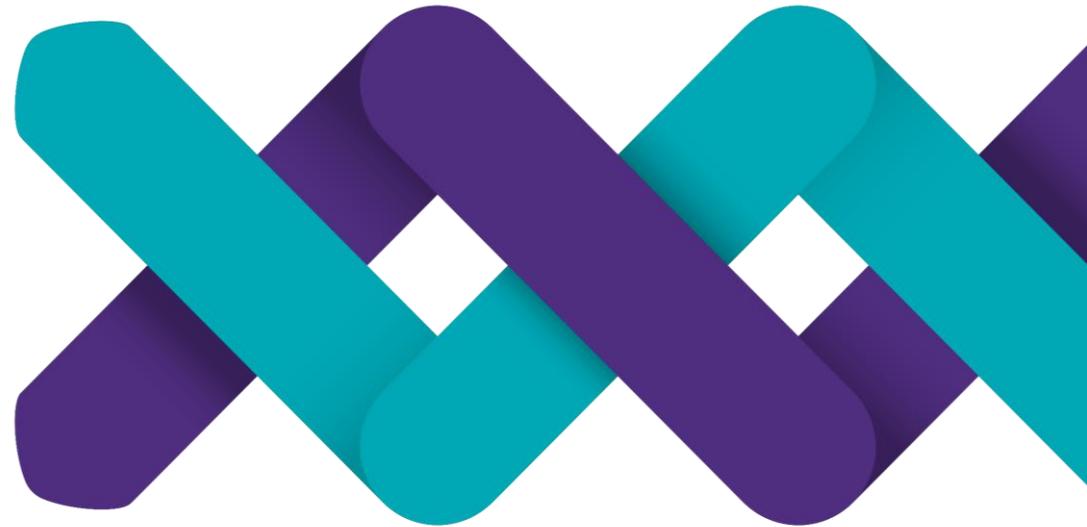


Copeland Borough Council Section 24 Statutory recommendations

February 2021



Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We 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 and capacity at the Council to prepare reliable financial statements by the statutory deadline and concerns regarding the Council's timely implementation of actions to address internal control weakness.

Background to making the recommendations

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 for the Council, primarily due to the neighbouring Nuclear Decommissioning Authority offering more favourable terms and conditions.

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 has not had a qualified permanent technical chief accountant

with local government experience for an extended period of time, but since October 2020 it has 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.

Combined with the staffing and skills shortage, the Council suffered a major cyber-attack in August 2017, which disabled both financial and other critical service IT systems creating long-lasting effects on the Council's ability to function properly. This was a zero-day exploit, meaning that the ransomware attacked an unknown security vulnerability not previously identified by software vendors. Government in October 2020 affirmed that, the attack on Copeland Borough Council was a significant incident that had major and long-term consequences.

All ICT systems were affected, some of which were lost forever. The Council's custom of keeping all system data back-ups online rather than through isolated, air-gapped offline backup data storage meant that backups were also infected and inhibited the Council's ability to restore systems. With no full, up-to-date asset register meant forensic investigations needed to be completed to more fully understand what data and information had been lost. The Council had to make tough choices on prioritising areas to get back to business as usual. It rightly focused on those most vulnerable residents of the Borough and other essential services from a public health perspective, such as revenue and benefits distribution and waste collection. Financial reporting systems and feeder systems were badly affected by the attack and required a rebuild, but this was not a higher priority area in the wider context of the Council's other key functions, roles and responsibilities.

The Council is still recovering from this cyber-attack, and we acknowledge that it has had some bearing on the Council's ability to address the concerns we are raising in this report on a timely basis. That said some of the longer-term failings have been exacerbated by the cyber-attack.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Consequences of the weaknesses identified

The reasons for making statutory recommendations arise from these circumstances identified and are underlined in the 2017/18 qualified accounts and qualified adverse VFM conclusion, given in October 2020.

The Council has produced late accounts for audit since 2015/16. The 2017/18 accounts were provided for audit on 1 February 2019, some time later than the statutory deadline of 31 May 2018. The accounts were not fully supported by working papers 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. Budget monitoring by Officers and Members was severely disrupted by the cyber-attack and from September 2017 to November 2018 there was no budget monitoring in place. Members did not receive accurate and timely financial information on which to base informed decisions, and the 2018/19 budget setting process was not therefore based on the most up to date and audited information.

