

GOVERNANCE COMMITTEE

WEDNESDAY, 1ST JULY 2020, 3.30 PM

VIRTUAL MEETING

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

Agenda No	Item	
3	UPDATE ON 2019/20 CLOSURE OF ACCOUNTS	(Pages 3 - 6)
	To receive and consider the report of the Chief Finance Officer.	
5	AUDIT PROGRESS AND SECTOR UPDATE REPORT	(Pages 7 - 58)
	To receive and consider the report from Grant Thornton, the External Auditor.	
6	EXTERNAL AUDIT PLAN	
	To receive a verbal update from Grant Thornton, the External Auditor.	
7	INTERNAL AUDIT - HEAD OF AUDIT ANNUAL REPORT 2019/20	(Pages 59 - 76)
	To receive and consider the report of the Interim Head of Shared Assurance Services.	
10	DRAFT ANNUAL GOVERNANCE STATEMENT	(Pages 77 - 92)
	To receive and consider the report of the Director of Governance.	
11	NEW MODEL CODE OF CONDUCT 2020	(Pages 93 - 110)
	To receive and consider the report of the Director of Governance.	
13	WORK PROGRAMME	(Pages 111 - 112)
	To receive and consider the draft work programme for the Committee.	

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk

Meeting contact Ruth Rimmington on 01257 515118 or email ruth.rimmington@chorley.gov.uk

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Report of	Meeting	Date
Deputy Director of Finance	Governance Committee	01/07/20

UPDATE ON 2019/20 CLOSURE OF ACCOUNTS

PURPOSE OF REPORT

1. To update the committee on the closure of accounts for Chorley Council

RECOMMENDATION(S)

2. To note the progress on the closure of accounts for 2019/20 including the revised deadlines for submission of the draft accounts and sign off of the final accounts.
3. To note the issues officers are experiencing regarding the valuation of council assets

EXECUTIVE SUMMARY OF REPORT

4. The deadlines for the publication of the draft and final accounts have changed as a result of CV-19
5. The council’s valuers have been furloughed and have now begun working on the valuation to the council’s assets. It is hoped this will not delay the publication of the draft statement of accounts.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

7. The council must publish draft and final statement of accounts every year

CHANGES IN STATUTORY DEADLINES

8. Due to CV-19 the government published revised deadlines for the closure of accounts in April 2020, the key dates remain:
 - The public inspection period must start on or before the first working day in September, this meaning that the draft statement of accounts must be produced by 31st August.
 - The audit of the accounts will, subject to confirmation with Grant Thornton, take place between 1st September and late November 2020.
 - The audited financial statements are to be published by 30th November 2020.

PROGRESS TO DATE AND KEY ISSUES

9. The revised working arrangements in place since the second half of March have inevitably affected a range of tasks in a variety of ways, to date good progress has been made.
10. There is however an exception. New valuers were bought in by the Council in January 2020 to provide the valuations of the Council’s assets as at 31 March 2020.
11. The agreed timetable required the production of the valuations by the middle of April. With the onset of the disruption caused by the pandemic, there was an expectation of some delay in them being delivered, but with the extended closure deadline this was not seen as a problem.
12. However, the council has been unable to contact the the valuers as they have been furloughed and have only now come back to work. They have requested access to our buildings to complete the valuations and will begin work soon.
13. It is hoped this will not delay the publication of the draft statement of accounts.

IMPLICATIONS OF REPORT

14. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

15. There is a reputational risk to the council of not publishing its accounts within statutory deadlines.

COMMENTS OF THE STATUTORY FINANCE OFFICER

16. Officers will continue to work hard to complete the closure of accounts within the revised statutory deadlines.

COMMENTS OF THE MONITORING OFFICER

17. No comment

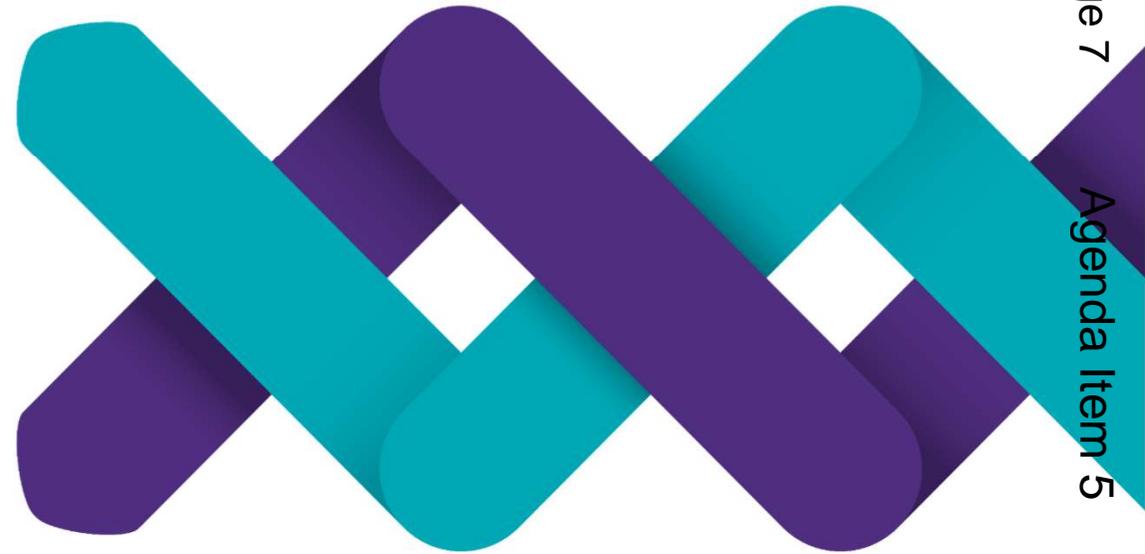
JAMES THOMSON
DEPUTY DIRECTOR OF FINANCE

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Audit Progress Report and Sector Update

Chorley Borough Council

09 March 2020



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Introduction

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This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 9 March 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in January 2020 and we began our interim audit in March 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 July 2020

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 9 for more details.

Progress at 9 March 2020 (Cont.)

Other areas

Meetings

We met with Finance Officers in March 2020 as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which help ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated with the Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2018/19.</p>	April 2019	Complete
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	February 2020	Not complete – update to be given at the Committee
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	April 2020	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Governance Committee.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (i.e. what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

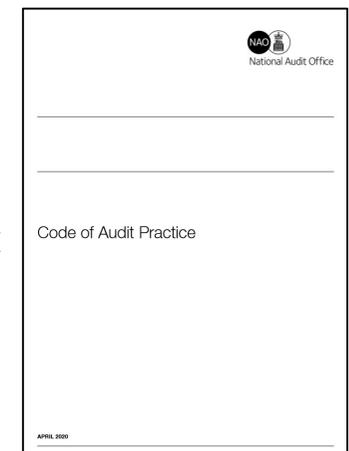
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – aid to Audit Committees in evaluating audit quality

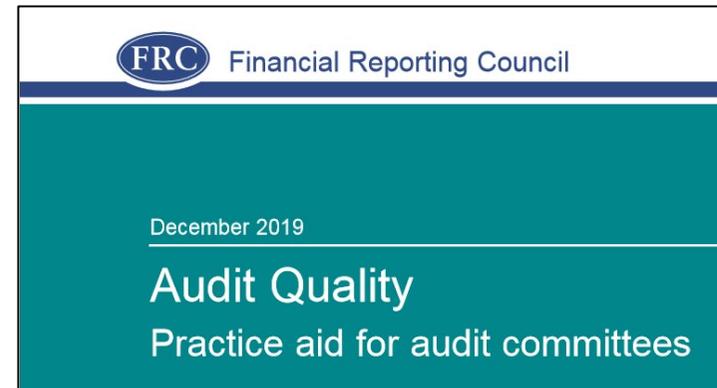
On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>.

Financial Reporting



Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

Financial Resilience

Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?

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Dear S151 officer,

Given all of the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. Needless to say, that is an incredibly unsatisfactory position, particularly for all of the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish in the near future. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backcloth PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, their impact will be variable depending on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Appendix 1 explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

Appendix 1

PSAA's approach to fees

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include :

- i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
- ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;
- iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;
- iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

i). Linking tender prices to the extant scale of fees

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

ii). Pooling firms' costs

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all of the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the

same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii). Charging for additional audit work

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where it is clear that these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

iv). Amendments to scale fees

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions. In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.



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Future Procurement and Market Supply Options Review

Final Report

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Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

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1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

Key issues

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

Firms that are not currently approved to operate in this market

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

Firms that are approved to operate in this market

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

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They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31st July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

Options available to PSAA

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

2. PURPOSE AND SCOPE

2.1 Overview

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as to **maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply market**.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

2.2 Specific issues to be addressed

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

2.3 Other issues

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.

3. WORK DONE AND METHODOLOGY

3.1 Interviews

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19th December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

3.2 Analysing responses

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

4. **BACKGROUND**

4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

Abolition of the Audit Commission

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

Establishment of PSAA

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

The current appointing period

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

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A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

Code of Audit Practice

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

Regulation

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

Registration and licensing

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

Continuing change in the external audit and local audit sectors

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: <ul style="list-style-type: none"> ▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). ▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.
The Competition and Markets Authority	April 2019	Recommendations re: <ul style="list-style-type: none"> ▪ Separation of audit from consulting services. ▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. ▪ Introduction of statutory regulatory powers to increase accountability of audit committees.
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: <ul style="list-style-type: none"> ▪ A redefinition of audit and its purpose. ▪ The creation of a corporate auditing profession governed by principles. ▪ The introduction of suspicion into the qualities of auditing. ▪ The extension of the concept of auditing to areas beyond financial statements.
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other ‘Big 4’ firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other ‘top 10’ audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the ‘top 10’ audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the ‘top 10’, acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other ‘top 20’ audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

Firm	Current work for PSAA eligible bodies	Number of KAPs
<i>Incumbents</i>		
GT	40% by value of opted in bodies (183 audits)	26
EY	30% by value of opted in bodies (162 audits)	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO / Moore Stephens	6% by value of opted in bodies (26 audits)	6
<i>Others</i>		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
Total number of key audit partners		97

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this ‘follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.’ We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation’s closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31st July 2019:

"The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019.** The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31st July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31st July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

5.2 In the current contract, what works well and what works less well? (Contract holders only)

What works well

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

What works less well

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31st July was mentioned as an issue by every firm, without any prompting from us.** Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

5.3 Number of lots and lot sizes

Six out of the nine approved firms said that they would like to see a larger number of smaller lots. Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

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- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.

5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31st July (compared to the pre-2017/18 target date of 30th September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

5.12 Other issues – fees

All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking. Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

Local auditing is more or less unanimously regarded as being unattractive at present, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

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- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?

Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts. Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

It has been difficult to persuade non-approved firms to engage with our review. Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA’s role in it; while the remaining two firms had very little knowledge of this area.

6.4 Would your firm consider bidding for any local audits in the next round of procurement?

There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.

The following table summarises the position of each of the firms we spoke to:

Firm	Overall position	Comments
1	Mildly interested	Very limited understanding of what local audit involves.
2	Would not rule anything out	The balance of risk and reward is critical. ‘If fees are high enough, why not consider it?’. The partnership would have to approve the business case for getting involved. ‘The more hurdles there are, the more benefits there would need to be’.
3	Doubtful	They see many obstacles to getting involved in this market. They would need ‘very positive assurances’ that they had a near certainty of winning some work before they would consider bidding.
4	Negative	‘We should stick to our knitting’.
5	Doubtful	Current fee levels would negate any interest.
6	Interested	Would need guidance, support and a small lot(s) to bid for.

6.5 How important would the following factors be?

The need to register as an approved firm / key audit partners

Those firms that were aware of the requirements saw them as a deterrent to entry.

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant ‘learning curve’.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

Advice and support being available to assist with your entry to the market

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

Other factors

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?

