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Royal Borough
of Windsor &
Maidenhead

NOTICE

OF

MEETING

AUDIT AND GOVERNANCE COMMITTEE

will meet on

MONDAY, 17TH MAY, 2021

At 7.00 pm

in the

GREY ROOM - YORK HOUSE, WINDSOR

TO: MEMBERS OF THE AUDIT AND GOVERNANCE COMMITTEE

COUNCILLORS CHRISTINE BATESON (CHAIRMAN), LYNNE JONES (VICE-CHAIRMAN), JULIAN SHARPE, GURPREET BHANGRA AND SIMON BOND

SUBSTITUTE MEMBERS

COUNCILLORS SIMON WERNER, JOHN BOWDEN, GREG JONES, SHAMSUL SHELIM AND NEIL KNOWLES

Karen Shepherd – Head of Governance - Issued: 7th May 2021

Members of the Press and Public are welcome to attend Part I of this meeting. The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator **Mark Beeley** 01628 796345 / mark.beeley@rbwm.gov.uk

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AGENDA

PART I

ITEM	SUBJECT	PAGE NO
1.	APOLOGIES FOR ABSENCE To receive any apologies for absence.	-
2.	DECLARATIONS OF INTEREST To receive any declarations of interest.	3 - 4
3.	MINUTES To consider the minutes of the meeting held on 16^{th} February 2021.	5 - 14
4.	ANNUAL GOVERNANCE STATEMENT - PROGRESS REPORT To consider the progress report on the 2019/20 Annual Governance Statement.	15 - 24
5.	ISA260 UPDATE To receive an update on the ISA260.	25 - 28
6.	REDMOND REVIEW To consider the briefing note on the Redmond Review.	29 - 118
7.	2020/21 INTERNAL AUDIT ANNUAL REPORT To consider the 2020/21 Internal Audit Annual Report.	119 - 144
8.	RISK MANAGEMENT REPORT To consider the risk management report.	145 - 182
9.	WORK PROGRAMME To consider the Committee’s work programme for the remainder of the Municipal year.	183 - 184

MEMBERS' GUIDE TO DECLARING INTERESTS IN MEETINGS

Disclosure at Meetings

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a DPI or Prejudicial Interest. If a Member has already disclosed the interest in their Register of Interests they are still required to disclose this in the meeting if it relates to the matter being discussed.

A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in the discussion or vote at a meeting.** The speaking time allocated for Members to make representations is at the discretion of the Chairman of the meeting. In order to avoid any accusations of taking part in the discussion or vote, after speaking, Members should move away from the panel table to a public area or, if they wish, leave the room. If the interest declared has not been entered on to a Members' Register of Interests, they must notify the Monitoring Officer in writing within the next 28 days following the meeting.

Disclosable Pecuniary Interests (DPIs) (relating to the Member or their partner) include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any licence to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where:
  a) that body has a piece of business or land in the area of the relevant authority, 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) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

Any Member who is unsure if their interest falls within any of the above legal definitions should seek advice from the Monitoring Officer in advance of the meeting.

A Member with a DPI should state in the meeting: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Or, if making representations on the item: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Prejudicial Interests

Any interest which a reasonable, fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs the Member's ability to judge the public interest in the item, i.e. a Member's decision making is influenced by their interest so that they are not able to impartially consider relevant issues.

A Member with a Prejudicial interest should state in the meeting: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Or, if making representations in the item: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Personal interests

Any other connection or association which a member of the public may reasonably think may influence a Member when making a decision on council matters.

Members with a Personal Interest should state at the meeting: ***'I wish to declare a Personal Interest in item x because xxx'. As this is a Personal Interest only, I will take part in the discussion and vote on the matter.***

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AUDIT AND GOVERNANCE COMMITTEE

TUESDAY, 16 FEBRUARY 2021

PRESENT: Councillors Christine Bateson (Chairman), Lynne Jones (Vice-Chairman), Simon Bond, Julian Sharpe and Gurpreet Bhangra

Also in attendance: Councillors David Hilton, John Bowden, Shamsul Shelim, Helen Price, Maureen Hunt, John Baldwin, David Cannon and Neil Knowles

Officers: Mark Beeley, Catherine Hickman, Adele Taylor, Andrew Vallance, Emma Duncan, Andy Carswell, Aron Kleiman (Deloitte), Jonathan Gooding (Deloitte) and David McConnell (Deloitte)

APOLOGIES FOR ABSENCE

There were no apologies for absence received.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

RESOLVED UNANIMOUSLY: That the minutes of the meeting held on 9th November 2020 were approved as an accurate record.

Councillor L Jones asked if there was an update on some of the comments that had been raised at the last meeting, around benchmarking, the financial monitoring figure being checked and the level of debt from Berkshire County Council.

Adele Taylor, Director of Resources, said that benchmarks would be reviewed and updated next year. The financial monitoring figure would be updated on reports going forward and it was confirmed that the debt from Berkshire County Council was the full amount.

ANNUAL STATEMENT OF ACCOUNTS

Andrew Vallance, Head of Finance, said that the draft accounts had been scrutinised by the Corporate Overview and Scrutiny Panel in July 2020. He apologised for the delay but there had been a number of objections to the accounts, the pandemic had caused some delays in the process and there had also been sickness amongst the auditors. There were some minor changes to the draft version that had been presented to Corporate Overview and Scrutiny. A paragraph had been added to the narrative report of the RBWM Property Company for materiality reasons. Two assets had been reclassified, from land and buildings to the surplus asset category because they were in the process of being sold and both assets had now been sold. Covid-19 grants had been moved to resources while some amendments had been made to officer remuneration figures as some of these figures were missing in the draft accounts.

On the pension accounts, there was an adjustment for the reduced value of net assets due to Covid and the timing of the valuation of assets of £31.5 million in the pension accounts, most of which has been charged to other bodies. The RBWM share of this was around £3 million.

Andrew Vallance was pleased to confirm that there were no unadjusted misstatements in the accounts.

Mr Andrew Hill had registered to speak at the meeting as a member of the public. He said that Deloitte had not received the accounting papers on critical estimates and judgements when required and the accounts until 27th January 2021, and therefore believed that it was premature to recommend that the accounts were delegated to be signed off by the Chairman of the Audit and Governance Committee once they were complete. Mr Hill noted that the auditors opinion was not published by 30th November 2020. There was £34 million worth of overstatements in the pension fund accounts. Mr Hill had asked Deloitte at the time if this was materially significant and if it should therefore be reported to the pension regulator. This year, there was £30 million worth of misstatements where old valuations had been used. This had resulted in over £100 million of misstatements over the past two years. Mr Hill asked Deloitte if they considered this misstatement to be materially significant and reportable to the pensions regulator. There was an overnight loan made from the pension fund to RBWM in June 2019 of around £1 million which officers said they approved but there was no formal evidence of this transaction being made. Mr Hill asked why this transaction was made and the reasons why it was approved by the pension fund.

Jonathan Gooding, Deloitte, said that the audit was still in progress but a lot of work had been done since the last meeting. The report set out the work that had been carried out in key areas and also identified significant audit risks. The impact that Covid-19 had on the audit was also considered and Deloitte had ensured that this was checked against the balances in the accounts and whether there was a heightened risk of error as a result. One area of risk identified was the override of management of controls which was a presumed risk for all audits undertaken for local authorities. Some control elements had been identified and recommendations made, along with a control recommendation for improvement around documentation. The reference from Mr Hill on receiving the statement of accounts recently was something that could be improved and the documentation around accounting estimates and judgements was a common recommendation that Deloitte made to all councils. Receiving the accounts recently was very common particularly when minor changes needed to be made and this then needed to be checked by Deloitte.

Another significant audit risk was around the capitalisation of expenditure. Again, this was common across all local authorities. Deloitte tested an example of expenditure to see its connection with documentation and evidence. The work had not identified any issues other than the control improvements which had already been identified in the report.