During 2017/18 the Council was slow in implementing priority Internal Audit recommendations and actions from the Council's Annual Governance Statement (AGS) Action Plan, which was a continuing theme from the previous year. There is scope for more rigorous oversight and challenge from management, Internal Audit and the Audit Committee to support improvement in the Council's overall internal control environment.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

In arriving at these statutory recommendations we recognise the work of the Council has started to address the matters raised. The Council is working with the Ministry for Housing and Local Government for achieving closer working with neighbouring authorities to produce efficiencies and learning from best practice. Much effort has paid off with the Council buying out of its Copeland Centre PFI building in March 2020, which will bring with it financial benefits of around £900,000 per year to the residents of Copeland. It is important to note that, technical accounting expertise is required to process this transaction in the 2019/20 accounts.

The 2018/19 draft accounts are posted to the Council's website but these required considerable re-working following the adjustments made to the 2017/18 accounts. Unless the buildings valuation issue which was raised in 2107/18 is addressed, this will probably lead to a similar qualified audit report opinion for 2018/19.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions. The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council.

At that public meeting the Council must decide

- whether the recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies meeting publication requirements that the Council must comply with.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

No.	Recommendation	Priority	Management response/ responsible office/ due date
1.	<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.</p> <p>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. 	High	<p>Management Response</p> <p>Progress has been made to ensure there are sufficient resources and specialist skills are available to support the accounts production, specifically:</p> <ul style="list-style-type: none"> appointment of appropriately skilled and experienced staff regular and appropriate technical training for the finance team quality assurance processes built into the accounts production timetable including the review of working papers regular reporting to the Audit Committee. <p>The Council has a set of 2018/19 financial statements that were approved in July 2019, they are:</p> <ul style="list-style-type: none"> supported by good quality working papers which will be available at the start of the audit; have been subject to robust quality assurance; have been prepared by a suitably qualified staff. <p>The 2019/20 and 2020/21 financial statements will be produced together and be ready for audit in 2021.</p> <p>Responsible officer: Steven Brown</p> <p>Due date: Project plan for the completion of the 2019/20 and 2020/21 financial statements will be presented to the Audit Committee at its April 2021 meeting. Progress on this and the other recommendations to be reported to each Audit Committee. The Council plans to produce financial statements and working papers for audit by Autumn 2021 for 2019/20 and for 2020/21 (note the statutory deadline of 31 July 2019 and August 2020 respectively have now passed), with progress against key milestones reported to each Audit Committee.</p>

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014 (continued)

No.	Recommendation	Priority	Management response/ responsible office/ due date															
2.	<p>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.</p> <p>Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment.</p>	High	<p>Management Response Implementation of External and Internal Audit and Annual Governance Statement recommendations are monitored through the Council's performance management software, that enables all managers to update progress with implementation. This is then collated and reported to the Corporate Leadership Team and the Audit Committee. The cyber-attack in August 2017 meant many recommendations could not be implemented, due to system/technical reasons and management time focussed on the restoration and recovery process. Areas such as finance did also not have the resources available. However, significant progress has been made in implementing recommendations and this can be demonstrated by the table below of outstanding recommendations:</p> <table border="1"> <thead> <tr> <th></th> <th>Priority 1</th> <th>Priority 2</th> </tr> </thead> <tbody> <tr> <td>31/12/2017</td> <td>21</td> <td>51</td> </tr> <tr> <td>31/03/2018</td> <td>16</td> <td>29</td> </tr> <tr> <td>31/03/2019</td> <td>12</td> <td>20</td> </tr> <tr> <td>31/03/2020</td> <td>7</td> <td>16</td> </tr> </tbody> </table> <p>These have all been reported to the Audit Committee.</p> <p>Responsible officer: Pat Graham</p> <p>Due date: The process for reviewing Internal Audit and the effectiveness for reviewing the Audit Committee will be agreed at the next Audit Committee in April 2021 Progress on this and the other recommendations to be reported to each Audit Committee.</p>		Priority 1	Priority 2	31/12/2017	21	51	31/03/2018	16	29	31/03/2019	12	20	31/03/2020	7	16
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