Lot sizes, locations, values and composition of lots

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

The duration of the contract

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

The balance between price and quality used to evaluate the tenders

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

Whether lots include audits subject to FRC review

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

The legal right of electors to object

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

6.9 Would your firm consider participating in a joint audit appointment? On what basis?

Four of the six firms said they would be prepared to consider a joint audit appointment. Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

7. ISSUES AND OPTIONS

7.1 Introduction

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

7.2 SWOT analysis for the market for audits of PSAA’s eligible bodies

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA’s eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people’s lives. 	<ul style="list-style-type: none"> ▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA’s eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies). ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.

Opportunities	Threats
<ul style="list-style-type: none"> ▪ The Redmond review could make recommendations that address the firms’ current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest 	<ul style="list-style-type: none"> ▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements.

7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected ‘lessons learned’ that CBS highlighted in their report and how these relate to our own findings.

CBS ‘Lesson’	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including...	The challenges have increased since the publication of the CBS report. Firms’ experiences of the 2019 audit cycle have contributed to this.
<ul style="list-style-type: none"> ▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market). 	These factors remain and are now more strongly felt than before. It is no longer the case that ‘firms are intending to stay in the market’ . Their position is now less certain and dependent on developments ahead of the next procurement.
<ul style="list-style-type: none"> ▪ there is evidence that gaining new entrants will be challenging. 	This remains the case.
<ul style="list-style-type: none"> ▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality. 	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the ‘big 4’ firms into the market.
Given the above factors, positive ‘market making’ action may be advisable.	If ‘market making’ means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market’s lack of attractiveness to new entrants.

CBS 'Lesson'	Our comments / current situation
<p>There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted.</p>	<p>This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis.</p>
<p>In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.</p>	<p>This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality.</p>

7.4 Opening up the market to new entrants

Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

In May 2019 the Cabinet Office made the following statement:

'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'

7.5 Supply side resources

Issues

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A 'lost generation' of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

Options for PSAA

PSAA could consider setting a specific target to keep all the approved firms, especially the 'Big 4', active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

7.6 Timing of audits

Issues

The government has set a target date of 31st July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30th September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

Options for PSAA

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

7.7 Fees and quality

Issues

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks. Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

Options for PSAA

Of all the issues that PSAA can influence, fees are by far the most important to the firms. Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

7.8 Number of lots and lot sizes

Number of lots

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

Size of lots

All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total. Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

Options for PSAA

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

7.9 Composition and location of lots

Allocation of audits

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

Locations

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

Specialist lots

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

Options for PSAA

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms.** However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

7.10 Contract duration*Issues*

The **5 year contract duration is popular with firms and any shorter period would not be welcomed.** There was little support for a longer duration.

Options for PSAA

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

7.11 Contract structure*Issues*

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies.....including: local government.....'

Options for PSAA

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

7.12 Joint audit options

Issues

Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms. However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

Options for PSAA

Consider tendering for joint audits as a potential future option. Consider whether there is potential for 'match-making' between approved and non-approved firms.

7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

SAAA

The Smaller Authorities' Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors' objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

NAO

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

Scotland, Wales and Northern Ireland

Some of PSAA's current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing 'best value' in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

Options for PSAA

PSAA's options are constrained by the current fragmented structure of the market and by PSAA's precisely defined role within it.

7.14 Creating a not-for-profit supplier

Issues

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

Options for PSAA

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.

GLOSSARY

Initials	Definition
AC	Audit Commission
ARGA	Audit, Reporting and Governance Authority
AS	Audit Scotland
CBS	Cardiff Business School
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance Accountants
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
KAP	Key Audit Partner
LGA	Local Government Association
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NFP	Not for profit
PIE	Public Interest Entity
PSAA	Public Sector Audit Appointments Ltd.
RSB	Recognised Supervisory Body
SAAA	Smaller Authorities' Audit Appointments
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
WAO	Wales Audit Office

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Report of	Meeting	Date
Director of Governance	Governance Committee	1 July 2020

INTERNAL AUDIT - HEAD OF AUDIT ANNUAL REPORT 2019/20

PURPOSE OF REPORT

1. The purpose of the report is to:-
 - summarise the work undertaken by the Internal Audit Service from 1st April 2019 to 31st March 2020 relating to the 2019/20 Audit Plan;
 - provide the Head of Internal Audit’s overall opinion on the adequacy and effectiveness of the Council’s framework of governance, risk and control; and
 - to provide an appraisal of the Internal Audit Services performance throughout the period.

RECOMMENDATION(S)

2. That the Committee:-
 - i) Note the Internal Audit Annual Report for 2019/20;
 - ii) Note the progress of work undertaken against the 2019/20 Annual Plan; and
 - iii) Note the Head of Internal Audit’s opinion on the adequacy and effectiveness of the Council’s framework of governance, risk and control.

EXECUTIVE SUMMARY OF REPORT

3. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an opinion on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control. The Internal Audit Annual Report for 2019/20 is attached to this report at Appendix 1, this report fulfils the requirement of the PSIAS to provide the Head of Internal Audit’s opinion.
4. The report also provides to Governance Committee an overview of the work undertaken against the agreed Audit Plan for 2019/20, the assurance opinion for each of the reviews and an overview of the findings from each review.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and		An ambitious council that does more	X

communities		to meet the needs of residents and the local area	
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BACKGROUND

6. The Public Sector Internal Audit Standards require that the Head of Internal Audit provide an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control, this includes an opinion on the level of assurance provided in the overall control environment, which is supported by the work undertaken throughout the year (2019/20).
7. At Chorley BC this is the responsibility of the Interim Head of Shared Assurance. In order to form that opinion a number of areas are reviewed including the work undertaken by Internal Audit in the preceding year in this case 2019/20; the review and assessment of the governance framework undertaken as part of the Annual Governance Statement work and the embedding of Risk Management within the Council.

These factors come together to provide evidence to support the opinion of the Interim Head of Shared Assurance, the opinion is outlined at Section 3 of the Head of Internal Audit – Annual Report.

Annual Report 2019/20

8. The Annual Report is attached at Appendix 1, it includes a summary of the status of work undertaken during 2019/20 financial year against the agreed Annual Plan for 2019/20, which is attached as Appendix 2. Significant findings and findings in relation to those audit reviews with a Limited Assurance opinion are included at 5.5 to 5.9 of the HIA Annual Report.

Performance

9. The report and summary show that 70% of the Planned work has been completed in the year (based on the adjusted plan for 2019/20, this is explained within the Head of Internal Audit Report). The original 2019/20 Planned work equated to 248 days, there were a number of adjustments including deletion and deferment of a number of audits outlined at paragraph 4.4 of the report, the deletions were:-
 - i) Elections – deferred to 2020/21 Audit Plan, this was initially due to increased pressure from increased elections being called and the all out elections that were due to take place in May 2020 (the election was then deferred due to COVID-19), Further discussions with the Director of Governance will determine the feasibility of undertaking that audit in 2020/21;
 - ii) Time Credits – audit review no longer required, this was replaced with a higher risk area – Syrian Resettlement Programme

There was 2 unplanned pieces of work requested and added to the plan, these are:-

- i) Syrian Resettlement (as outlined above)
 - ii) Environmental Permitting Regulations Follow Up – this was a follow up of a 2018/19 review which was provided a Limited Assurance opinion.
10. The overall Audit Plan for 2019/20 was 340 days initially, after adjustments outlined above and at paragraphs 4.4, 5.1-5.4 of the HIA Annual Report, the actual planned days equates to 281 days and 214 actual days have been undertaken, which equates to 76.15% of the original overall plan completed (subsequent to adjustments) . A number of pieces of work had commenced in March 2020, which have not been completed, due to the Internal Audit team being seconded into the Community Hub at South Ribble to support the case

management and provide support to the vulnerable in the Community.

11. These reviews are:-

- Housing Benefits
- Sundry Debtors
- Whistleblowing Policy & Review
- Outdoor Leisure Contract.

12. A number of areas have been carried forward / deferred to 2020/21 Audit Plan, these are:-

- Income Collection & Receipt
- Performance Management Information
- Housing Standards

13. Internal Audit achieved a 100% acceptance level for recommendations / agreed management actions

IMPLICATIONS OF REPORT

14. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	x	Customer Services	
Human Resources		Equality and Diversity	
Legal	x	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

15. Failure to present the Annual Report including the Head of Internal Audit's opinion on the overall governance, risk and control environment to the Governance Committee would result in a lack of awareness of those charged with the responsibility for the Governance of the Council of issues in regard to the Council's governance, risk and control arrangements. This could result in legal, financial and reputational harm to the Council

COMMENTS OF THE STATUTORY FINANCE OFFICER

16. The contents of the report are noted. Further audit work with regard to the Creditors function will be undertaken and management actions agreed

COMMENTS OF THE MONITORING OFFICER

17. The legal requirements are properly set out in the body of the report.

Chris Moister
Director of Governance

Background Papers		
Document	Date	File
Chorley Internal Audit Plan 2019/20	March 2019	

Report Author	Ext	Date
Janice Bamber	5470	22 June 2020

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Working in **Synergy** on shared services

Chorley BC

Internal Audit Annual Report 2019/20

Author & Date

**Janice Bamber
Interim Head of Shared Assurance
6th June 2020**

1	INTRODUCTION / PURPOSE OF REPORT
1.1	The Public Sector Internal Audit Standards require that the Head of Internal Audit provide an opinion on the adequacy and effectiveness of the Council’s framework of governance, risk management and control, this includes an opinion on the level of assurance provided in the overall control environment.
1.2	The Governance Committee are responsible for providing assurance in regard to the adequacy of the risk management framework and internal control environment of the council, and oversight of the financial reporting process. It provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Governance Committee is to provide independent review of South Ribble Borough Council’s governance, risk management and control frameworks.
1.3	A key element in the Governance Committee being able to provide that assurance is the overall assurance opinion from the Head of Internal Audit. The role of Head of Internal Audit at South Ribble is currently provided by the role of Interim Head of Shared Assurance.
1.4	This report sets out the Head of Internal Audit’s opinion on the adequacy and effectiveness of the Council’s framework of governance, risk management and control, the report includes the Head of Internal Audit’s opinion on the level of assurance provided by the overall control environment

2	Role of Internal Audit
2.1	<p>The Accounts and Audit (England) Regulations 2015 state that a relevant body must:-</p> <p><i>“Undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards as guidance”</i></p> <p>The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2016 (the standards).</p>
2.2	<p>The role of internal audit is summarised in the following definition from the standards:-</p> <p><i>“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i></p>
2.3	The Governance Committee has approved Internal Audit’s Charter which sets out the team’s roles and responsibilities in order to ensure effective internal control, good financial systems and management of risk. The Charter is included in the Constitution of the Council.
2.4	The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.
2.5	The Council’s response to internal audit activity should lead to the strengthening of the control environment, and, therefore, contribute to the achievement of the Council’s objectives.

3 Internal Audit Opinion

- 3.1 The Interim Head of Shared Assurance is responsible for providing an annual audit opinion and report that can be used by the Council to inform its Annual Governance Statement. The annual opinion concludes on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control.
- 3.2 In giving this opinion it should be noted that an assurance opinion cannot be absolute as it is based on only those elements of governance and controls reviewed, the opinion is based on:-
 - Internal audit planned work completed during the course of the year (assurance, consultancy & other);
 - Results of any follow up reviews undertaken in respect of previous years’ work and / or limited opinion reviews;
 - Outcomes from work undertaken in respect of issues arising from the governance issues raised as part of the investigations relating to Senior officers of the Council;
 - The proportion of SRBC’s audit plan that has been completed in the year.
- 3.3 As the Interim Head of Shared Assurance I am satisfied that, based on the areas reviewed during the financial year 2019/20 that sufficient work has been carried out to form a reasonable conclusion on the adequacy and effectiveness of Chorley Borough Council’s internal control environment.
- 3.4 Chorley Borough Council has a sound governance framework in that, in general, appropriate policies, rules, regulation and procedures are in place the operation of that framework. The review of governance arrangements and compliance with those governance arrangements in regard to systems / areas / services that have been audited as resulted in the Head of Internal Audit determining that the governance arrangements and controls in place provide **Adequate Assurance**. The Head of Internal Audit’s opinion is that the Council can place sufficient reliance on the controls in place in the areas reviewed and that only a limited number of control weaknesses exist.
- 3.5 The following provides a breakdown of the Assurance opinions determined from individual Audit reviews:-

Chorley Borough Council		
Opinion	Number	
Limited	1	
Adequate	6	
Substantial	2	
Full	1	

There is one area where an opinion of **Limited Assurance** has been determined, this is in relation to controls in place in regard to the Syrian Resettlement Programme, the findings, which are outlined below at paragraph 5.6, have been discussed and agreed with the Service Lead and appropriate Management Actions agreed, this review will be followed up as part of the 2020/21 Audit Plan and reported back to Governance Committee.