The next risk Jonathan Gooding discussed was around the property valuation. This work was largely completed some time ago but some additional procedures had been completed in response to one of the objections. No material issues had been identified in this area and some potential improvements had been identified for next year on property valuation. There was a material uncertainty over property valuation due to the impact of the pandemic but again this was something that Deloitte had seen across a number of local authorities.

The pension fund liability was complete and no materially significant issues had been identified. As part of the audit, Deloitte had to undertake a full risk assessment to ensure that all arrangements provided by the authority were secure. Most of these risks would be common knowledge to officers and also the Committee.

Deloitte had received 22 potential objections to the accounts and these were currently being worked through. Answering some of Mr Hills questions, Jonathan Gooding said that there was £74 million worth of misstatements last year and an error of £31.5 million this year which was material to the accounts and had been adjusted. Consideration needed to be given to the valuations and with the added impact of Covid extra consideration needed to be given as there was significant movement. However, from the factors that Deloitte had considered in its work, it did not see them as something that needed to be reported to the pensions regulator.

David McConnell, Deloitte, set out the pension fund audit to the Committee. He explained that Covid-19 had an impact on the audit and the areas affected were explained in the report. The first significant area of risk in the pension fund was the management override of controls. This was an audit risk that needed to be considered by Deloitte under the audit standards and a number of journals had been tested.

The next risk to consider was around the longevity hedge, which was an instrument used to protect the fund against the risk of residents living longer than expected. The balance was revised by around £2 million while a control risk was also identified, which was similar to one raised in 2019.

For control weaknesses, there was a weakness identified around the key assumptions of the longevity swap. The assumptions were in line with the liability evaluation this year but there was no formal evidence of that control operating. The convertible bond was not in scope for the audit this year but there was rationale for the rate to remain fixed from last year's accounts. On Deloitte's recommendation the paper was prepared by the investment manager and it was advised that controls were in place to ensure that valuations were appropriately challenged.

David McConnell discussed the audited accounts for the private equity funds being difficult to obtain this year. This was something that the investment manager was struggling to receive from the investment managers that sat below them. Deloitte had noted that there may be an absence of control around the fund management. Conversations had taken place and there was now improved control of elements of the valuation of the pension fund.

Deloitte had noted that there was no formal review of the accounts before they came to audit and that the checklist had been completed. When testing journals, Deloitte found that there was no evidence for the months which had been requested. It had been recommend that control was implemented and these journals be reviewed.

Within the member data system of the pension fund, Deloitte discovered that super users could edit their own member records. There was no formal control in place to check this editing and it was noted that some users had edited their records. Deloitte believed that these edits had been taken in normal operations but they recommended that the system was updated and that any edits should be checked and authorised by a senior manager.

David McConnell moved on to the issue of the overnight loan which had been made by the pension fund to RBWM. There was no evidence presented to Deloitte during the audit that there had been business rationale for the loan to be made or that fund managers had authorised the loan being made in advance of the transaction taking place. It was recommended that business rationale was documented for transactions which were outside the normal course of business and that authorisation was granted in advance of the payment being made. Some of the costs taken by RBWM on behalf of the pension fund were not formally documented and Deloitte had recommended that any transactions were formally documented in future.

Councillor L Jones noted that this was the audit for the financial year 2019/20. There had been a lot of change in the finance team at RBWM since then and she asked how certain the new team were that areas of risk had been looked at and resolved. Councillor L Jones asked if there were any further areas of work that needed to be done.

Adele Taylor, Director of Resources, said that there had been a number of new personnel at the council over the past year. Certain areas had been picked up in the report by Deloitte and would be looked at. Issues around the system were hard to fix so a proxy was in place to ensure that changes could be made to the process. There had been an improvement in the pension fund and there was now an action plan on the governance arrangements of the fund.

Councillor L Jones asked if the recommendations which had been put before the Committee could be explained. Adele Taylor said that she would pick this up at the end of the item when the Committee would vote on the recommendation.

Councillor Bond said that there had been a number of surprises in the pension fund that he had not been expecting, for example the overnight loan from the pension fund to RBWM. He appreciated that there was still work to be done and asked if the Committee would get to see the final report once it was completed. Councillor Bond suggested that the Berkshire Pension Fund Committee should meet to discuss the accounts on the pension fund side. Regarding the longevity fund, there was talk of 'challenging the assumptions'. Councillor Bond asked if this seemed reasonable to RBWM officers.

Adele Taylor said that the pension fund accounts responsibilities sat with the Audit and Governance Committee but it would be a good idea to share the accounts with the Berkshire Pension Fund Committee at an appropriate time. The overnight loan of £1.2 million which had been made was before Adele Taylor had joined the council so she was unable to comment whilst this was still being considered.

Jonathan Gooding said that different local authorities had different approaches but it would be good practise for the pension committee to see the report.

Councillor Baldwin noted that Mr Hill had asked a question about the overnight loan between the council and the pension fund and asked if anyone could directly answer his question, why the transaction took place and whether officers were involved.

Adele Taylor said that it was something that was still being reviewed as part of the audit and any recommendations or concerns would be part of the final report.

Councillor Price said that she was quite shocked at some of the things that had been revealed by the auditors. She questioned if there was enough attention being given to the pension fund over other areas like revenue and capital funds. Councillor Price believed that flaws kept happening year after year and asked how far did it have to go before it was reported to the pension regulator and also whether CIPFA were aware when they produced their report. Councillor Price was worried about the implications that this could have for RBWM.

Adele Taylor said that there were two separate sets of accounts – RBWM and the pension fund. The pandemic had wiped a significant amount off the valuation of the pension fund but work was being done to mitigate this in future. Ian Coleman had been brought in as expertise to make the relevant changes on the pension fund that had been identified as part of the governance review.

The Chairman asked if it was difficult to deal with the other Berkshire local authorities that were part of the pension fund.

Adele Taylor said that the Berkshire Pension Fund Committee was made up of exclusively RBWM members, while the advisory board had members from the other local authorities. There were implications across Berkshire which is why all authorities were represented but the decision making on the fund had to remain with RBWM as the accountable body.

Replying to Councillor Price's points, Jonathan Gooding said that the responsibility to take things to the pension regulator lay with all those involved with the accounts, not just Deloitte. Material errors could be picked up but it depended on whether they were materially significant to the accounts. Controls needed to be put in place to assess valuation and avoid errors in future.

Councillor L Jones commented on the value for money opinion from the auditors and what actions needed to be taken as a Committee to ensure that this did not happen again.

Adele Taylor said that the value for money judgement described what the issues were. The auditors had not yet formed their opinion but they would use things like the CIPFA review on governance and accompanying action plan which showed the improvements that the council would be making.

Jonathan Gooding said that it was common for qualifications of this nature to last for a year.

Councillor Hilton, Lead Member for Finance and Ascot, said that the overnight loan of £1.2 million had happened in June 2019 which was around 4-8 weeks before he started the Lead Member role and therefore knew nothing about it. He believed that a lot had changed since then, in July 2019 CIPFA were called in and this started the ball rolling. Budget monitoring reports were now transparent, open and showed the direction of travel for RBWM. The CIPFA action plan would be followed and also things that had come out of the audit would be done too. Originally, no one in the council was able to monitor the pension fund effectively but now Ian Coleman had been brought in and his expertise had been added to the team. Councillor Hilton believed that RBWM was now getting to where it needed to be.

Councillor Price asked if there was sufficient resources available to officers to stay on top of everything that had come out of the audit. She also raised concerns about RBWM looking after the pension fund on behalf of Berkshire and if this was taking time and resource away from the RBWM accounts.

Adele Taylor said that she felt that there was the right level of resource available. Ian Coleman had been brought in so that the council had the skills and expertise in this area. There was the ability to gain extra resources if they were needed.

The Committee concluded the discussion on the item. Adele Taylor clarified that the recommendation being put forward was for the Audit and Governance Committee, rather than the Corporate Overview and Scrutiny Panel as originally stated in the report. The ISA260 report was to note rather than approve, due to it being the external auditors opinion. Adele Taylor advised Members that they would get sight of the final ISA260 once it was completed before the Chairman was delegated authority to sign off the accounts on behalf of the Committee.

