution, committee reporting, Member attendance and training, Code of Conduct complaints, and Freedom of Information statistics.</p> <p>There have been no other Monitoring Officer reports to Members.</p> <p>Management response (March 2024)</p> <p>The Council has adopted the LGA Model Code of Conduct and its Local Arrangements for dealing with complaints were reviewed by the Standards and Governance Committee in February 2024 and will be agreed by Council in April as part of the refreshed Constitution. The Monitoring Officer monitors standards complaints for reoccurrences or patterns and complaints are reported annually to the Standards and Governance Committee which includes an analysis of trends.</p>
10	X	Introduce a formal process to monitor Overview and Scrutiny Committee activity and related recommendations to improve the Council's governance and scrutiny arrangements.	<p>No formal process was put in place to monitor the implementation of recommendations from Overview and Scrutiny Committee. Following meetings, the Committee made reports and recommendations to the Executive, with minutes confirming if Executive have accepted any recommendations made.</p> <p>Management response (March 2024)</p> <p>Cumberland Council has put arrangements in place to monitor the implementation of recommendations made by each Overview and Scrutiny Committee. This includes recommendations tracker Update report presented at every Overview and Scrutiny Committee meeting, which provides an update on each recommendation previously made by the relevant committee. The Cumberland Constitution requires the Overview and Scrutiny Committees to produce a report to Council on the Committee's effectiveness. This includes an annual report which will include an update on implementation of Overview and Scrutiny Committee recommendations.</p>

Follow up of prior year recommendations – value for money

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
11	X	<p>Registers of interests, gifts and hospitality.</p> <p>a) Request Members to annually re-confirm that their register of interests and gifts and hospitality is complete and accurate.</p> <p>b) Ensure a register of interests is publicly available on the Council's website for all Members and independent Committee appointments.</p>	<p>It was the responsibility of Members to maintain and update the Register of Interests, Gifts and Hospitality as appropriate. The Council did not have a formal process for sending reminders to all Members asking for updated declarations or nil returns to be submitted.</p> <p>Registers of Interest, Gifts and Hospitality were available for individual Members on the website. The majority of the declarations were dated 2019.</p> <p>Management response (March 2024)</p> <p>Cumberland Councillors have all completed declarations of interest and gifts and hospitality registers at point of election, which were updated in April 2023. Councillors will be reminded biannually to update their Register of Interest (ROI) forms. Parish and Town Clerks will be reminded to contact their councillors to update the forms. All completed ROIs (for Cumberland Council and all Parish and Town Councils in the area) are available on the Council's website (with signatures redacted).</p> <p>The Officer Code of Conduct is being reviewed in April 2024 and will introduce a Register of Interests and Gifts and Hospitality for all Council officers.</p>
12	X	<p>Management must retain key evidence to support future capital directions.</p>	<p>The Council has failed to provide adequate supporting evidence for the £1.8m capital direction used to cover cyber-attack costs in 2018 and 2019.</p> <p>Management should ensure any future capital directions are adequately tracked, reported and monitored to demonstrate value for money is being secured.</p> <p>Management response (March 2024)</p> <p>Noted and will be adhere to.</p>

Follow up of prior year recommendations – value for money

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
13	<p>X</p> <p>Management need to commit to clearing the backlog of overdue draft financial statements and supported by good quality working papers to enable audits to be completed.</p> <p>We will work closely with management to minimise any further delays in the financial reporting process.</p>	<p>We recognise that the dates have lapsed for the Council to produce their 2021/22 and previous financial statements by the deadline. However slippage has been experienced in providing updated 2018/19 financial statements which will place pressure on management (and the auditor) to meet the subsequent timetable.</p>
14	<p>X</p> <p>Ensure efforts are made to fill vacancies in the Finance Team and ensure the Finance Team receive suitable support and training in public sector accounting to fulfil their role.</p>	<p>The Finance Team has benefitted from staff sharing arrangements with two members of the Cumbria County Council finance team plus the recent recruitment of a finance officer (part time) in August 2022.</p> <p>It is important that the Finance Team receive suitable support and training in public sector accounting to fulfil their role.</p> <p>We still consider that the team faces challenges to prepare overdue financial statements and working papers to the required quality by the deadlines required</p>
<p style="text-align: center;">Management response (March 2024)</p>		
15	<p>X</p> <p>Ensure that all recommendations raised by external bodies (DLUHC, External Audit and CIPFA) are properly addressed and reported via Overview and Scrutiny Committee. These recommendations should be checked for completeness on the composite recommendation tracker and only marked as completed when that can be properly demonstrated.</p>	<p>Ongoing recruitment campaign in progress.</p> <p>A composite action plan was produced and progress on implementing the recommendations from external regulators reported to Audit Committee and Overview and Scrutiny Committee.</p> <p>Progress was made in addressing some of the weaknesses identified in the DLUHC finance review, particularly in relation to the capital programme, sensitivity analysis and identification of the revenue implications of borrowing. However, we have identified that there were still significant weaknesses in financial planning arrangements and that progress was not made in key areas such as balancing the MTFS and addressing the backlog in producing financial statements. We have made specific recommendations in relation to financial planning and the financial statements elsewhere in this report.</p> <p>The Council made reasonable progress during 2022/23 implementing the recommendations to improve internal audit's compliance with PSIAS, but was slow to secure improvements to increase the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas elsewhere in this report.</p> <p>We endorse the recommendations that internal audit have made as a result of their progress review. These relate to monitoring the progress made implementing recommendations through the Pentana system, and regularly reviewing the status of all recommendations to consider whether further action is required to mitigate risk.</p>