- 3.6 The following provides a breakdown by Assurance opinion of the reviews undertaken in the Shared Services areas:-

Shared Services (relating to Chorley operations)		
Opinion	Number	
Limited	2	
Adequate	1	
Substantial	3	
Full		

	<p>There are 2 areas where the Assurance opinion has been determined to be Limited, in regard to the service areas that sit within Shared Services, this is in relation to Creditors and Payroll, the details of findings are outlined below at paragraph 5.7 - 5.9, the review of Payroll was a review carried forward into 2019/20 and was reported in the 2018/19 Audit Plan, however, the follow up will be undertaken as part of the 202/21 Audit Plan relating to Shared Services. The Creditors review, has been issued without Management Actions as further work is required to determine the extent of the failures and the potential impacts of the lack of control in those areas reviewed.</p> <p>All Management Actions were discussed, agreed and implemented, a follow up will be undertaken as part of the 2020/21 Audit Plan to confirm all management actions have been implemented and risks are now mitigated.</p>
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4.	Resources
4.1	<p>It is the Council's responsibility to ensure an adequate and effectively resourced Internal Audit Services, it is the Governance Committee's responsibility to approve the risk based audit plan, including internal audit's resource requirements and to approve significant interim changes to the risk based audit plan and resource requirements and determine if there are any resource limitations. It is the Head of Internal Audit's responsibility to determine the resources, expertise, qualifications and systems for the internal audit service that are required to carry out a satisfactory level of internal audit. To this end the Interim Head of Shared Assurance has reported resource requirements / impacts during the 2019/20 financial year in order to ensure the delivery of the Audit Plan.</p>
4.1	<p>The Internal Audit Plan for 2019/20 was based on an overall resource of 340 days for Chorley Borough Council, 340 for Chorley Borough Council and 120 days for Shared Services; this was based on the resource in place in March 2019. The resource at that time was 1 FTE – Interim Head of Shared Assurance, 2.6 FTE Auditors.</p>
4.2	<p>Issues regarding the investigations / governance work arose at South Ribble BC in May 2019 and the Interim Head of Shared Assurance, undertook several pieces of work relating to these areas, this resulted in changes in resources, that were agreed by Governance Committee's at both Council's. The following arrangements were put in place:-</p> <ul style="list-style-type: none"> • 0.8 Auditor temporarily appointed to Principal Auditor role (11/06/19 – 31/03/20) • Temporary Auditor (LH) appointed (agency) 7/07/19 – 03/04/20; • Temporary Auditor (BW) appointed (agency) 21/10/19 – 24/04/20.
4.3	<p>This increased the resource to enable the plan to be practically completed, the % of the plan had been completed is not necessarily reflective of the work undertaken due to the changes within the plan identified in the next paragraph and due to the impact of the investigations and governance issues arising greater emphasis has been placed on South Ribble Audit Plan. There was a number of pieces of work which was ongoing and was due to be completed by the end of March, and then any outstanding that would be carried forward would be completed by end April / mid-May. However, due to the impact of COVID-19, 1 of the Agency Auditors and 2.6 FTE's were seconded into the Community Hub to support the Council's response to COVID-19. This meant that the Internal Audit Service was stood down with the exception of the Interim Head of Shared Assurance.</p>
4.4	<p>The changes in the plan were as follows:-</p> <ul style="list-style-type: none"> • 2 Audit reviews deleted, agreed with Governance Committee – Elections and Time Credits • 2 Audit's deferred, agreed with Management due to risks not deemed to be being significant, these will be included in the 2020/21 Audit Plan – Performance Management & Housing Standards; • 2 Audit reviews agreed to be undertaken as Gap Analysis reviews as services has had significant staffing issues previously – Asset Management & Commercial Properties.
4.5	<p>The reviews started in February / March that were unable to be completed due to impact of COVID-19 on service are:-</p> <ul style="list-style-type: none"> • Whistleblowing Policy & Review; • Housing Benefits; • Sundry Debtors; • Outdoor Leisure Contract.

	<p>It should be noted that 3 audit reviews have been carried forward to 2020/21 Audit Plan, they are:-</p> <ul style="list-style-type: none">• Income Collection and Receipt;• Performance Management;• Housing Standards. <p>The ICT Audit review is awaiting agreement with Merseyside Internal Agency in respect of timing and areas to be reviewed.</p>
4.6	<p>Going into 2020/21, it should be noted that the Auditor who was Temporarily filling the Principal Auditor role has left the organisation on 8th May 2020; the 2 Agency temporary auditors finished on the 3rd and 24th April respectively. The remaining 1.8 FTE are currently supporting the Community Hub, this was agreed at Leadership Team for a further period to end of June.</p>
4.7	<p>It should also be noted that the Interim Head of Shared Assurance's contract finishes on the 30th June 2020. Members should note the remaining service will be 1.8 FTE Auditors. A service review is due to be undertaken in line with the agreement from Shared Services Joint Committee 9th September 2019.</p>

5	Internal Audit Work
	Audit Plan 2019/20
5.1	<p>The Internal Audit Plan for 2019/20 was initially agreed by Governance Committee at its meeting in March 2019. The 2019/20 plan was prepared informed by Internal Audit's own assessment of risks at that time and consultation with Chorley Senior Management Team to ensure it aligned to key risks facing the Council for the coming year (2019/20).</p>
5.2	<p>The original Audit Plan contained 248 days for Planned Work, 2 reviews were deleted which equated to 15 days, further days are deleted where the audits have been completed and not used the full allocation of planned days and those deferred to next year's Annual Plan (as outlined above) this equates to 44 days, therefore the Annual Planned days equate to 189 days.</p>
5.3	<p>The summary of work undertaken against the Audit Plan is attached at Appendix 2, this outlines the status of the reports as at end May 2020, the opinion of those reports that are completed and actual days spend against planned days. The report shows:-</p> <p>Page ii) - planned audit work, Days planned 189, actual (planned and unplanned) days 132.35 days</p> <p>This equates to 81.29% of the Audit Planned Work and Unplanned Work completed.</p> <p>Page iii) relates to ongoing work completed throughout the year, work carried forward from 2018/19, general areas and Contingency / Irregularity work.</p> <p>Overall Totals</p> <p>Original Planned Days - 325, Actual Days 214; this equates to 65% of plan completed</p> <p>Planned further to Changes (Days deleted where work not required, review deleted or work completed in less days than planned)</p> <p>Planned Days (further to adjustments) 281. Actual Days 214 ; this equates to 76.15% of overall plan completed</p>
5.4	<p>All significant findings from the audit work undertaken has been reported to Governance Committee throughout the year, the findings related to those audit reviews where a Limited Assurance opinion has been determined have been outlined in paragraphs 3.7 – 3.9 of this report. No further significant issues have required reporting, however where it is felt findings require outlining to Governance Committee these are highlighted below.</p>
5.5	<p>Asset Management – Repairs & Maintenance and Commercial Properties</p> <p>Commercial Properties and Asset Management Services have seen significant changes over the last 2 years, resulting in a lack of continuity, resilience and capacity, which has undoubtedly affected the delivery of the service. The Chief Executive and Director of Business Development & Growth, requested that a Gap Analysis be undertaken by Internal Audit to identify areas of governance and control weakness with a view to agreeing a Service Improvement Plan to address areas of governance and control weaknesses. The Gap Analysis has completed and found a number of governance failings and control weaknesses, these have been developed into an Improvement Plan with responsible officers and dates agreed. The dates have recently been amended as the service has been impacted by COVID-19, in that they have been supporting change of delivery in services at Chorley BC. A meeting is to be called with all relevant officers to address the way forward in regard to these areas, this will be agreed with the Chief Executive and Director of the Service.</p> <p>Limited Assurance Opinion – Audit Findings</p>
5.6	<p>Chorley Borough Council – Internal Audit Reviews</p> <p>In regard to the Syrian Resettlement Programme it was identified that whilst there are some areas of good practice, there are significant weaknesses in the governance arrangements and the application of controls which put at risk the achievement of the system objectives. The weaknesses in control were particularly evident in regard to the following controls:-</p> <ul style="list-style-type: none"> • Ineffective recording and retention of evidence to support funding claimed, particularly for exceptional costs, thereby contravening the funding agreement; • Lack of continuity for leading the SR Programme which has impacted on the management of programme delivery; • Intermittent attendance of the Steering and Operational Group meetings, leading to an un co-ordinated approach to the delivery of the SR Programme; and • Late submission of re-imburement claims and inaccurate claims for VAT.

A robust management action plan has been agreed with all Management Actions due to be implemented by the 31/07/2020. This may need reviewing in light of the impact of COVID-19, this will be discussed with Management and revised dates reported back to Governance Committee as appropriate, further a follow up will be undertaken as part of the 2020/21 Audit Plan and the findings and opinion reported back to Governance Committee.

5.7 **Shared Services – Internal Audit Reviews**

Payroll

This review focused on the Payroll contract, the management of that contract and the performance issues relating to payroll processes, such as starters / leavers, amendments and payments actioned accurately and in a timely manner. The following was identified:-

- Current contract with Blackpool payroll has been rolled over for a number of years since 2010. No waivers or Executive decisions are in place to support the continuous rolling forward of the Payroll contract. This breaches Contract Procedure Rules;
- Local Performance indicators are not being reported nor are performance review being held every six months. This contravenes the original Service Level Agreement requirements and identifies that performance is not being adequately measured and monitored;
- Reconciliation of the budgeted establishment with the HR system is not being regularly undertaken, thereby increasing the risk of error or misreporting.

All Management Actions were discussed, agreed and implemented, a follow up will be undertaken as part of the 2020/21 Audit Plan to confirm all management actions have been implemented and risks are now mitigated.

5.8 **Creditors**

The review of Creditors focused on the key risks and operation of controls within the Creditors system – Civica, i.e., the computer related controls that exist for all payments. Computer controls are established within systems, generally, at implementation with improvements / changes made in response to process change and / or legislation changes. The adequacy and effectiveness of the established controls within the Creditors systems have not been reviewed as part of previous audit reviews.

The Creditors system is part of the Shared Services arrangements between Chorley BC and South Ribble BC. Whilst both Councils have their own respective Financial Procedure Rules / Financial Regulations relating to the payment of invoices, the system operates the same across both Councils albeit with their own respective purchasing limits / delegations and levels of authorisation required.

The review identified that whilst the both Councils have adequate and effective governance frameworks in respect of the ordering, receipting and payment for goods and services those processes / rules are not being complied with in the operation of the Creditors system.

5.9 The review identified the following control failings:-

- Allowing the receipt of goods and payment of invoices, without referral to another authoriser for values greater than Purchase Order values, which could result in officers acting beyond their delegated authority, could leave the Council open to the risk of fraud / error and result in overspend of budgets or exceeding budget limits;
- Officers potentially not reviewing the amounts invoiced, received and / or ordered to ensure only those goods / services ordered and receipted are being paid for;
- Override of budgetary controls, which allow Purchase orders to be raised whether there is sufficient budget or not against that budget line / cost code;
- Orders raised after goods / services partly / fully received;
- Orders being raised inaccurately, that do not cover all goods / service received;
- Goods / services received not always recorded upon receipt for the correct value;
- Occasionally orders are cancelled (in error), the invoice is subsequently received and paid without an official order being in place;
- Inaccurate recording of invoice data on the Creditors system;
- Lack of supervisory review of the Administrative Users Log.