Jonathan Gooding anticipated that the ISA260 would be completed in approximately three to four weeks. He suggested that the accounts could be delegated to the Chairman for approval provided there were no material changes.

A named vote was taken.

Recommendation listed in the report (Motion)	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
Carried	

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the report and:

- **i) Approved the delegation for the signing of the Statement of Accounts to the Chairman once the audit was fully completed, provided that there were no material changes to the accounts.**
- **ii) Noted the latest ISA260 for RBWM.**
- **iii) Noted the latest ISA260 for the Berkshire Pension Fund.**

EXTERNAL AUDIT ISA260

This item was considered as part of the Annual Statement of Accounts.

2021/22 INTERNAL AUDIT STRATEGY AND 2021/22 AUDIT AND INVESTIGATION PROGRAMME OF WORK (QUARTER 1)

Catherine Hickman, Lead Specialist for Audit and Investigation, explained that the 2020/21 financial year had been a period of uncertainty where councils had needed to respond to the Covid-19 pandemic and their changing risk profiles. There had been a significant impact on the way officers work with home working and more reliance placed on information technology, as well as there being changes to systems and processes in response to these changes. In addition, there had been the extent to which the internal audit team had been able to deliver planned activities due to the availability of auditees as they had responded to effects of pandemic within their services.

As such, a degree of flexibility had needed to be built into the current year's audit and investigation plan. In previous years, an annual plan would be prepared in February for the forthcoming financial year which would have been brought to the Committee for consideration. After discussions with the Director of Resources and Head of Finance, it was agreed that a one-year plan was not practical due to the ongoing uncertainty of the pandemic. Instead for 2021/22, the audit and investigation plan would be prepared on a quarterly basis so that the team could be flexible, forward thinking and responsive to future uncertainties and events.

The 2021/22 internal audit strategy sets out the role, scope and responsibilities of internal audit, the audit planning process, resourcing and reporting, as well as internal audit's requirements to comply with its service and professional standards, the 'Public Sector Internal Audit Standards'. The main change to the strategy from last year was the reference to the change from an annual to quarterly planning and reporting process. Going forward, the Committee would be informed of audits undertaken in the previous quarter, along with work priorities for the audit team for the following quarter.

The second part of the report was the 2021/22 quarter one work programme. A similar process had been used to prepare the work programme as in previous years in terms of aligning audit activity with the Council's Strategic/Operational Risks and Annual Governance Statement; knowledge of impact of pandemic on organisation; systems/processes affected by Covid-19; and external guidance. The subject areas set out in Appendix A(I) had also been agreed on consultation with the Director of Resources and the Head of Finance.

The audit on waste management had been suggested by the Communities Overview and Scrutiny Panel as it was a key strategic risk to the council. A piece of work had been requested by council management on direct payments to see if further work was needed and to seek assurance on system controls.

Mr Hill had registered to speak on the item as a member of the public. He said that in the paper it was stated that internal audit opinion must conclude that the organisations framework of governance was acceptable. Mr Hill asked if the internal audit team felt that they had enough resources to pick up some of the things that the external auditors had picked up. For example, Deloitte had picked up that the estimates and judgements paper was not submitted, Mr Hill asked if this would be something that the internal audit team would look at and investigate. In the report there was reference to the phrase 'minimum effort necessary', Mr Hill asked if cuts in the budget on internal audit meant that they could not deliver more than the minimum. Mr Hill asked if the internal audit team would be looking at auditor judgements as part of their audits, as this was something that featured in the CIPFA review. Mr Hill asked if the team reviewed the capital commitment disclosures as part of their work.

Catherine Hickman said that internal audit normally tried to avoid duplication of work with the external auditors and so was usually focussed on the controls within systems. It was explained that areas such as the capital commitment disclosures would be picked up by the external auditors.

Adele Taylor said that internal audit and external audit had different roles and responsibilities. Internal audit was used so that the council could consider whether it had the control framework in place and looked at not just the financial risk but also the strategic risk to the council. The external audit team were testing and challenging the statement of accounts and the processes in place. In terms of resource, it was up to the RBWM officers to determine if the right level of resource was in place. Adele Taylor felt confident that the resources were in place and that RBWM had the correct number of days required. It was important to make sure that resource was focussed in the right areas, especially where potential risks had been identified.

Councillor Price explained that she was on the Communities Overview and Scrutiny Panel where they had requested that there was an audit on Serco. However, she had noted that the company were now moving to fortnightly collections and asked if it was appropriate to have the internal audit when there would be a lot of upheaval again, like there was in the autumn when the Panel had originally requested the audit review.

Adele Taylor explained that due to other work last year there was no opportunity to free resources for internal audit to investigate. If the Audit and Governance Committee felt that it was no longer appropriate, they could remove it from the internal audit work programme and replace it with another audit area.

Councillor Bond thanked Catherine Hickman for answering a number of his questions in advance of the meeting and for providing comprehensive responses. He asked if the pension fund administration was usually included in the internal audit plan.

Catherine Hickman confirmed that internal audit did review the pension fund each year.

Councillor Sharpe asked if the service had improved or was improving and if RBWM was getting good quality from the service.

Catherine Hickman said that a self-assessment was carried out by the team each year against the Public Sector Internal Audit Standards to ensure compliance. It was explained that CIPFA had also undertaken an independent external assessment on the work of internal audit in 2017 against the standards. Every five years, an external independent review of the internal audit service against the professional standards was undertaken, as required by the standards.

Councillor Sharpe asked if the self-assessment was an ongoing exercise or if it was something carried out every 12 months at the end of the year.

Catherine Hickman explained that the self-assessment was an ongoing exercise and that a paragraph on the outcome of the self-assessment and any actions required to ensure full compliance would be included in the internal audit annual report. This was due to be considered by the Committee in May 2021.

A named vote was taken on the recommendation listed in the report.

Recommendation listed in the report (Motion)	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
Carried	

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the contents of the report and:

i) Approved the 2021/22 Internal Audit Strategy and Draft Internal Audit and Investigation (Quarter 1) Work Programme (1 April 2021 to 30 June 2021).

FRAUD POLICIES REFRESH

Catherine Hickman explained that the council already had a number of anti-fraud and corruption policies in place but it was good corporate governance for these to be refreshed on a regular basis to ensure that they were current and incorporated the latest legislation. In addition, it was a key responsibility of the Committee to oversee the council's anti-fraud and anti-corruption arrangements. There were a total of six policies and the changes that had been proposed were mostly administrative in nature. The Committee was being asked to note and approve the changes, while it was also important for councillors and officers to be aware of the policies that were in place. Training would also take place to raise awareness with officers and Members, including briefings in the 'Borough Bulletin' and in Member updates. Catherine Hickman clarified for the Committee that in the whistleblowing policy, there was a charity mentioned called 'Public Concern at Work'. This was an organisation that employees could go to if they felt they had exhausted all avenues to raise their concerns within the council. The organisation had recently changed its name to 'Prevent' and this had been amended in the policy. Once the policies had been approved, they would be published on the RBWM website.

The Chairman asked how often the policies were refreshed.

Catherine Hickman said that they were originally reviewed annually, but it had previously been decided to refresh them only when significant changes needed to be made.

Mr Hill had registered to speak on the item. He had noted that the contact details in the whistleblowing policy were not correct on the previous policy for the external auditors and the impact that this could have had on the CIPFA report. Mr Hill thanked officers for ensuring that the policies were carefully reviewed going forward.

Adele Taylor made a reassurance that once the error had been noticed it was changed on the council's internal systems. There was communication between Deloitte and KMPG, the previous auditors, to make sure that any queries were dealt with.

Councillor Sharpe said that these policies were very important and that it was good to see that they had been refreshed. He asked how staff were informed of these policies along with available training which could help them.

Catherine Hickman said that awareness was essential and once the policies had been approved, they would be published on the internal staff intranet. Catherine Hickman said that she would discuss how best to deliver the training with the Director of Resources and the Head of Finance.

Adele Taylor said that these policies were something that she took very seriously, particularly in areas where there was a higher risk of fraud.

A named vote was taken on the recommendation listed in the report.