Follow up of prior year - section 24 written recommendations

We made the following recommendations under section 24 schedule 7 of the Local Audit and Accountability Act 2014 and these were reported to full Council in February 2021 and May 2022. We have followed up on the implementation of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	<p>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. In order to achieve this the Council should develop a comprehensive project plan to:</p> <ul style="list-style-type: none"> • ensure sufficient resources and specialist skills are available to support the accounts production; • ensure the finance team has the skills and capacity to produce technically sound financial statements, with additional training provided where necessary, to ensure all staff involved in the accounts production process have the necessary technical knowledge; • subject the financial statements and working papers to robust quality assurance prior to approval by the Director of Finance; • introduce appropriate project management skills to oversee the timely production of the financial statements; • ensure the entries in the accounts are supported by good quality working papers which are available at the start of the audit; and • ensure the production of the financial statements is monitored through regular reporting to Directors and the Audit Committee. 	<ul style="list-style-type: none"> • 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 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.
		(February 2021)	

Follow up of prior year - section 24 written recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2	<p>X</p> <ul style="list-style-type: none"> 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. Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment. <p>(February 2021)</p>	<p>We have identified significant weaknesses in the ICT control environment and ICT risk management arrangements for 2019/20.</p> <p>An independent IT healthcheck was undertaken in May 2019, which identified 99 findings, of which 36 were critical or high. Critical issues were similar to those identified in an independent healthcheck carried out in November 2017, demonstrating that the Council was slow to recognise and mitigate the risks relating to ICT and cyber security. A further IT Health Check undertaken in December 2020 identified that the Council was still exposed to "considerable unnecessary risk".</p> <p>The Council has not developed and tested a disaster recovery plan.</p> <p>The Council's ICT team started to undertake remediation work during 2019/20, with the Council being certified to Cyber Essentials Plus standard in April 2020. However, we understand that the implementation of the new network was not completed and the Council continued to operate on previous IT estate as at March 2023.</p> <p>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.</p> <p>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, but progress was slow in implementing improvements to the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas elsewhere in this report.</p>
3	<p>X</p> <p>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.</p> <p>(March 2022)</p>	<p>The Council has produced a draft statement of accounts for the 2019/20 financial year, but none yet for 2020/21 or subsequent years.</p>

Follow up of prior year - section 24 written recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4 X	<p>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.</p> <p>(March 2022)</p>	<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 sets out the MRP costs associated with £16.5m of borrowing relating to the capitalisation directives, fleet purchase costs, and regeneration which rise to £1.479m by 2024/25. A more detailed sensitivity analysis is 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 has resulted in a projected £3.998m budget deficit for 2023/24, which was inherited by the new Cumberland Council.</p> <p>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>
5 X	<p>Protect against overcommitment on the Council's capital ambitions especially in the context of dependency on capital directions and the transition to LGR.</p> <p>(March 2022)</p>	<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> <p>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>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year - section 24 written recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	<p>X</p> <p>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.</p> <p>(March 2022)</p>	<p>A composite action plan was produced and progress on implementing the recommendations from external regulators reported to Audit Committee and Overview and Scrutiny Committee.</p> <p>Progress was made in addressing some of the weaknesses identified in the DLUHC finance review, particularly in relation to the capital programme, sensitivity analysis and identification of the revenue implications of borrowing. However, we have identified that there were still significant weaknesses in financial planning arrangements and that progress has not been made in key areas such as balancing the MTFS and addressing the backlog in producing financial statements. We have made specific recommendations in relation to financial planning and the financial statements elsewhere in this report.</p> <p>The Council made reasonable progress during 2022/23 implementing the recommendations to improve internal audit's compliance with PSIAS, but was slow to secure improvements to increase the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas elsewhere in this report.</p> <p>We endorse the recommendations that internal audit have made as a result of their progress review. These relate to monitoring the progress made implementing recommendations through the Pentana system, and regularly reviewing the status of all recommendations to consider whether further action is required to mitigate risk.</p>
7	<p>X</p> <p>Immediate action is required to strengthen the Council's internal governance arrangements, especially its Internal Audit service and Audit and Governance Committee effectiveness.</p> <p>(March 2022)</p>	<p>The Council made reasonable progress during 2022/23 implementing the recommendations to improve internal audit's compliance with PSIAS, but was slow to secure improvements to increase the effectiveness of the Audit Committee. We have made specific recommendations in relation to these areas elsewhere in this report.</p> <p>There were still weaknesses with regard to 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> <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>

Assessment

- ✓ Action completed
- X Not yet addressed



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