As outlined above there is further work required in regard to this review in respect of where goods are received and invoices paid that are in excess of the Purchase Order value, Internal Audit need to determine the extent and value arising from this control failure as it leaves the Council open to the risk of fraud and / or error and potential material misstatement in the accounts, this work will be undertaken as part of the Audit Plan for 2020/21. There is also a link to the review of Budget management / monitoring as there may be compensatory controls within the budget monitoring / management process that mitigate some of the risks identified above.

6	Internal Audit Performance
6.1	<p>As can be seen in Appendix 2, the Annual Plan work is 70% completed, there are some areas of work that have more time booked against them than originally planned, this is largely due to the extension of scope once it the area of review is discussed with the Service lead. The % plan completed based on Planned and the Unplanned Work (as explained above) is 81.37%, this figure is based on the adjustments made outlined at paragraphs 5.1 to 5.3 above and the adjustments outlined at 4.4. The overall Total % of plan completed based on 281 Planned Days is 76.15%. The deletions and deferrals have been either requested by or agreed by relevant Directors / Head of Paid Service, a number of pieces of work were completed in less days than actually planned, these reviews were based on the risks identified and agreed with the relevant Officers. For a number of pieces of ongoing work, e.g., Project work, no requests were made in that area, so no work was required. It should be noted that due to the issues arising at South Ribble a significant proportion of audit resource has been focused on South Ribble Governance Issues.</p>
6.2	<p>The Shared Services arrangement generally mean that the service costs are split 50/50 between 2 Council's, the S151 Officers have agreed a more appropriate split due to the focus on South Ribble Audit work during 2019/20, including the focus of the Interim Head of Shared Assurance. The split of service costs in regard to the rest of the Internal Audit Service may require reviewing as part of the recharge work that is undertaken.</p>
6.3	<p>The Internal Audit Service has achieved 100% of all management actions agreed based on those finalised reports.</p>

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INTERNAL AUDIT PLAN 2019/20
CHORLEY COUNCIL

WORK AREA	RISK	EST (Days)	ACT	BAL	REVIEW STATUS	ASSURANCE RATING	STATUS
AUDIT PLANNED WORK							
FINANCE							
Income Collection & Receipt	High	25	1	24	c/f 2020/21		Work was due to commence March c/f 2020/21
Corporate Credit Cards	High	10	14.55	(4.55)	COMPLETED	ADEQUATE	Review completed
POLICY & GOVERNANCE							
Legal, Democratic & HR Services							
GDPR Compliance Reviews	High	15	23.3	(8.3)	COMPLETED	ADEQUATE	Review completed, requires agreeing with Director of Governance
Whistleblowing Policy & Review	Medium	10	1.5	8.5	Commenced		Review commenced March 2020. Delayed due to impact of COVID-19
Elections	High	0	0	0	DELETED		Due to impact of the General Election in December 2019, the outstanding Boundary review and all out elections in March 2020 the elections team have limited availability to co-operate with IA, it is therefore proposed to move review to Q3 2020/21.
Performance & Partnerships							
Performance Management Information	Medium	15	0	15	Deferred to 2020/21		Review deferred to 2020/21
Communications & Events							
Events	Medium	10	10.5	(0.5)	COMPLETED	ADEQUATE	Review completed, Draft Report to be discussed with Service Lead
CUSTOMER & DIGITAL							
Transformation							
Council Tax	High	10	11.9	(1.9)	COMPLETED	FULL	
NNDR	High	10	10.8	(0.8)	COMPLETED	SUBSTANTIAL	
Housing Benefits	High	10	2.3	7.7	In Progress		Work had commenced on both these areas in March 2020, however, Auditors seconded to work in SRBC Community Hub as part of COVID-19 response.
Sundry Debtors	High	10	0.8	9.2	In Progress		
Waste & Streetscene							
Bereavement Services	Medium	15	11.9	3.45	COMPLETED	SUBSTANTIAL	Awaiting Response to Management Actions
Refuse Collection – Contract Management/Compliance	High	15	12.35	2.65	COMPLETED	ADEQUATE	Scope agreed / Testing to commence
ICT Services							
ICT Review (TBD)	High	20	3.3	16.7	c/f 2020/21		Work carried forward
EARLY INTERVENTION							
Health & Wellbeing							
Time Credits	High				DELETED		Audit no longer required replaced with Syrian Resettlement Programme as greater risk.
Outdoor Leisure Contract	Medium	15	0.5	9.5	In Progress		Review commenced in Marc 2020, delay due to impact of COVID-19, Auditor seconded to SRBC Community Hub
Regulatory Services							
Housing Standards - enforcement & immigration inspections	High	15	0.3	14.7	Deferred to 2020/21		

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Agenda Item 7

BUSINESS DEVELOPMENT & GROWTH							
Market Walk & Town Centre							
Car Park Management & Enforcement	Medium	15	15.2	(0.2)	COMPLETED	ADEQUATE	
Property Services							
Asset Management - repairs & maintenance	High	10	4.6	5.4	GAP ANALYSIS COMPLETED		Gap Analysis for both services completed, Management Action Plan agreed, follow up in 2020/21
Commercial Properties	Medium	8	5.4	2.6	GAP ANALYSIS COMPLETED		
TOTAL PLANNED WORK		233	132.35	100.65			
Days Deleted as Not Required / Reviews deferred / completed		44					
TOTAL PLANNED WORK		189	132.35	56.65			70% Planned Work Completed
UNPLANNED WORK							
Syrian Resettlement Programme	High		18.95	(8.95)	COMPLETED	LIMITED	Review completed and Management Actions agreed
Environmental Permitting Regulations Follow Up	High		2.5	(2.5)	COMPLETED	ADEQUATE	Follow up as previous report classified as Limited. Audit opinion has improved however, not all recommendations fully implemented therefore further timescales agreed for the outstanding actions.
TOTAL WORK (PLANNED & UNPLANNED)		189	153.80	35.2			81.37% of Planned & Unplanned Work Completed

WORK AREA	RISK	EST (Days)	ACT	BAL	REVIEW STATUS	ASSURANCE RATING	STATUS
ONGOING WORK THROUGHOUT THE YEAR							
CORPORATE AREAS							
Annual Governance Statement	N/A	10	9.3	0.7	COMPLETED	N/A	Work for 2018/19 AGS is completed, reported to Governance Committee 24/07/19
Assurance Mapping	N/A	5	3	2	Draft	N/A	Work to identify all assurance provided and provide assurance map to ensure audit work is complementary to other assurance work and does not duplicate. Document is in draft requires agreeing with SMT.
Anti-Fraud & Corruption	N/A	10	0.1	9.9	COMPLETED	N/A	
National Fraud Initiative (NFI)	N/A	10	2.2	7.8	COMPLETED	N/A	Data Matching upload requests for Single Person Discount
Governance Committee	N/A	10	3.7	6.3	COMPLETED	N/A	Producing reports
Total Ongoing Work		45	18.3	26.7			
OTHER WORK							
GENERAL AREAS							
GRACE System Administration	N/A	10	1.4	8.6	COMPLETED		
Post Audit Reviews	N/A	5	4.4	0.6	COMPLETED	N/A	Recommendations for last 2 years to be issued to Directors / Service Managers to ensure implemented. Outcomes to be reported to Governance Committee.
Total General		15	5.8	9.2			
Project Support	N/A	10	0	10	COMPLETED	N/A	No work requested at this time
Total General & Project		25	5.8	19.2			
Total Ongoing, General & Project Support		70	24.1	45.9			
Residual Work 2018/19							
Maintenance & Inspections	N/A		0.4		COMPLETED	ADEQUATE	Previously reported
Choice Based Lettings	N/A		1.8		COMPLETED	SUBSTANTIAL	Previously reported
Governance Financial Arrangements	N/A		22.8		COMPLETED	ADEQUATE	Paper to be presented to SMT Programme Board
Early Intervention H & S	N/A		3.9		COMPLETED	ADEQUATE	Previously reported
Total Residual Work		10	28.9	(18.9)			
Contingency / Consultancy & Irregularities							
Contingency / Consultancy		10	7.2	2.8	COMPLETED	N/A	Advice, Support & Issues arising that require Internal Audit input
Investigations / Irregularities		2	0	2	COMPLETED	N/A	No irregularities / investigations
Total Contingency / Irregularities		12	7.2	4.8			
Total Other Work		92	60.2	31.8			
(Ongoing, General, Project, Residual and Contingency / Consultancy)							
OVERALL TOTAL PLAN		325	214	111			
Deduct days where work completed. / review deferred / deleted / not required		44					
		281	214	67			76.15% of overall Plan Completed

SHARED FINANCIAL SERVICES

WORK AREA	RISK	EST (Days)	ACT	BAL	REVIEW STATUS	ASSURANCE RATING	COMMENTS
AUDIT PLANNED WORK							
Creditors	High	20	36.7	(16.7)	COMPLETED	LIMITED	Final Report issued, however, no management action included in report as further work is required to determine extent of issues.
Financial Systems: Budget Monitoring	High	20	2	18	In Progress		Agreed to review Budget Management / Monitoring at both Councils, audit scope outlined by Internal Auditor, to be agreed by S151 Officers. However, COVID-19 interrupted work, Auditor is seconded to Community Hub.
Procurement – Chorley	High	30	7.9	2.6	In Progress		Audit scope agreed, testing in progress. Scope is focused on waiver of CPR's and compliance with requirements of Constitution. Work delayed by impact of COVID-19 Auditor seconded to SRBC Community Response Hub, Auditors contract has since ended.
Procurement – South Ribble			19.5		COMPLETED	LIMITED	Draft Report Requires agreement to Management Actions
Money Laundering	High	20	1.6	18.4	Commenced		Work commenced March 2020, delayed by impact of COVID-19, secondment of Auditor to Community Hub, Auditor's contract has since ended.
NFI Data Matching Reviews of Financial Matches inc. Creditors / Payroll / Housing Benefits		10	10.9	(0.9)	COMPLETED	ADEQUATE	Work undertaken on Creditors & Payroll matches re employees, Draft Report to be reviewed by Interim Head of Shared Assurance
Total Planned		100	80.60	19.4			
UNPLANNED WORK							
Shared Services Review of Accounts	N/A		7	(7)	Draft Report		Audit work completed and Draft Report prepared. File and Report with Interim Head of Shared Assurance for review.
COVID-19 GDPR Implications Advice			0.2				
Total Unplanned		0	7.2	(7.2)			
TOTAL SHARED SERVICES WORK (Planned & Unplanned)		100	87.8	12.2			87.8% of Shared Services Audit Planned Work Completed
OTHER WORK							
General Areas							
GRACE System Administration	N/A	5	0.2	4.8	COMPLETED		
Post Audit Reviews	N/A	5	0	5	COMPLETED		
Total General Areas		10	0.2	9.8			
Residual Work from 2018/19							
Cash & Bank	N/A		12.1		COMPLETED	SUBSTANTIAL	Previously Reported
Treasury Management	N/A		1.1		COMPLETED	SUBSTANTIAL	Previously Reported
Payroll			2.1		COMPLETED	LIMITED	Previously Reported
Main Accounting					COMPLETED	SUBSTANTIAL	Previously Reported
Residual Work Total Days		5	15.3	(10.3)			
Contingency / Irregularities							
Total Contingency / Irregularities		5	0	5			
TOTALS		120	103.3	16.7			86% of Overall Plan Completed



Report of	Meeting	Date
Monitoring Officer	Governance Committee	1 July 2020

DRAFT ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT

PURPOSE OF REPORT

1. To present the draft Annual Governance Statement (AGS) to the Governance Committee for review and approval.

RECOMMENDATION(S)

2. That the draft Annual Governance Statement appended to this report be approved and referred to the Executive Leader of the Council and the Chief Executive for signature.