Recommendation listed in the report (Motion)	
Councillor Christine Bateson	For
Councillor Lynne Jones	For
Councillor Simon Bond	For
Councillor Julian Sharpe	For
Councillor Gurpreet Bhangra	For
Carried	

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the contents of the report and:

i) **Agreed the proposed amendments to the Anti-Fraud and Anti-Corruption Policy, Anti Money Laundering Policy, Prosecutions and Sanctions Policy, Anti Bribery Policy, the Acquisition of Communications Data and Use of Covert Surveillance and Covert Human Intelligence Sources Policy and the Whistleblowing (Raising Concerns at Work) Policy.**

WORK PROGRAMME

Adele Taylor confirmed that all of the items listed for the next meeting in May 2021 were correct, the internal audit annual report in the suggestion box was a duplication and would be removed. The audit letter from the external auditors would also come to the next meeting and would be added to the Work Programme.

The meeting, which began at 6.20 pm, finished at 8.20 pm

CHAIRMAN……………………………….

DATE………………………………..........

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Report Title:	**Annual Governance Statement 2019/20 – Progress Report**
Contains Confidential or Exempt Information	**No**
Cabinet Member:	Councillor Rayner, Deputy Leader of The Royal Borough of Windsor and Maidenhead; Corporate & Resident Services, Culture & Heritage, Windsor and Armed Forces Champion
Meeting and Date:	Audit and Governance 17 May 2021
Responsible Officer(s):	Emma Duncan Monitoring Officer and Deputy Director of Law and Strategy
Wards affected:	All

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1.1 The Corporate Overview and Scrutiny Panel reviewed the 2019/20 Annual Governance Statement (AGS) on 15 June 2020 and 24 November 2020. The Panel requested that update reports on issues identified in the accompanying Action Plan be presented to the Panel at appropriate future meetings.

1.2 The terms of reference of the Audit and Governance Committee that was created during 2020/21 now include reporting on the Annual Governance statement.

1.3 This report provides an update on actions undertaken in relation to the Action Plan attached to the AGS 19/20 and identified further areas for work to be incorporated into the AGS Action Plan 2020/21.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes the actions already taken and those planned.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
No other options considered	

3. KEY IMPLICATIONS

POLICY CONTEXT

3.1 The Council has established a number of Interim Strategic Objectives to cover the period 2020-21 including a number of Interim Focus Objectives as follows;

3.2 Interim Focus Objectives 2020-21

- Service Stand Up Plans (business continuity)
- Revised Service Operating Plans
- Transformation Plan
- Climate Strategy
- Governance
- People Plan – Values, Leadership, Black Lives Matter

3.3 Full details of the Council's interim focus objectives and the actions which will deliver these priorities are published on the Council's website. This report contributes the Governance, Transformation and People elements of the focus objectives.

Background

3.4 The Annual Governance statement for 2019/20 identified a number of areas for improvement.

3.5 The AGS Action Plan was previously reported to the Corporate Overview and Scrutiny Committee on 15 June 2020 and 24 November 2020. It now falls within the terms of reference of the Audit and Governance Committee.

3.6 This report updates on the action taken to address AGS Action Plan 19/20

Annual Governance Statement Action Plan 19/20

3.7 **AGS20.1a, b, c**

There is an identified lack of clarity amongst officers and Members regarding roles and responsibilities, this includes knowledge of appropriate procedures

The Statutory Officers Group meets regularly to discuss corporate governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to Council improvement.

The Group has reviewed and updated the Local Code of Corporate Governance to ensure it reflects the 2016 CIPFA/SOLACE guidance in respect of delivering good governance.

The revised document was published following review by the Corporate Overview and Scrutiny Panel on 27 May 2020.

All Member plus CLT workshop took place on 15/9/20 on 'Good Governance - Member / Officer Roles and Responsibilities'

Whilst the session was well received and peer support is ongoing with some political groups, there is still underlying confusion around where the line is with Members overstepping into operational officer roles and Officers not feeling able to "push back".

A support paper on officer contact throughout the authority has been shared with Group Leaders.

The LGA have offered a political awareness course for officers, which will be taken up and officers are being supported with..

The Council has adopted a new Code of Conduct for Members which reinforces the impartiality of officers and underlines the need for Members not to place officers under undue pressure in providing advice and carrying out their operational roles. There is still further work needed to get to the position where Members understand that officers are apolitical and work on behalf of the whole Council but helping the Administration deliver their political priorities within the Council's governance frameworks.

There has been some issues with some behaviour towards officers by Members. Training is planned on the new Code for both Officers and Members and the Member/Officer Protocol will be reviewed.

3.8 **AGS20.2**

Staff reductions have placed a new level of work pressure on particular departments. Whilst there are signs that morale related to working for the Council has improved, we still need to work hard on giving staff a clearer sense of our direction of travel.

Focus groups with all members of staff were held between December 2019-February 2020. A draft set of values was developed out of the feedback and presented to officers in May 2020. A report submitted to Cabinet in July 2020 was approved unanimously.

The Council now has a new set of Values that are now starting to drive other changes and improvements to for example, appraisal, induction, mobile working and ICT.

The Values were rolled out across the Council and significant effort was placed on internal communications, ICT and safe working practices as most colleagues moved to remote working.

An Action Plan has been developed to deliver these further improvements.

Work has started on the development of the new Corporate Plan with engagement of Members, Staff and the wider community, and this is underpinned by the work already done on values for RBWM. This should help the Council target resources to priority areas and help people see how their work can contribute to the Council's key strategic objectives, meaning that the Council can make the best use of scarce resources and deliver tangible outcomes for our residents.

3.9 **AGS20.3**

Lack of robustness of challenge re business cases/benefits – consistency of business cases; follow up re benefits realisation.

A number of actions were agreed as part of the CIPFA review. In particular strengthening input from finance earlier into business case development and also consistent input into all relevant committee reports.

The Capital Review Board was established in 2020/21 which reviews and provides input early into any Capital business cases being developed.

External training on 'Questioning Skills' offered to all O&S Members in Sept 2020.

Independent reviews have already been undertaken on a number of existing relationships including Optalis and Afc with other reviews underway according to agreed timelines in the action plan.

Once the new Corporate Plan is further developed over the summer of 2021, the Strategy and Performance Team are developing a new performance framework that will allow Members to track performance of benefit realisation aligned to the outcomes in the corporate plan.

3.10 **AGS20.4**

Business Continuity Plans for all service areas need to be updated to reflect the impact of COVID-19

Business Continuity training and workshops took place between September – December 2019. Each service has completed a business impact assessment and rated the priority of their services that are required to keep functioning, dependent on timing and what the 'event' is.

Existing business continuity plans were implemented in response to COVID-19 and services were asked to review their effectiveness in light of this. 42% provided feedback.

3.11 **AGS20.5**

Organisational capacity in key areas; Over a number of years capacity within the Council has been reduced, presumably to reduce costs. This has focused on 'back office' functions but this has left the organisation under capacity and capability in a significant number of areas. Many of these weaknesses are reflected in this AGS. As could be expected

reducing capacity and capability has led to poorer outcomes and compliance problems.

There has been initial review of areas where capacity gaps existed and the following identified;

- Strategy/Policy Development
- Monitoring Officer
- Insight, Engagement and Consultation
- Transformation
- Data Analytics
- Project Management
- Procurement

Resource has been allocated for these roles in the 21/22 budget and relevant roles recruited to.

As a result of the capacity allocation there has been significant improvements on the following;

- Mainstreaming EQIAs into the decision making process
- New Member Code of Conduct
- New consultation framework
- Recording of decisions and compliance with the Constitutional rules
- Development of the Council's Corporate Plan
- Wider consultation and engagement on key Council initiatives and projects
- New Transformation Strategy
- Development of more robust and mainstreamed procurement processes
- Use of data to support decision making
- Implementation of new engagement platforms (Engagement HQ)
- Implementation of new performance management software (Inphase)

There is a need to keep capacity in key areas under review in the future, whilst the release of resource has allowed some immediate issues to be addressed, the lack of resource over a period has meant that RBWM is behind the curve, in terms of core governance and this poses risks to the Council and the delivery of outcomes to residents. Considerations around appropriate resource levels will form part of ongoing Medium Term Financial Planning.