EXECUTIVE SUMMARY OF REPORT

3. Pursuant to the Local Government Act 1999, the Authority are required to continuously review our system of Governance. As part of this review we publish an Annual Governance Statement (AGS) alongside the annual financial statements.
4. CIPFA and SOLACE issue guidance on the form of the AGS and the self-assessment process that authorities must undertake to compile it.
5. This draft AGS is presented to Members of this Committee to review and approve. It has been properly drafted in accordance with the guidance issued. The assessments which have informed the preparation of the AGS demonstrate that the Council have strong governance arrangements.
6. When approved the AGS will be formerly signed off by the Leader of the Council and the Chief Executive. It will then be submitted for external audit alongside the 2019/20 financial statements.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and	X

	the local area	
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BACKGROUND

8. Under the Accounts and Audit Regulations 2015 every Council is required to conduct an annual review of the effectiveness of its system of governance and publish an AGS each year alongside its financial statements.
9. CIPFA and SOLACE have issued a Framework and supporting guidance entitled "Delivering Good Governance in Local Government", under which councils are required to:
 - develop and maintain an up-to-date local code of governance consistent with certain "core principles" set out in the Framework;
 - review their existing governance arrangements against the Framework;
 - prepare a governance statement in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
10. The CIPFA SOLACE Framework defines proper practice for the form and content of the AGS. The Framework requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the Council's system of governance.
11. The AGS is a corporate document and should involve (in addition to the most senior officer and the most senior member as signatories) a variety of people charged with delivering governance, including:
 - the monitoring officer in meeting his/her statutory responsibilities;
 - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
 - directors assigned with the ownership of risks and the delivery of services;
 - members (e.g. through audit or scrutiny committees); and
 - others responsible for providing assurance (e.g. Internal & External Audit).
12. The AGS is owned by all senior officers and members of the authority. A shared approach should be taken to compiling the AGS because any delegation to a single individual or section will dilute its significance and encourage other people to distance themselves from their proper responsibilities.
13. The guidance also states the need for a review body in the process such as the Governance Committee, which should be charged with critically reviewing the AGS and its supporting documentation. It is vital that this review body remains independent from the AGS compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.
14. The AGS includes reference to significant governance issues, actions taken in the previous year and identifying those matters that are rolling on into this year. As in previous years, the issues highlighted are not significant but are matters raised across the organisation and therefore it is proper to bring them out in the AGS.
15. Also included this year is reference to known issues which will arise in the near future and are likely to have a significant impact in the Council's governance arrangements. The issues being Brexit and the changes to the Council following the boundary review.

CORPORATE SELF-ASSESSMENT

15. A corporate group consisting of the following officers contributed to the self-assessment and

draft AGS

- Chief Executive
- Deputy Chief Executive
- Director of Governance (Monitoring Officer)
- Assistant Director of Finance (s.151 Officer/Chief Finance Officer)
- Head of Internal Audit (Interim)

18. Section 5 of the Appendix discloses what the management group consider to be main opportunities to enhance the Council’s governance arrangements taking account of organisational changes and the corrective action implemented following last year's self-assessment. This view has been derived from the group’s cumulative knowledge of the Council's system of governance and the views of independent assurance sources such as External Audit.
19. The role of the Chief Finance Officer and the role of the Head of Internal Audit has been assessed, to ensure that the roles are undertaken to professional standards and that the Council ensures that appropriate support arrangements are provided to enable them to fulfil their duties.

SERVICE ASSURANCE STATEMENTS

20. In addition to the corporate self-assessment, assurance has also been obtained from Directorates, as it is they who are responsible for implementing the respective governance systems and procedures within their service areas. Service Assurance Statements have been compiled which require Directors in consultation with Heads of Service and Managers to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any non-compliance issues.
21. Whilst the Service Assurance Statements will provide an assessment of individual service compliance, the completed Service Assurance Statements are primarily used to ascertain whether there are any common areas of concern across the organisation. If so, do these constitute significant governance issues. Again, any non-compliance issues emerging from the Service Assurance Statements have also been included in Section 5 of the AGS at the Appendix.

RESULTS OF ASSESSMENTS

22. The Council were found to have strong governance arrangements with few identified areas for improvement. The Committee are asked to consider section 3 of the AGS which details at a high level how the Council discharge their obligations and provide support to the conclusion that strong governance arrangements exist.
23. Section 5 of the AGS identifies proposed areas for improvement. These are issues that have been highlighted as needing improvement, the issues are not in themselves significant. They are areas which suggest partial compliance with requirements or where there is insufficient evidence to demonstrate full compliance. There are no areas of significant none compliance by the Council.

IMPLICATIONS OF REPORT

4. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	

No significant implications in this area		Policy and Communications	
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- 5. The AGS is a method of managing risk. The monitoring and review of the governance framework is part of the mitigation of risk. Evidence of an satisfactory governance framework and compliance with this framework demonstrates that risk is being managed appropriately.

COMMENTS OF THE STATUTORY FINANCE OFFICER

- 6. No comment.

COMMENTS OF THE MONITORING OFFICER

- 7. No comments

CHRIS MOISTER
MONITORING OFFICER

Report Author	Ext	Date
Chris Moister	5160	***

CHORLEY COUNCIL

ANNUAL GOVERNANCE STATEMENT

1. Scope of responsibility

The residents of the Borough of Chorley expect the Council to conduct our business in a lawful and transparent way. In particular the Council have a duty to safeguard public money and account for it in an economic, efficient and effective way.

We have a continuing duty to review and improve how we discharge our functions focussing on the priorities of economy, efficiency and effectiveness.

To do this, the Council have put in place arrangements for the governance of its affairs. These arrangements assess the effectiveness of the exercise of its functions, and consider how well we manage risk.

We have approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which control and direct the Council. It provides how we account to, engage with and lead the community. It enables us to monitor the achievement of our strategic objectives and to consider whether our objectives have led to the delivery of appropriate, cost effective services for that community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This enables us to manage risk efficiently, effectively and economically.

The governance framework has been in place at Chorley Council for the year ended 31 March 2019 and up to the date of approval of the annual report and statement of accounts.

3. The governance framework

The following table describes the key elements of the systems and processes that comprise the authority’s governance arrangements. These are founded on the Core Principles and sub-principles taken from our Code of Corporate Governance.

Core Principle 1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
The Council’s commitment to Good Governance	How the Council meets these principles	Where you can see Governance in action
Behaving with integrity	<ul style="list-style-type: none"> ✓ The council have established both for Councillors and Staff Codes of Conduct and training is provided on both. Standards of behaviour are also assessed during employee one-to-one meetings and appraisals. ✓ It is essential that not only decisions are taken with integrity but are seen to be so. The Council have established transparent decision making processes through the Contract Procedure Rules, an online 	<p>Local Code of Governance Codes of Conduct</p> <p>Performance and Development process CPRs and Standing Orders</p>

	<p>declaration of interests process and the use of standing orders. The public can therefore review and take comfort in the integrity of the decision makers.</p> <ul style="list-style-type: none"> ✓ The Council do however have processes and policies in place to provide avenues to challenge decision making through whistleblowing, complaints and the call in procedure. ✓ The Council have a suite of counter fraud and anti-corruption policies in place – i.e. Whistleblowing policy, Antifraud and Corruption Strategy, Fraud Response Plan, Anti Bribery Policy, Anti Money Laundering Policy and Guidance, RIPA 	<p>Register of Interests Whistleblowing Policy Customer Charter (See Sec. 5 Table B Action 2) Call in procedures Anti-fraud and Corruption Policies (See Sec. 5 Table B Action 2)</p>
Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> ✓ The Council have adopted in our Contract Procedure Rules the requirement for partners and contractors to adopt our, or have equivalent ethical standards of behaviour. ✓ The Council have a Scrutiny Committee in place who act as the Council's watchdog, promoting open and transparent decision making, democratic accountability and to hold the executive to account for its actions. 	<p>CPRs</p> <p>Partnership Framework Terms of reference for Scrutiny Committee</p>
Respecting the rule of law	<ul style="list-style-type: none"> ✓ The Council's Constitution, policies and standing orders are all drafted in accordance with legislation. Application of these processes is tested through local assurance testing. ✓ The Council report and Decision Making Templates include a comment from the Monitoring Officer to ensure that the legal implications of decisions are considered. ✓ The Council is fully aware that they must pay attention to the advice of the Council's Monitoring Officer and have good reasons, which must be documented should they depart from it. In the event the Council acts unlawfully, the Monitoring Officer must report this to Full Council. The Monitoring Officer has never had cause to take this step. ✓ The Council has appointed statutory officers including; Head of Paid Service/S.151 Officer and Monitoring Officer who fulfil their responsibilities within legislative and regulatory requirements. 	<p>Constitution Service Assurance Statements – AGS process Committee Management System (report templates) Roles of Statutory Officers within the Constitution.</p>
Core Principle 2. Ensuring Openness and Comprehensive Stakeholder Engagement		
The Council's commitment to Good Governance	How the Council meets these principles	Where you can see Governance in action
Openness	<ul style="list-style-type: none"> ✓ The council have a robust approach to freedom of information and aim as part of our Digital Strategy to make as much information held by the Council accessible through our website as possible. ✓ The Council's Standing Orders have provision for public questions to be raised on any item on the agenda at both Full Council and Executive Cabinet meetings. ✓ All key decisions must be taken in writing and are published in accordance with the legislation. As part of the process both the Senior Financial Officer and the Monitoring Officer must be consulted and provide comments. Where appropriate, comments are also included in relation to equality and HR. 	<p>Digital Strategy Council website Performance and Development process Committee Management System (report templates) Compliance with Transparency Act</p> <p>Equality Scheme</p>
Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> ✓ The Council have a Communications Strategy which forms the basis for our relationships with our stakeholders. We ensure that we keep accurate records of stakeholder contacts to ensure they are engaged with properly and for the correct purposes. ✓ A consultation and engagement toolkit is used within our project management methodology. 	<p>Communications Strategy</p> <p>Consultation and Engagement Toolkit</p>
Engaging stakeholders effectively including individual citizens and service users	<ul style="list-style-type: none"> ✓ We use our Communications and Consultation and Engagement Toolkit to ensure that residents are properly consulted on matters which affect or interest them. This consultation contributes to the achievement of the Council's intended outcomes. Increasingly we are using web based and social media to engage with our residents but recognise that in order to consult properly we must use a mix of methods. 	<p>Communications Strategy</p> <p>Consultation and Engagement Toolkit</p> <p>Digital Strategy</p>

Core Principle 3. Defining Outcomes in terms of Sustainable Economic Social and Environmental Benefits		
The Council's commitment to Good Governance	How the Council meets these principles	Where you can see Governance in action
Defining outcomes	<ul style="list-style-type: none"> ✓ The Council have a clearly defined vision which forms the premise of our Corporate Strategy. The Strategy itself is developed in consultation with residents and stakeholders and its implementation is through the delivery of corporate projects and service level plans. All corporate projects have an initial document which defines the outcomes and projects are monitored through the MyProjects system. ✓ Contracts are in place for our key partnerships covering in particular Waste, Leisure, Payroll, Shared Services (with South Ribble BC). 	<p>Corporate Strategy Service Level Plans Corporate Projects Project Management Toolkit (See Sec. 5 Table A Action 7) MyProjects system Partnership Framework</p>
Sustainable economic social and environmental benefits	<ul style="list-style-type: none"> ✓ The Council have refreshed the Medium Term Financial Strategy to ensure that Capital investment is structured to maximise its life span whilst being adaptable for future use. Specific consideration is made of social and economic wellbeing of residents as evidenced by projects that provide affordable supported accommodation, employment opportunities and social benefits. ✓ The Council's contract procedure rules include the ability to consider social value when awarding contracts. 	<p>Medium Term Financial Strategy Corporate Projects Compliance with Transparency Act</p> <p>CPRs</p> <p>Public Service Reform Strategy Community Resilience Framework</p>
Core Principle 4. Determining the Interventions Necessary to Optimise the Achievement of Intended Outcomes		
The Council's commitment to Good Governance	How the Council meets these principles	Where you can see Governance in action
Determining interventions	<ul style="list-style-type: none"> ✓ We have a robust approach to setting interventions. Members and Officers work closely together and consult on the preparation of the Corporate Strategy which sets the framework for council delivery. The benefits of interventions are considered not only based on cost but also upon need and impact in order to ensure best value is met. ✓ Feedback from residents in this process is very important to ensure what we deliver is both needed and wanted. 	<p>Corporate Strategy Consultation and Engagement Toolkit Communications Strategy</p> <p>Digital Strategy Sustainable Community Strategy</p>
Planning interventions	<ul style="list-style-type: none"> ✓ The Council have a strong framework for planning the implementation of our interventions. We publish a calendar of meetings, and the Key Decision forward plan to confirm dates for decisions to be taken but in addition ensure all report writers are aware of publication of agenda dates to press for reports to be prepared in good time. We have a clear Communications Strategy to ensure proper consultation and a Risk Register. ✓ We are promoting the use of the Project Management Toolkit which ensures that there is a clear scope, timetable and outcomes for each project and Key Performance Indicators are set to monitor each service. ✓ Each project or intervention has a budget and there are regular meetings between management accountancy both with project managers and service heads for monitoring purposes. 	<p>Calendar of meetings Forward Plans Communications Strategy</p> <p>Corporate Risk Register Project Management Toolkit (See Sec. 5 Table A Action 7) KPIs Budget monitoring Quarterly Budget Reporting</p>
Optimising achievement of intended outcomes	<ul style="list-style-type: none"> ✓ We have a Corporate Strategy which has been agreed by Council and reflects the council's priorities. The Strategy is aimed at meeting the fundamental needs of local residents, like health housing and jobs, while continuing to get Chorley in the best social and economic position for the future. ✓ We have a Transformation Strategy in place. The overriding aim of this strategy is to support the council to achieve its ambitions for public service reform namely by achieving; <ul style="list-style-type: none"> • A greater integration of public services, 	<p>Corporate Strategy Transformation Strategy Medium Term Financial Quarterly Budget Reporting Partnership Framework</p>

	<p>particularly around prevention and early intervention;</p> <ul style="list-style-type: none"> • Focus on prevention and early intervention across public services; • Decision making and accountability at the lowest practical level; • The system-wide sharing of responsibility for management of demand and reduction of cost shunting between organisations. <p>✓ The Medium Term Financial Strategy is refreshed regularly to ensure it stays current and reflects any changes in council priorities. This ensures proper budgetary planning.</p>	
<p>Core Principle 5. Developing the Entity’s Capacity, including the Capability of it’s Leadership and the Individuals within it</p>		
<p>The Council’s commitment to Good Governance</p>	<p>How the Council meets these principles</p>	<p>Where you can see Governance in action</p>
<p>Developing the entities capacity</p>	<ul style="list-style-type: none"> ✓ We have a Transformation Strategy and Medium Term Financial Strategy which the Council uses to plan for future changes to the organisation, planning for future capacity needs. Such transformation is achieved through rough cut costing, benchmarking and use of the Council’s Corporate Strategy. ✓ We have a long term partnership with South Ribble BC to deliver Financial and Assurance services which both increases capacity and skills whilst delivering efficiency savings. ✓ We have an Organisational Development Strategy which outlines the Council’s approach to organisational development. Its purpose is to; <ul style="list-style-type: none"> • Align with the Transformation Strategy to build organisational capability to support its delivery; • Identify opportunities to build organisational capability collaboratively with partners; • Build organisational capability to support business as usual activities at individual, service and organisational levels; • To ensure that the council has the leadership to support and drive changing governance models. 	<p>Transformation Strategy Corporate Strategy Medium Term Financial Strategy Organisational Development Strategy Shared Services Collaboration Agreement</p>
<p>Developing the capability of the entity’s leadership and other individuals</p>	<ul style="list-style-type: none"> ✓ Roles are clearly defined within the Council through the use of job descriptions and structure charts. The Constitution details the responsibilities of officers and councillors and the roles of the statutory officers; Head of Paid Service, Chief Finance Officer and Monitoring Officer. ✓ Good practice standards are annually assessed against the CIPFA statements for the roles of the Chief Finance Officer and Head of Internal Audit ✓ Relationships are managed through regular and frequent member briefings. ✓ The Council have updated the Organisational Development Plan ensuring that all staff have the opportunity to benefit from personal and professional development, and this is monitored through one to ones and the annual appraisal process. ✓ Officers and Councillors alike are held to account through, Neighbourhood Area Meetings with residents, Stakeholder Forums and the Chorley Partnership; as well as through Overview and Scrutiny Committee. 	<p>Job descriptions Organisational Structure Chart Constitution Roles of Statutory Officers Organisational Development Plan Annual Appraisal Process Neighbourhood area meetings Stakeholder Forums Chorley Public Service Reform Partnership</p>
<p>Core Principle 6. Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management</p>		
<p>The Council’s commitment to Good Governance</p>	<p>How the Council meets these principles</p>	<p>Where you can see Governance in action</p>
<p>Managing risk</p>	<ul style="list-style-type: none"> ✓ There is an established Risk Management Framework which ensures that risk is considered in all aspects of decision making. This includes the identification of risks but also ensuring responsibility for them is allocated 	<p>Risk Management Framework (See Sec. 5 Action 1) Fighting Fraud and</p>

	<p>correctly.</p> <ul style="list-style-type: none"> ✓ The council takes a proactive approach to both prevent and detect fraud and this is supported by the Council's Anti-Fraud & Corruption Strategy, Internal Audit programmes, fraud investigations, participation in National Fraud Initiative exercises, and publication of proven cases 	<p>Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016-2019</p>
<p>Managing performance</p>	<ul style="list-style-type: none"> ✓ This is part of the Council's approach to business transformation. Service delivery is monitored through service meetings, performance indicators, benchmarking and budget monitoring. The Executive Members have regular service briefings in relation to their portfolios. Overview and Scrutiny Committee are engaged and Task Groups have responsibility for considering and suggesting improvements in relation to service delivery. ✓ The Governance Committee is responsible for reviewing and challenging the adequacy of the council's governance arrangements. It closely monitors progress on control matters including improvement plans, external and internal audit programmes and reports, risk management, budget and financial investment reports. 	<p>Performance Indicators and Performance reporting (See Sec. 5 Table A Action 8) Work of Overview and Scrutiny Committee and Task Groups Role of Governance Committee.</p>
<p>Robust internal control</p>	<ul style="list-style-type: none"> ✓ The council maintains a robust Internal Audit service, which annually provides an independent and objective opinion on the internal control environment, verifies compliance with policies, laws and regulations, evaluates and makes recommendations to improve the effectiveness of risk management, value for money and governance processes ✓ The Council require all directorates to complete assurance statements which identify compliance issues which may exist across the Council. ✓ The Annual Governance Statement reflects on the adequacy and effectiveness of the Council's Governance Framework. This is then independently considered by External Audit. ✓ The Governance Committee complies with best practice and tests the Council's controls through the receipt of reports for consideration. 	<p>Audit Plan, Audit Charter Service Assurance Statements Annual Governance Statement Governance Committee Terms of Reference</p>
<p>Managing data</p>	<ul style="list-style-type: none"> ✓ The Council have clearly defined policies and procedures for managing and storing data. Additional work is required however to embed these and update the Council's IT systems. 	<p>ICT Strategy Digital Strategy Data Security Policy GDPR Audit Plan</p>
<p>Strong public financial management</p>	<ul style="list-style-type: none"> ✓ All decisions of the Council require a comment from the SFO, which will address budgeting issues and compliance with Best Value and the Council's contract procedure rules. There are regular meetings between budget holders / project managers and Finance to monitor budgets and any changes can be identified early. 	<p>Committee Management System (report templates) Asset register CPRs</p> <p>Budget monitoring and Quarterly Budget Reports Compliance with CIPFA Statement on Role of CFO</p>
<p>Core Principle 7. Implementing Good Practices in Transparency Reporting and Audit to Deliver Effective Accountability</p>		
<p>The Council's commitment to Good Governance</p>	<p>How the Council meets these principles</p>	<p>Where you can see Governance in action</p>
<p>Implementing good practice in transparency</p>	<ul style="list-style-type: none"> ✓ We feel it very important for the discharge of our obligations that as much information as possible is made available to the public. This is done through publication on the Council's website. 	<p>Council's website Compliance with Transparency Act (See Sec. 5 Table A Action 4)</p>
<p>Implementing good practices in reporting</p>	<ul style="list-style-type: none"> ✓ The Council comply with good practice in relation to value for money reporting and the annual Statement of Accounts considers how public finances have been stewarded. ✓ It is the practice of the Authority to ensure that all key decisions are made by councillors in accordance with our approval processes. Compliance with these processes are considered within this Annual Governance Statement. 	<p>Statement of Accounts Quarterly Performance Reports</p> <p>Scheme of Delegation Annual Governance Statement</p>

<p>Assurance and effective accountability</p>	<ul style="list-style-type: none"> ✓ We view improvement as a continuing process. Internal Audit reports to Governance Committee include a summary of areas for improvement and implementation is reported on an exception basis. ✓ Overview and Scrutiny Task Groups report proposed improvements to Executive Cabinet who decide whether to accept the recommendations or not. Where accepted Cabinet will later report as to the progress of the implementation of improvements. ✓ Residents have the right to ask questions at Council meetings in relation to matters on the meeting agenda which ensure immediate accountability to residents. 	<p>Internal Audit reporting to Governance Committee Governance Committee Terms of Reference Overview and Scrutiny work programme Communications Strategy</p>
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4. Review of effectiveness

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

Corporate Level Review

- A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:
 - Chief Executive
 - Deputy Chief Executive
 - Director of Governance (Monitoring Officer)
 - Assistant Director of Finance (S151 Officer)
 - Head of Shared Assurance Services (Interim)
 - Shared Service Lead (Transformation and Partnership)

- The group has conducted a corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

Service Level Review

- The Council has also introduced Service Assurance Statements requiring Directors and Service Leads to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

Monitoring Officer

- As the Council's Monitoring Officer, the Director of Governance has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Monitoring Officer will report and recommend to Council any proposed amendment to the Constitution, which falls outside the Monitoring Officers delegated powers, for adoption.

Scrutiny Committee

- The Council has an Overview and Scrutiny Committee which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

Governance Committee

- The Council has appointed a Governance Committee whose terms of reference comply with the CIPFA guidelines. These extend to monitoring the Council's governance, risk management and internal control framework and include reviewing the adequacy of the governance framework.

Standards Sub-Committee

- The Council has appointed a Standards Sub-Committee of the Governance Committee whose terms of reference comply with the prevailing national guidance on standards and codes of conduct for members.

Internal Audit

- Strong Internal Audit and Risk Management disciplines are embedded and the Shared Assurance Service maintains excellent working relationships with Senior Management, the Governance Committee and the Council's External Auditors to provide an integrated approach to the provision of assurance within the Council. The Internal Audit Service is fully compliant with the Public Sector Internal Auditing Standards, this was established following a peer review by the Audit Managers of 2 Lancashire authorities in April 2018.
- The Public Sector Internal Audit Standards require the Head of Shared Assurance to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance.

Control – The Internal Audit Service provides an independent opinion on the adequacy of the internal control system. All recommendations for improvement are agreed with Senior Management and a summary is reported to the Governance Committee. There are 2 Internal Audit reports where the opinion of the assurance risk and control framework are Limited in 2019/20. One is related directly to a Chorley Service and the other is for a service that sits within the Shared Services area. The following provides the number of reviews by assurance opinion

Adequate	6
Substantial	2
Full	1

Risk Management – The Council's arrangements were further strengthened during 2018/19 by the continued development of the GRACE risk management system. Extensive training was delivered to Officers and the revised Risk Management Framework was approved by the Governance Committee in March 2018.