3.12 **AGS20.6 and AGS20.7**

Contract management – lack of a central register, lack of oversight due to self-service arrangements, lack of understanding of role and responsibilities by contract managers./Procurement

Significant work has been undertaken in AfC and Optalis to strengthen commissioning practice. This includes PeopleToo support in AfC and recruitment of a dedicated Commissioning Manager (now in post). Restructure completed in Optalis to align commissioning, performance and finance.

Key contracts are now identified, although there is further work to do on this to capture all relevant information. A procurement toolkit has been developed and will be implemented later in the year. Waivers are being reported and monitored and challenged where appropriate.

3.13 **AGS20.8**

Decision making – report quality varies and can lead to a lack of clarity over decisions taken; absence of sign off from statutory officers, lack of understanding of appropriate use of officer decision notice.

Reports are now circulated to key officers prior to publication, which is a significant step forward however sometimes the volume of reports being circulated at short notice can impact on the ability of key officers to adequately review them. The corporate core is still underdeveloped in this regard and we corporately need to move to a position where professional expertise is engaged early in the development of proposals which relies on all Council officers to engage in making these improvements.

The officer decision notice process has been reviewed and CLT have been provided with advice and guidance on ensuring compliance

The Forward Plan is now used as a work planning tool.

3.14 **AGS20.9**

Values and Behaviours: Continuing the progress of improving the culture of the organisation and ensuring compliance with relevant procedures and ethical standards.

New organisational values have been developed through direct engagement with staff. These were launched to the workforce in June 2020 and were shared with Cabinet for their endorsement in July 2020. Examples of positive and negative behaviours to accompany each value. An action plan is in place to support the embedding of the values throughout the organisation. Activities are in progress in accordance with the action plan.

The new appraisal process incorporating the values is ready and has been implemented. The performance review cycle will now tie in with the municipal year. Briefing sessions are currently being run for managers on the new scheme and an information video will be available for all staff.

Crucial conversations training was undertaken to equip staff with the skills to have difficult conversations vertically within their reporting lines and also horizontally with peers to support the adoption of the new values.

The Staff Survey identified a number of areas for improvement, in particular some staff feel that Elected Members do not demonstrate the Council's core values, although it remains unclear at this stage whether this is due to the number who come into direct contact with members through their work or not. It is recognised that further work in this area will be beneficial to understand this in more detail given nearly 70% of staff were neutral in relation to this question.

The Monitoring Officer reported to the Standards Panel in relation to Member Standards of behaviour in April 2021 and actions from that Annual Report will be incorporated into the AGS 20/21 and action plan.

3.15 **AGS20.10**

Failure to deliver projects for improvements in IT infrastructure impacting PSN compliance which would result in detrimental impact on services including Registrars, Electoral and Revenues and Benefits.

The Modern Work Place project is complete in the initial phases.

The VPN project is near completion with the final session being held on 28 April. Remote installation schedule for 57 staff members is also nearing completion.

3.16 **AGS20.11**

Pension Fund Governance: The Authority has not had sufficient understanding of its role in managing the Pension Fund and has not been as proactive as is needed. The Pension Fund has not had sufficient capacity and experience to ensure good governance.

There has been a detailed review of the Pension Fund governance arrangements through an external review by a recognised Pensions expert. An action plan has been developed and agreed with at least 50% of actions already undertaken. Interim additional resource has been deployed to support this area and a permanent role created and recruited to. Changes to the constitution to clarify the decision-making process has also been undertaken.

3.17 **AGS20.12**

Financial Governance

A detailed CIPFA review was considered at July Overview and Scrutiny committee. An action plan approved in July 2020 and reports to corporate overview and scrutiny on a quarterly basis indicate the progress against the plan with the majority of actions already delivered.

3.18 Training for all budget holders on financial processes of compliance for approving spend and monitoring have been held; further training will be provided throughout the financial year on relevant topics to ensure that financial best practice is core to the way the organisation operate

3.19 Additional permanent capacity, at senior level, has been in place through 2020/21 which supports actions being taken to continue to improve financial governance issues.

Next Steps

3.20 As part of the Council's improvement journey the Council's key governance statutory officers (Head of Paid Service, S151 officer, Monitoring Officer and deputies) meet as the Statutory Officer Group to discuss governance related issues.

3.21 As part of preparing the AGS for 2020/21 a review has been undertaken against the Centre for Governance and Scrutiny's "Governance Risk and Resilience Framework" which aligns with the CIPFA Code which underpins the AGS.

3.22 The outcomes from this together with other issues from the AGS 19/20, issues identified from the Monitoring Officer report, issues raised through audit, complaints or other routes will form the basis for the AGS 20/21 and Action Plan.

3.23 The Audit and Governance Committee are due to consider the AGS 20/21 in July 2021.

4. LEGAL IMPLICATIONS

4.1 None arise directly as a result of the report, however good governance clearly helps RBWM meet its legal obligations to its residents and service users protects the Council from legal challenge. More importantly good governance is the cornerstone of building trust between RBWM and the people that it serves.

5. RISK MANAGEMENT

Table 2: Impact of risk and mitigation

Risk	Level of uncontrolled risk	Controls	Level of controlled risk
Poor Governance/legal challenge/council	High	Those identified as part of the Code of Corporate Governance	Medium

not meeting it's objectives			

6. POTENTIAL IMPACTS

6.1 Equalities:

This is an internal governance report and does not require an EQIA screening.

6.2 Climate change/sustainability:

Not relevant

6.3 Data Protection/GDPR:

Not relevant

7. CONSULTATION

7.1 Section 138 of the Local Government and Public Involvement in Health Act 2007 places a duty on local authorities to involve local representatives when carrying out "any of its functions" by providing information, consulting or "involving in another way".

7.2 This is an internal governance function and does not require consultation.

8. TIMETABLE FOR IMPLEMENTATION

8.1 Report is for noting – no decision.

9. APPENDICES

9.1 This report has no appendices.

10. BACKGROUND DOCUMENTS

10.1 This report is supported by 0 background documents:

11. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned

Cllr Rayner	Deputy Leader of the Council, Resident and Leisure Services, HR, IT, Legal, Performance Management and Windsor; Armed Forces Champion	06/05/21	
Duncan Sharkey	Managing Director	06/05/21	
Adele Taylor	Director of Resources/S151 Officer	06/05/21	**07/05/21**
Andrew Durrant	Director of Place	06/05/21	
Kevin McDaniel	Director of Children's Services	06/05/21	
Hilary Hall	Director of Adults, Health and Commissioning	06/05/21	
Andrew Vallance	Head of Finance	06/05/21	
Elaine Browne	Head of Law	06/05/21	
Nikki Craig	Head of HR Corporate Projects and IT	06/05/21	**07/05/21**
Louisa Dean	Communications	06/05/21	
Karen Shepherd	Head of Governance	06/05/21	

REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Audit	**No**	**No**

Report Author: Emma Duncan, Deputy Director of Law and Strategy, 07583074039

Report Title:	External Audit ISA 260 updates and draft action plans 2019/20
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Hilton, Cabinet Member for Finance
Meeting and Date:	Audit and Governance Committee May 17th 2021
Responsible Officer(s):	Adele Taylor, Executive Director of Resources and Section 151 Officer
Wards affected:	All

www.rbwm.gov.uk
Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

The Committee is asked to note the final ISA260s received from Deloitte and consider the draft action plans to address the issues identified by the external auditor.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes the report and:

i) Notes the ISA260 for RBWM in Appendix 1.
ii) Notes the ISA260 for the Berkshire Pension Fund in Appendix 2.
iii) Notes and considers the draft action plan for RBWM in Appendix 3.
iv) Notes and considers the draft action plan for the Berkshire Pension Fund in Appendix 4.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option 1	**Comments**
Note the ISA260's and draft action plans **This is the recommended option**	Because of the statutory requirement for the Council to produce audited and signed accounts no other options are considered in producing this report.