Governance – Actions have been taken during 2019/20 to strengthen the Council's governance arrangements (see identified governance issues below). The Annual Governance Statement Action Plan for 2019/20 includes details of actions to further strengthen Council's governance arrangements. The 2019 AGS has been produced following a rigorous assessment process, both internal and external.

The Head of Internal Audit, has therefore concluded that the opinion in regard to the adequacy and effectiveness of the Council's governance, risk management and control framework has been determined that the Council can place **Adequate** assurance on the controls in place, in respect of the services / areas reviewed, evidencing that the governance arrangements and controls in place are robust and are operating effectively, with only some

control issues requiring action. These actions have been addressed as part of the agreed Management Action Plan in those areas.

External Audit

- The Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, Governance Committee, Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Identified Governance Issues

In the previous year the following themes were identified as requiring action and improvement:

Table A

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Risk Management	1.1 To further embed the risk management system	<ul style="list-style-type: none"> - To review & update Risk Management Framework - Arrange and provide risk management training 	Outstanding and carried forward
2. Customer Complaints	2.1 To improve the recording of customer complaints and identify benefit of actions taken	<ul style="list-style-type: none"> - To undertake a review of how customer complaints are received to ensure that they are all captured and recorded centrally - To identify and record the benefit of actions taken 	Complete
3. Fraud	3.1 To Review and update Anti-fraud policies	<ul style="list-style-type: none"> - To review and update the Anti-fraud policies 	Outstanding and carried forward
	3.2 To increase fraud awareness	<ul style="list-style-type: none"> - Fraud awareness training to be delivered to all relevant officers using e-learning modules - Fraud reports to be presented to Governance Committee on a regular basis. 	
	3.3 To compile and monitor a fraud risk register	<ul style="list-style-type: none"> - Fraud risk register to be compiled and monitored on a regular basis 	
4. Transparency	4.1 To ensure full compliance with the revised requirements of the Transparency Code.	<ul style="list-style-type: none"> - A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned namely; <ul style="list-style-type: none"> • Recording of officer decisions; • Publication of contracts 	Complete
5. Communication	5.1 To review and update the Communication Strategy for both internal and external communications	<ul style="list-style-type: none"> - To review and update the Communication Strategy for external communications - To review and update the consultation engagement toolkit - To re-iterate to staff the need to keep customers informed (call-back procedure) 	Complete
6. Compliance with Contract Procedure Rules (CPRs)	6.1 To further embed procurement policies and procedures, and to strengthen the current CPRs.	<ul style="list-style-type: none"> - To develop and implement a contract management system through 'Agile Point' - To arrange and provide 	Contract Management System developed awaiting implementation

		training to relevant staff	
7. Project Management	7.1 To review and update the Project Management Toolkit as part of the creation of the centralised Programme Management Office	- To review and update the Project Management Toolkit to more fully incorporate finance, risk and statutory compliance monitoring	Complete
8. Performance Management	8.1 To further embed Data Quality Policy	- To provide data quality training and support	Completed
9. Ethical Governance	9.1 To incorporate best practice recommendations made by Committee on Standards in Public Life into Council procedures and Code of Conduct.	<ul style="list-style-type: none"> - To establish Governance Committee working group - Working Group to consider best practice recommendations with a view to incorporating them into Council procedures / Code of Conduct - Provide Code of Conduct training for Parish Councillors 	Completed

The Council will take the following steps in the forthcoming financial year to build and strengthen our corporate governance arrangements:

Table B

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Risk Management	1.1 To further embed the risk management system	<ul style="list-style-type: none"> - To review & update Risk Management Framework - Arrange and provide risk management training 	Outstanding – this theme is being reviewed. It remains an issue that needs to be considered however the focus has been extended to include consideration of the risk management system. This then has an impact on the Framework and training to be provided.
2. Fraud	2.1 To Review and update Anti-fraud policies	- To review and update the Anti-fraud policies	Outstanding
	2.2 To increase fraud awareness	<ul style="list-style-type: none"> - Fraud awareness training to be delivered to all relevant officers using e-learning modules - Fraud reports to be presented to Governance Committee on a regular basis. 	
	2.3 To compile and monitor a fraud risk	- Fraud risk register to be compiled and monitored	

	register	on a regular basis	
3. Transparency	3.1 To ensure full compliance with the revised requirements of the Transparency Code.	<ul style="list-style-type: none"> - A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned namely; <ul style="list-style-type: none"> • Publication of contracts 	Contracts Register developed and awaiting implementation
4. Compliance with Contract Procedure Rules (CPRs)	4.1 To further embed procurement policies and procedures, and to strengthen the current CPRs.	<ul style="list-style-type: none"> - To develop and implement a contract management system through 'Agile Point' - To arrange and provide training to relevant staff 	Contract Management System developed awaiting implementation
5. Shared Services	<ul style="list-style-type: none"> a. Implement enhanced Shared Services Governance Arrangements b. To review the staffing and resourcing of Internal Audit c. To review the Business Continuity and Emergency Plans and service resourcing 	<ul style="list-style-type: none"> - To review and update the shared services agreement to specifically address matters that have arisen and the extension of shared services - To review staffing and resourcing of Internal Audit in light of changes to staff - To review and update Business Continuity and Emergency Plans in light of learning occasioned by the Covid Pandemic 	Issue identified by :- Changes to personnel and; matters identified in SRBC AGS and; recent Covid pandemic

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. The Themes will be entered as Management Actions onto the MyProjects system and allocated to the most appropriate Director or Head of Service for action. Progress will be monitored by the Senior Management Team using MyProjects.

6. Future changes which will affect Governance Arrangements

Last year 2 significant changes were identified which would likely impact on the Council's Governance Arrangements. Firstly, Brexit and secondly the conclusion of the boundary review and all out elections.

At this stage we had expected to have completed the 2020 elections and established the new ward boundaries. The Covid-19 Pandemic has delayed this until 2021. The future issues identified in last years Annual Governance Statement remain.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr. A. Bradley
Leader of the Council

G Hall
Chief Executive
& Section 151 Officer

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Report of	Meeting	Date
Monitoring Officer	Governance Committee	1 July 2020

MODEL CODE OF CONDUCT 2020

PURPOSE OF REPORT

1. To share with members a draft Model Code of Conduct prepared by the Local Government Association.

RECOMMENDATION(S)

2. That the Committee respond to the consultation accepting the new draft document.

EXECUTIVE SUMMARY OF REPORT

3. In 2019, the Office for Standards in Public Life published a report reviewing the current standards regime. The report made a number of recommendations for changes. The Committee considered this report and implemented the recommendations where appropriate.
4. One of the recommendations was a national review of the Code of Conduct for Members. This has been undertaken and a new draft Model Code is attached for consultation

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

6. Following a review of standards in public life by the Office for Standards in Public Life a report containing a number of recommendations was published. This report was considered by the Governance Committee and some of the recommendations were adopted locally.
7. One of the national recommendations was a change to the Model Code of Conduct and the Local Government Association commissioned the preparation of a new draft code. This is attached for discussion.
8. Each council is obliged to adopt a code of conduct for members but the content of that code is for each council to decide. However, it has been recognised that a consistent form of

code assists the public in understanding the obligations placed on members. Similarly it provides members with a consistent framework against their behaviour can be managed.

THE MODEL CODE

- 9. The draft remains based on the Nolan Principals of public life and again references them on page 3 (reference to Appendix A). It also includes on this page a helpful commentary to assist councillors and members of the public on when councillors are acting in that capacity. Members will note the words in square brackets reflect recommendations made in the review report. Finally, it restates the commitments councillors make in how they will discharge their duties. Members of the committee will be familiar with these statements which already form part of the Council’s code.
- 10. The draft also expands on the behaviours. As with the council's current code of conduct the obligations are placed in the first person with the councillor committing to comply with the requirements (page 4-6). Again and in line with the recommendations of the review, a new part of the code is to include example behaviours to assist in interpretation. The review was clear that certain of the behaviours, bullying and harassment for example, was open to a level of interpretation. By including example behaviours this provides greater clarity as to what will be perceived as a breach of the code.
- 11. Page 7 provides a summary of the approaches to be taken to enforcement of breaches of the code and details potential sanctions. Members may recall the Review Report highlighted a belief that the sanctions were an inadequate deterrent. The list provided includes 2 sanctions of suspension from roles, but does not prevent members acting as a councillor.
- 12. Detail on the registration of interests is contained at Appendix B (pages 9-10). This largely replicates the detail provided in the existing code.
- 13. The draft document concludes with 2 tables, the first confirming disclosable pecuniary interests (page 11) and the second other registerable interests (page 12).

CONCLUSION

- 14. The draft code departs little from the existing adopted document, however, it does incorporate changes proposed by the review into standards in public life. The changes are beneficial providing greater clarity on how the code is to operate. The principles remain the same and there are no changes which would prevent the adoption of this code.

IMPLICATIONS OF REPORT

- 15. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

- 16. The Council are obliged by law to have a code of conduct for members. There are no risks in adopting this draft code which is consistent with the requirements of the legislation and local understanding and familiarity with the Nolan Principles.

COMMENTS OF THE STATUTORY FINANCE OFFICER

17. No comment

COMMENTS OF THE MONITORING OFFICER

18. In the body of the report.

CHRIS MOISTER
MONITORING OFFICER

Report Author	Ext	Date
Chris Moister	5160	23 June 2020

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Local Government Association Model Member Code of Conduct

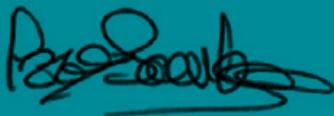
Introduction

The Local Government Association (LGA) is providing this Model Member Code of Conduct as part of its work on supporting the sector to continue to aspire to high standards of leadership and performance.

The role of councillor in all tiers of local government is a vital part of our country's system of democracy. In voting for a local councillor, the public is imbuing that person and position with their trust. As such, it is important that as councillors we can be held accountable and all adopt the behaviours and responsibilities associated with the role. The conduct of an individual councillor affects the reputation of all councillors. We want the role of councillor to be one that people aspire to and want to participate with. We want to continue to attract individuals from a range of backgrounds and circumstances who understand the responsibility they take on and are motivated to make a positive difference to their local communities.

All councils are required to have a local Member Code of Conduct. This Model Member Code of Conduct has been developed in consultation with the sector and is offered as a template for councils to adopt in whole and/or with local amendments. The LGA will undertake an annual review of the Code to ensure it continues to be fit-for-purpose, particularly with respect to advances in technology, social media and any relevant changes in legislation. The LGA can also offer support, training and mediation to councils and councillors on the application of the Code, whilst the National Association of Local Councils (NALC) and the county associations of local councils can offer advice and support to town and parish councils.

As a councillor we all represent local residents, work to develop better services and deliver local change. The public have high expectations of us and entrust us to represent everyone (in our ward/town/parish), taking decisions fairly, openly, transparently and with civility. Councillors should also be treated with civility by members of the public, other councillors and council employees. Members have both individual and collective responsibility to maintain these standards, support expected behaviour and challenge behaviour which falls below expectations. This Code, therefore, has been designed to protect our democratic role, encourage good conduct and safeguard the public's trust in local government.



Councillor Izzi Seccombe OBE
Leader, LGA Conservative Group



Councillor Nick Forbes CBE
Leader, LGA Labour Group



Councillor Howard Sykes MBE
Leader, LGA Liberal Democrats Group



Councillor Marianne Overton MBE
Leader, LGA independent Group

Purpose

The purpose of this Code of Conduct is to assist councillors in modelling the behaviour that is expected of them, to provide a personal check and balance, and to set out the type of conduct against which appropriate action may be taken. It is also to protect yourself, the public, fellow councillors, council officers and the reputation of local government. It sets out the conduct expected of all members and a minimum set of obligations relating to conduct. The overarching aim is to create and maintain public confidence in the role of member and local government.