2.1 The format and content of the accounts is subject to legislation and guidance contained in the Code of Practice on Local Authority Accounting. Members of the Audit and Governance Committee however, ask questions of the Council's officers and auditors (Deloitte) and make recommendations that may assist a reader of the Statement of Accounts.

3. KEY IMPLICATIONS

3.1 Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
Date when accounts are published, the audit opinion and the number of changes required by auditors	Published later than 30 September or receive a qualified opinion or > 5 material changes.	Published on or before 30 September With an unqualified opinion and 1-4 material changes.	Published on or before 30 September with an unqualified opinion and no changes.	N/A	30 September 2020

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 At its meeting on 16th February 2021 the Committee considered draft ISA260s, and delegated authority to the Chairman to sign the Statement of Accounts once the audit was complete.

4.2 The details of Deloitte's findings are contained in the final ISA260 reports in Appendices 1 and 2.

4.3 Deloitte anticipate issuing an unqualified audit opinion on the authority's statement of accounts and a qualified opinion on the value for money statement.

4.4 The draft audit plans in response to the ISA260 reports are in Appendices 3 and 4.

5. LEGAL IMPLICATIONS

5.1 In producing, reviewing, auditing and approving the accounts the Council is meeting its legal obligations

6. RISK MANAGEMENT

6.1 Table 3: Impact of risk and mitigation

Risk	Level of uncontrolled risk	Controls	Level of controlled risk
Possibility of unqualified value for money statement for 2019/20	High	Update of issues raised during 2020/21 audit of the statement of accounts	Medium

7. POTENTIAL IMPACTS

None

8. CONSULTATION

8.1 A public notice dated the 3rd of August 2020 was put onto the Council's website giving residents the opportunity to inspect the accounts and related transactions and correspondence until the 14th of September 2020.

9. TIMETABLE FOR IMPLEMENTATION

9.1 This section is not applicable.

10. APPENDICES

10.1 This report is supported by four appendices: (to follow)

- Appendix 1 ISA260 report for RBWM main accounts
- Appendix 2 ISA260 report for the Berkshire Pension fund.
- Appendix 3 Draft action plan for RBWM.
- Appendix 4 Draft action plan for the Berkshire Pension fund.

11. BACKGROUND DOCUMENTS

11.1 This report is not supported by any background documents.

REPORT HISTORY

Report Author: Ruth Watkins, Chief Accountant, 01628 683504

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Report Title:	**Redmond Review – Initial Briefing Note**
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Hilton, Cabinet Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee - 17 May 2021
Responsible Officer(s):	Adele Taylor, Executive Director of Resources
Wards affected:	None

www.rbwm.gov.uk
Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

The Independent review into the oversight of local audit and the transparency of local authority financial reporting (the "Redmond Review") was published on 8th September 2020. The MHCLG response was published on 17th December, accepting most of the recommendations.

This report summarises the key recommendations and responses to date. Further reports will be produced for the Committee as MHCLG makes additional proposals.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes the report.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
That the Committee notes the report **This is the recommended option**	Review and Government response have been published

3. KEY IMPLICATIONS

3.1 MHCLG published the Independent review into the oversight of local audit and the transparency of local authority financial reporting (the "Redmond Review") on 8th September 2020. This is attached as **Appendix 1.**

3.2 The review highlighted three key problems:

- **Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014.** In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities;

- **Market fragility.** Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that "without prompt action… there is a significant risk that the firms currently holding local audit contracts will withdraw from the market" ('Redmond Review' (2020), p.1);

- **Absence of system leadership.** The introduction of the localised audit framework in the 2014 Act spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.

3.3 Redmond also recommended extending the deadline for publishing audited accounts from 31 July to 30 September each year.

3.4 MHCLG responded to the review on 17th December. https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

3.5 To address these concerns MHCLG is taking these actions:

- Providing relevant local authorities with £15m in additional funding in 2021/22 to meet the anticipated rise in audit fees driven by new requirements on auditors, including the 2020 Code of Audit Practice, as well as enabling local authorities to develop standardised statements of service information and costs.

- Committing to work with all the key stakeholders to achieve practical outcomes to the recommendations.

- Reviewing and reforming regulations to provide the auditor appointing body with greater flexibility to ensure the costs to audit firms of additional work are met.

- Extending the deadline for publishing audited local authority accounts from 31 July to 30 September for the next two years - covering the audit of the 2020/21 and 2021/22 accounting periods. It will then be reviewed.

- Reviewing entry requirements for Key Audit Partners within the scope of the existing regulatory framework, balancing quality and market sustainability.

- Working on the development of an appropriate framework for the corporate auditing profession, ensuring that local audit practitioners have a voice in its development.

- Engaging local government to better understand council finance team resources and consider how they might be strengthened.

- Exploring other options for delivering system leadership, delaying the incorporation of a new regulator (OLAR) whilst the other actions are taken to see if they bring about change without the need for structural reform in regulation.

3.6 MHCLG is currently consulting on the distribution methodology for the extra £15 million and on the ability of Public Sector Audit Appointments Ltd to approve variations in audit fees earlier than they can do now.

3.7 It is not yet clear what further actions the MHCLG will take in response to the report. Further reports will be produced for this committee when appropriate.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 There are likely to be significant increases in external audit contract fees in future years.

5. LEGAL IMPLICATIONS

5.1 There are no implications.

6. RISK MANAGEMENT

6.1 There are no implications.

7. POTENTIAL IMPACTS

7.1 Equalities: No implications.

7.2 Climate change/sustainability: No implications.

7.3 Data Protection/GDPR: No implications

8. CONSULTATION

8.1 Not applicable at this time.

9. TIMETABLE FOR IMPLEMENTATION

9.1 Not clear at this time. Further updates will be reported to the committee as MHCLG proposes changes to the audit and accounting regimes.

10. APPENDICES

10.1 This report is supported by one appendix:

- Appendix 1 – Independent review into the oversight of local audit and the transparency of local authority financial reporting (the “Redmond Review”)

11. BACKGROUND DOCUMENTS

- MHCLG response: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

REPORT HISTORY

Decision type:	**Urgency item?**	**To follow item?**
For information	No	No

Report Author: Andrew Vallance, Head of Finance

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Sir Tony Redmond
September 2020

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

September 2020

The Rt Hon Robert Jenrick MP

Secretary of State for Housing, Communities and Local Government
Ministry of Housing, Communities & Local Government
2 Marsham Street
London, SW1P 4DF

Dear Secretary of State,

In June 2019, I was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. I am grateful for the opportunity given to me by ministers to conduct this Review. Whilst conducting the Review my guiding principles have been accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.

This report sets out my conclusions. It makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

It will be possible to achieve part, but only part, of what needs to be done without legislation. However, it is important to emphasise that to fully achieve the vision set out in the Review, primary legislation will be essential. Only this can give the new organisation the tools it needs to do its job and to rebuild the sustainability of the local audit market.

I should like to thank:

- First, all those stakeholders who have engaged with the Review and responded to the Review's Call for Views;
- Second, the excellent team which has supported the Review's work: Ollie Hulme, Joe Pilgrim, Beth Addison and Gareth Caller; and
- Third, all the members of the Review's advisory group: Lynn Pamment, Maggie McGhee, Professor Laurence Ferry, Catherine Frances, Vicky Rock, Richard Hornby and Mark Holmes. This formidable group provided much wise guidance and counsel, as well as lively challenge and debate, for which I am hugely grateful.

Responsibility for the Review's conclusions and recommendations, is however, mine and mine alone.

Sir Tony Redmond

Sir Tony Redmond

Contents

Executive Summary

- This Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound. It is important to note that this Review encompasses not only principal local authorities but also PCCs, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.

- The Review has received 156 responses to the Calls for Views and carried out more than 100 interviews. Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not to say that the audits are carried out unprofessionally but there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts.

- A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process. Although there is some scope to effect alterations to the individual roles, appropriately fulfilled with the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.

- Consequently, a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.

- The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.

- The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits together with the process for managing vexatious complaints where issues have been raised by those bodies which have experienced such challenges.

- Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council. This demonstrates transparency and accountability from a public perspective which is currently lacking in many authorities.

- The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.

- The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to hold local authorities to account for their performance together with a robust and effective audit reporting regime.

- Aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements.

- Implementation of recommendations contained in this Review would, in part, require regulatory or legislative change but it is important to note that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in this Review.

Recommendations

The recommendations of this Review are as follows:

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
   - procurement of local audit contracts;
   - producing annual reports summarising the state of local audit;
   - management of local audit contracts;
   - monitoring and review of local audit performance;
   - determining the code of local audit practice; and
   - regulating the local audit sector.

2. The current roles and responsibilities relating to local audit discharged by the:
   - Public Sector Audit Appointments (PSAA);
   - Institute of Chartered Accountants in England and Wales (ICAEW);
   - FRC/ARGA; and
   - The Comptroller and Auditor General (C&AG)

   to be transferred to the OLAR.

3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
   - an annual report being submitted to Full Council by the external auditor;
   - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
   - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body’s turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor’s Annual Report.

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

20. The standardised statement should be subject to external audit.

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope

to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
    - Whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers;
    - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
    - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

1. Introduction

1.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. This Review examines the effectiveness of local audit as now practised.

1.2 The purpose of the Review is to test not only the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. In a similar context the brief of the Review extends to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

1.3 The framework for local audit encompasses procurement, contract management and delivery, the code of audit practice and regulation and accountability for performance. All of these aspects of local audit have been examined in depth. Whilst the focus of this Review is on local audit and public accountability there are a number of related factors which have contributed to the shape and nature of the findings. Such matters include: the breadth and complexity of International Financial Reporting Standards (IFRS); the role of the sponsoring department (MHCLG); and the current state of the local audit market. Local authorities include Councils, Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), and National Parks Authorities. NHS bodies are not local authorities and are outside the scope of this Review.

1.4 It is also important to emphasise that the Review includes the functions of Police and Fire Services as well as Parish Councils and Drainage Boards and due regard has been paid to the specific requirements of these bodies, as appropriate.

1.5 Substantial evidence has been collated from the 'Call for Views' and individual stakeholder meetings and this has formed the basis of the Report's findings. The co-operation received from all interested parties including local government practitioners, audit firms, professional accounting bodies, academia and the media and the general public has been much appreciated. All parties who have participated in the Review share a desire to ensure local audit is effective and that public accountability is seen to be achieved. The approach to the Review has sought to harness those valuable contributions.

1.6 Attention has been paid to the findings of the Brydon and Kingman Reviews as well as the study carried out by the Competition and Markets Authority (CMA). Each of these reviews offers an insight into the principles and practices of auditors in the corporate sector, which have relevance to the public sector, including local government.

1.7 While testing the quality of outcomes has been a key feature of this approach, attention has been directed towards the governance arrangements in the way in which audit reports are managed and reported. The focus here has been on the level of public awareness of audit findings. Current practices relating to the annual publication of financial information have also been reviewed with an emphasis on the transparency, access and intelligibility of such reports.

1.8 In examining options for change to the current local audit arrangements, account has also been taken of the potential resource implications of any new initiative or development contained in the recommendations.

Sir Tony Redmond

Sir Tony Redmond

2. The direction and regulation of local audit

2.1 Introduction

2.1.1 The direction and regulation of local audit must be structured as to enable public accountability to be served. Each stage of the local audit process must adhere to this and remain consistent throughout. Ultimately, the direction and regulation of audit must be coherent, consistent in quality monitoring and fulfil the public accountability principle. The test, therefore, is whether the current arrangements deliver that, or can be altered to achieve that, or whether a new structure for the local audit regulatory framework needs to be put in place.

2.1.2 Public Interest Reports may be seen as relating to the local community's serious concern, but these are rarely used. In any event, council taxpayers are entitled to know the outcome of the annual statutory audit whether it be positive or negative.

2.2 Overview of the Regulatory Framework

2.2.1 The 2014 Act split the responsibilities formerly carried out by the Audit Commission between a range of bodies. **Figure 2.1** summarises the entities that have a significant role or influence on the accounting, audit and governance framework within which local authorities operate.

2.2.2 Currently there are six different entities with a statutory role in overseeing and/or regulating elements of the local authority accounting and audit framework. This framework is further complicated by the fact that different elements apply to different sectors. The elements of the audit framework undertaken by the C&AG, FRC and the ICAEW apply jointly to the local authorities and NHS bodies in England. However, whereas PSAA is the appointing body for 98% of local authority audits, NHS bodies do not have an appointing body and as such appoint their own auditors. By comparison the accounting framework applies to local authorities in England, Scotland, Wales and Northern Ireland, but not to the NHS.

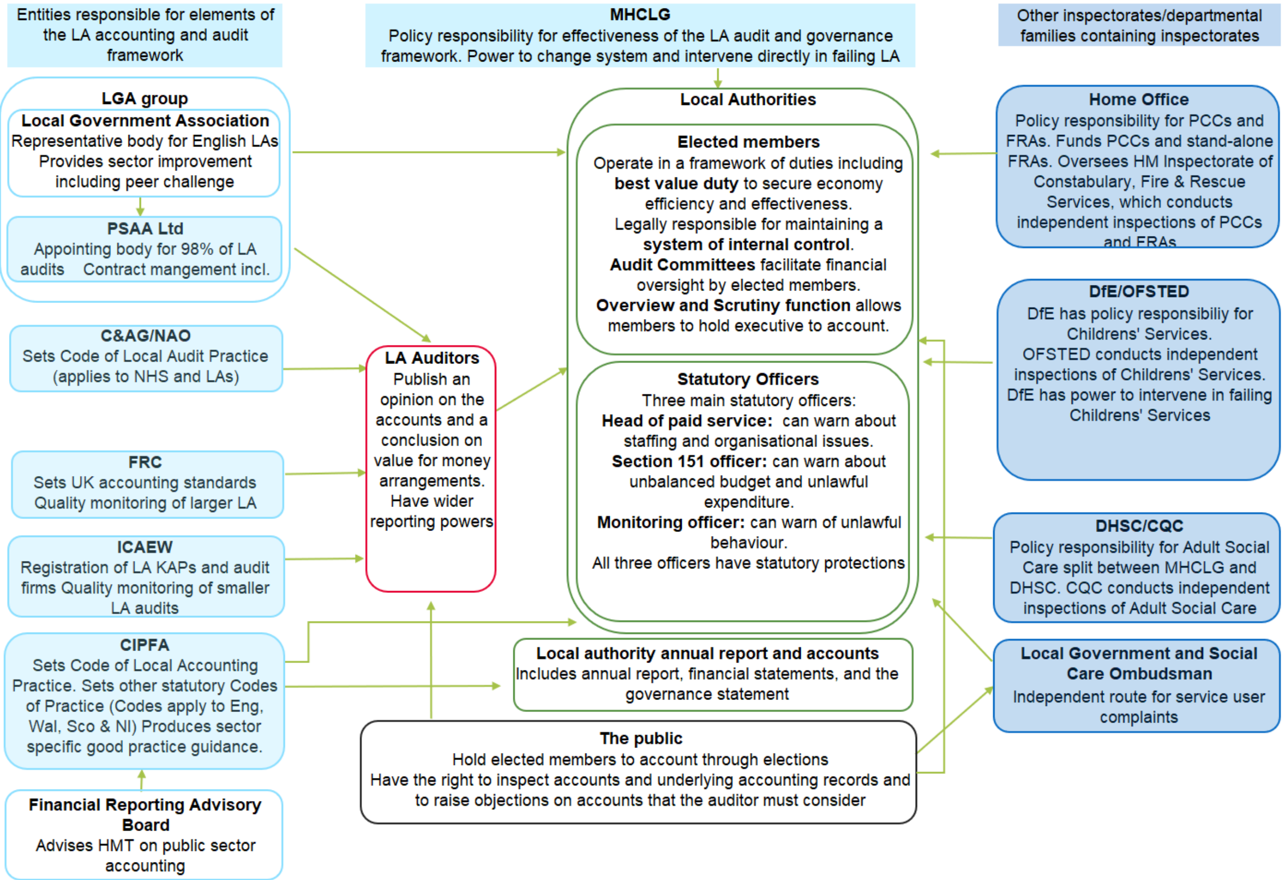
2.2.3 Another challenge is that the local authority sector is not the main focus for some of the regulatory bodies; specifically:

- The C&AG and National Audit Office's (NAO's) responsibilities relate mainly to holding central government departments to account on behalf of Parliament.
- The vast majority of the FRC's and the ICAEW's work relates to the private sector, and in the FRC's case, to regulating the audit and corporate governance arrangements within listed companies known as Public Interest Entities ("PIEs").