Application of the Code

The Code of Conduct applies to you when you are acting [or claiming or giving the impression that you are acting]¹ in [public or in]² your capacity as a member or representative of your council, although you are expected to uphold high standards of conduct and show leadership at all times. The Code applies to all forms of member communication and interaction, including written, verbal, non-verbal, electronic and via social media, [including where you could be deemed to be representing your council or if there are potential implications for the council's reputation.] Model conduct and expectations is for guidance only, whereas the specific obligations set out instances where action will be taken.

The seven principles of public life

Everyone in public office at all levels – ministers, civil servants, members, council officers – all who serve the public or deliver public services should uphold the seven principles of public life. This Code has been developed in line with these seven principles of public life, which are set out in appendix A.

Model member conduct

In accordance with the public trust placed in me, on all occasions I will:

- act with integrity and honesty
- act lawfully
- treat all persons with civility; and
- lead by example and act in a way that secures public confidence in the office of councillor

In undertaking my role, I will:

- impartially exercise my responsibilities in the interests of the local community
- not improperly seek to confer an advantage, or disadvantage, on any person
- avoid conflicts of interest
- exercise reasonable care and diligence; and
- ensure that public resources are used prudently and in the public interest

Specific obligations of general conduct

This section sets out the minimum requirements of member conduct. Guidance is included to help explain the reasons for the obligations and how they should be followed. These obligations must be observed in all situations where you act [or claim or give the impression that you are acting] as a councillor [or in public], including representing your council on official business and when using social media.

As a councillor I commit to:

Civility

- 1. Treating other councillors and members of the public with civility.**
- 2. Treating council employees, employees and representatives of partner organisations and those volunteering for the councils with civility and respecting the role that they play.**

Civility means politeness and courtesy in behaviour, speech, and in the written word. Debate and having different views are all part of a healthy democracy. As a councillor you can express, challenge, criticise and disagree with views, ideas, opinions and policies in a civil manner. You should not subject individuals, groups of people or organisations to unreasonable or excessive personal attack.

In your contact with the public you should treat them courteously. Rude and offensive behaviour lowers the public's expectations and confidence in its elected representatives.

In return you have a right to expect courtesy from the public. If members of the public are being abusive, threatening or intimidatory you are entitled to close down any conversation in person or online, refer them to the council, any social media provider or if necessary, the police. This also applies to members, where action could then be taken under the Member Code of Conduct.

Bullying and harassment

- 3. Not bullying or harassing any person.**

Bullying may be characterised as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. The bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and not always be obvious or noticed by others.

The Equality Act 2010 defines harassment as 'unwanted conduct related to a relevant protected characteristic, which has the purpose or effect of violating an individual's dignity or creating an intimidating, hostile, degrading, humiliating or offensive environment for that individual'. The relevant protected characteristics are age, disability, gender reassignment, race, religion or belief, sex, and sexual orientation.

Impartiality of officers of the council

- 4. Not compromising, or attempting to compromise, the impartiality of anyone who works for, or on behalf of, the council.**

Officers work for the council as a whole and must be politically neutral (unless they are political assistants). They should not be coerced or persuaded to act in a way that would undermine their neutrality. Although you can question officers in order to understand, for example, their reasons for proposing to act in a particular way, or the content of a report that they have written, you must not try and force them to act differently, change their advice, or alter the content of that report, if doing so would prejudice their professional integrity.

Confidentiality and access to information

- 5. Not disclosing information given to me in confidence or disclosing information acquired by me which I believe is of a confidential nature, unless I have received the consent of a person authorised to give it or I am required by law to do so.**
- 6. Not preventing anyone getting information that they are entitled to by law.**

Local authorities must work openly and transparently, and their proceedings and

printed materials are open to the public except in certain circumstances. You should work on this basis but there will be times when it is required by law that discussions, documents and other information relating to or held by the council are treated in a confidential manner. Examples include personal data relating to individuals or information relating to ongoing negotiations.

Disrepute

7. Not bringing my role or council into disrepute.

Behaviour that is considered dishonest and/or deceitful can bring your council into disrepute. As a member you have been entrusted to make decisions on behalf of your community and your actions and behaviour are subject to greater scrutiny than that of ordinary members of the public. You should be aware that your actions might have an adverse impact on other councillors and/or your council.

Your position

8. Not using, or attempting to use, my position improperly to the advantage or disadvantage of myself or anyone else.

Your position as a member of the council provides you with certain opportunities, responsibilities and privileges. However, you should not take advantage of these opportunities to further private interests.

Use of council resources and facilities

9. Not misusing council resources.

You may be provided with resources and facilities by the council to assist you in carrying out your duties as a councillor. Examples include office support, stationery and equipment such as phones, and computers and transport. These are given

to you to help you carry out your role as a councillor more effectively and not to benefit you personally.

Interests

10. Registering and declaring my interests.

You need to register your interests so that the public, council employees and fellow members know which of your interests might give rise to a conflict of interest. The register is a document that can be consulted when (or before) an issue arises, and so allows others to know what interests you have, and whether they might give rise to a possible conflict of interest. The register also protects you. You are responsible for deciding whether or not you should declare an interest in a meeting, but it can be helpful for you to know early on if others think that a potential conflict might arise.

It is also important that the public know about any interest that might have to be declared by you or other members, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained. Discuss the registering and declaration of interests with your Monitoring Officer/Town or Parish Clerk and more detail is set out in appendix B.

Gifts and hospitality

11. Not accepting significant gifts or hospitality from persons seeking to acquire, develop or do business with the council or from persons who may apply to the council for any permission, licence or other significant advantage.

12. Registering with the monitoring officer any gift or hospitality with an estimated value of at least £25 within 28 days of its receipt.

You should exercise caution in accepting any gifts or hospitality which are (or which you reasonably believe to be) offered to you

because you are a member. However, you do not need to register gifts and hospitality which are not related to your role as a member, such as Christmas gifts from your friends and family, or gifts which you do not accept. However, you may wish to notify your monitoring officer of any significant gifts you are offered but refuse which you think may have been offered to influence you.

Note – items in square brackets [x] refer to recommendations made by the Committee on Standards in Public Life and may be part of a future Government consultation. This includes possible future sanctions and appeals processes.

Breaches of the Code of Conduct

Most councillors conduct themselves appropriately and in accordance with these standards. Members have both individual and collective responsibility to maintain these standards, support expected behaviour and challenge behaviour which falls below expectations.

Section 27 of the Localism Act 2011 requires relevant authorities to promote and maintain high standards of conduct by members and co-opted members of the authority. Each local authority must publish a code of conduct, and it must cover the registration of pecuniary interests, the role of an 'independent person', and sanctions to be imposed on any councillors who breach the Code.

The 2011 Act also requires local authorities to have mechanisms in place to investigate allegations that a member has not complied with the Code of Conduct, and arrangements under which decisions on allegation may be made.

Failure to comply with the requirements to register or declare disclosable pecuniary interests is a criminal offence. Taking part in a meeting or voting, when prevented from doing so by a conflict caused by disclosable pecuniary interests, is also a criminal offence.

Political parties may have its own internal standards and resolution procedures in addition to the Member Code of Conduct that members should be aware of.

Example

LGA guidance and recommendations

Internal resolution procedure

Councils must have in place an internal resolution procedure to address conduct that is in breach of the Member Code of Conduct. The internal resolution process should make it clear how allegations of breaches of the Code of Conduct are to be handled, including the role of an Independent Person, the appeals process and can also include a local standards committee. The internal resolution procedure should be proportionate, allow for members to appeal allegations and decisions, and allow for an escalating scale of intervention. The procedure should be voted on by the council as a whole.

In the case of a non-criminal breach of the Code, the following escalating approach can be undertaken.

If the breach is confirmed and of a serious nature, action can be automatically escalated.

1. an informal discussion with the monitoring officer or appropriate senior officer
2. an informal opportunity to speak with the affected party/ies
3. a written apology
4. mediation
5. peer support
6. requirement to attend relevant training
7. where of a serious nature, a bar on chairing advisory or special committees for up to two months
8. where of a serious nature, a bar on attending committees for up to two months.

Where serious misconduct affects an employee, a member may be barred from contact with that individual; or if it relates to a specific responsibility of the council, barred from participating in decisions or information relating to that responsibility.

Endnotes

1. CSPL recommend that “Section 27(2) of the Localism Act 2011 should be amended to state that a local authority’s code of conduct applies to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority”.
2. CSPL recommend that “councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly accessible social media. Section 27(2) of the Localism Act 2011 should be amended to permit local authorities to presume so when deciding upon code of conduct breaches.”
3. Subject to footnotes 1 and 2 above
4. See CSPL website for further details www.gov.uk/government/news/the-principles-of-public-life-25-years
5. ACAS’s definition of bullying

Appendices

Code Appendix A

The principles are :

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Code Appendix B

Registering interests

1. Within 28 days of this Code of Conduct being adopted by the council or your election or appointment to office (where that is later) you must register with the Monitoring Officer the interests which fall within the categories set out in Table 1 (Disclosable Pecuniary Interests) and Table 2 (Other Registerable Interests).
2. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest in Table 1 or 2, or of any change to a registered interest, notify the Monitoring Officer.

Declaring interests

3. Where a matter arises at a meeting which directly relates to an interest in Table 1, you must declare the interest, not participate in any discussion or vote on the matter and must not remain in the room unless granted a dispensation. If it is a 'sensitive interest', you do not have to declare the nature of the interest.
4. Where a matter arises at a meeting which directly relates to an interest in Table 2, you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to declare the nature of the interest.

5. Where a matter arises at a meeting which directly relates to your financial interest or well-being (and is not a Disclosable Pecuniary Interest) or a financial interest or well-being of a relative or close associate, you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to declare the nature of the interest.
6. Where a matter arises at a meeting which affects –
 - a. your own financial interest or well-being;
 - b. a financial interest or well-being of a friend, relative, close associate; or
 - c. a body covered by table 1 below

you must disclose the interest.

7. Where the matter affects the financial interest or well-being to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to declare the nature of the interest.

Table 1: Disclosable Pecuniary Interests

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992 .
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. ‘Land’ excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (alone or jointly with another) a right to occupy or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer.
Corporate tenancies	Any tenancy where (to the councillor’s knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body where— (a) that body (to the councillor’s knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

*'director' includes a member of the committee of management of an industrial and provident society.

*'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registerable Interests

Any Body of which you are a member or in a position of general control or management and to which you are appointed or nominated by the council;	
Any Body—	(a) exercising functions of a public nature;
	(b) directed to charitable purposes; or
	(c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)
of which you are a member or in a position of general control or management.	



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REF 11.197



Governance Committee work programme 2020/21

1 July 2020

Report	Officer
Closure of Accounts - update	James Thomson
Charity and Trust Account	James Thomson
Audit Progress and Sector Update Report	Grant Thornton
External Audit Plan	Grant Thornton
Internal Audit Annual Report	Janice Bamber
Strategic Risk Update Report	Rebecca Aziz-Brook
GDPR Update	Chris Moister
Draft Annual Governance Statement	Chris Moister
RIPA Application Update	Chris Moister

August 2020 (date to be confirmed)

Treasury Management Annual Report and Monitoring	James Thomson
Draft Statement of Accounts	James Thomson
External Audit Progress Update	Grant Thornton
Internal Audit Annual Plan Progress Report Q1	Janice Bamber
RIPA Application Update	Chris Moister

25 November 2020

Chorley Borough Council Annual Audit Letter	James Thomson
Treasury Management Activity Mid-Year review	James Thomson
Update on Chorley Council Capital Strategy	James Thomson
Internal Audit Annual Plan Progress Report April to October	Janice Bamber
RIPA Application Update	Chris Moister

20 January 2021

External Audit Plan	Grant Thornton
Internal Audit Annual Plan Progress Report April – December	Janice Bamber
Annual Standards Report	Chris Moister
RIPA Application Update	Chris Moister

17 March 2021

Audit Progress and Sector Update Report	Grant Thornton
Internal Audit Plan Progress Report April– February	Janice Bamber



Internal Audit Plan	Janice Bamber
Annual GDPR Report	Chris Moister
RIPA Application Update	Chris Moister