2.2.4 Finally, none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner. Although various ad hoc forums have been set up to share information, it is not clear how the membership and remit of these has been agreed. As a result, the lack of co-ordination and the lack of a system leader is widely recognised as a weakness in the framework by most of the stakeholder groups.

Figure 2.1

The Local Authority Governance, Audit and Accounting Framework 2018-19



Notes

1. Adapted from Figure 1 in NAO report *Local Authority Governance* (Jan 2019)
2. There are other statutory officers in local authorities, but between them, the three listed have overall responsibility for effective goverance
3. Arrows show the influences on local authority governance arrangements
4. In a Police and Crime Commissioner or Fire and Rescue Authority, the Commissioner is the sole elected member; in a Mayoral Combined Authority, the mayor is the sole
5. Audit Committees are mandatory in PCCs, stand-alone FRAs and mayoral combined authorities. They are not mandatory for other LAs.
6. ICAS also has the power to act as a registering body for KAPs and audit firms. However, following mergers, no firms active in England are currently registered with ICAS.
7. MHCLG part funds the LGA's sector improvement work

2.3 Functions of the bodies responsible for the framework

PSAA Ltd

2.3.1 One of the original objectives behind the 2014 Act was to widen participation in the local audit market by allowing local authorities to appoint their own auditors. Once the Act had passed, it became clear that the auditor appointment provisions in the 2014 Act were onerous and there was little appetite amongst local authorities to appoint their own auditors. As a result, MHCLG ran a tender exercise to identify an entity which would act as an appointing person for local authority audits.

2.3.2 PSAA, a new company set up by the Local Government Association (LGA), was the only bidder and accordingly was designated as an appointing person under legislation. Under the transitional arrangements, PSAA was given the responsibility of managing the framework contracts let by the Audit Commission in 2012 and 2014, and during the period to 2017-18 producing a report summarising the results of local authority and NHS audits.

2.3.3 Category 1 Authorities[1] were given the choice of opting in or out of the PSAA arrangements. Most (currently 98%) chose to opt in.

2.3.4 In 2017 PSAA let the new local audit framework contracts, active from the 2018-19 financial year. PSAA's current responsibilities[2] are:

- To perform the functions of an appointing person for local authority audits;
- To take steps to ensure that public money is properly accounted for and protected;
- To oversee the delivery of consistent high quality and effective audit services; and
- To ensure effective management of audit contracts.

More detail on the contracting process and on audit quality is contained in **Chapters 3 and 4** respectively.

The C&AG and the NAO

2.3.5 The C&AG is responsible for laying the Code of Local Audit Practice in Parliament. The C&AG is supported in this work by a small Local Audit Code and Guidance (LACG) team, which is part of the NAO. The LACG team is responsible for the preparation, maintenance and publication of the C&AG's Code of Audit Practice and supporting guidance to auditors. LACG undertakes the full range of activities associated with these responsibilities including:

- providing a point of contact to address significant issues raised by auditors and other stakeholders that may require the update of the Code of Audit Practice or issuing guidance to auditors; and
- facilitating timely engagement with, and advice to, auditors and other stakeholders to facilitate consistency of approach on significant issues – for example, through convening and providing secretariat support to a Local Auditors Advisory Group.

2.3.6 The 2014 Act provides the C&AG with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. The NAO maintains a series of Auditor Guidance Notes (AGNs) to support auditors in their work and facilitate consistency of approach between auditors of the same types of entity. The 2015 Code is supplemented by seven AGNs. These apply equally across local government and the NHS. The AGN on value for money arrangements is supplemented by sector specific supporting information.

2.3.7 The 2014 Act gives the C&AG the responsibility for undertaking value for money investigations on local government. However, the C&AG does not have the power to make recommendations directly to local authorities. This means that when a value for money study finds that one or more local authorities have breached either the letter or the spirit of the statutory framework, the accompanying recommendations must be addressed to MHCLG or Treasury, if they relate to the Public Works Loan Board, as the responsible central government departments.

[1] "Category 1 authority" means a relevant authority that either— (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

2.3.8 The main roles of the C&AG and the NAO are to support Parliament in holding government to account, through auditing the accounts of government departments and arms-length bodies and undertaking value for money investigations. When the NAO undertook the 2019 study on Local Authority Governance, which included work on local authority audit, the team did not include the Audit Code within the scope of the review. This was to avoid the risk of self-review. As a result, the findings of that report could not take account of an element of the governance framework.

The Financial Reporting Council

2.3.9 The FRC is responsible for issuing standards and guidance to auditors for use in the UK. The suite of standards is known as *International Standards on Auditing (UK)*, and apply equally to audits of local authorities and entities in other sectors.

2.3.10 During the transitional arrangements operating from 2015-16 to 2017-18, the FRC had no formal responsibility for assessing the quality of local authority audit. PSAA took the decision to contract the FRC to undertake six quality assurance reviews of local authority audits, with coverage of at least one from each firm. In practice, the FRC conducted quality assurance reviews of seven audits in both 2016-17 and in 2017-18. This is because the FRC's methodology requires them to re-review all audits that received an unsatisfactory quality assurance review score in the prior year. The results of these quality reviews are discussed in **Chapter 4**.

2.3.11 From 2018-19, the FRC has taken on statutory responsibility for quality assurance reviews of the 230 larger local authority audits. It treats the NHS and local government bodies as a single population and, to maintain equivalence with their coverage of the audit of PIEs, look to cover at least 5% of that population in each year. For 2018-19, the sample included 3 NHS bodies and 12 local authorities. Because some of the audits originally selected for quality review were not complete when the FRCs Audit Quality Review team conducted its fieldwork, these had to be replaced with other audits. The results of the 2018-19 quality assurance reviews are expected to be available in the Autumn of 2020.

2.3.12 The methodology adopted for quality assuring audits in local authority sector is broadly equivalent to that of the Public Interest Entities sector. The review team focuses on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The document review is supplemented by meetings with the audit team and the Chair of the Audit Committee.

2.3.13 Formal client communications are included within the scope of the quality review. However, ongoing liaison between auditors and local authorities would be assessed only if included on the audit file.

2.3.14 Unlike for PIE audits, the FRC does not have the power to fine audit firms if the quality of their local authority audits proves to be deficient. However, all of the firms active in the market indicated that they are very conscious of the reputational damage of a poor rating from the FRC for one of their local authority audits.

2.3.15 FRC is of the view that the perception that it focuses mainly on asset valuations understates the scope of their quality reviews. It also believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of the partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) known as CIPFA/LASAAC to resolve, through modifications to the Accounting Code.

2.3.16 The FRC is in the process of being reconstituted as the Audit Reporting and Governance Authority (ARGA) in line with the recommendations made in the Kingman Review. Sir Donald Brydon also recently published a report that made a number of recommendations to develop corporate auditing as a profession. As the FRC and the Department for Business, Energy & Industrial Strategy (BEIS) consider these recommendations, there is a risk of divergence between the focus and methodologies used to quality assure external audit engagements. Managing this interaction will require ongoing engagement.

ICAEW

2.3.17 The ICAEW has two statutory functions. Since 2015 it has been responsible for maintaining the register of audit firms and Key Audit Partners (KAP) authorised to sign off local authority audits; and since 2018-19 it has been responsible for quality assurance reviews of the 313 smaller local authority audits. The framework for approving firms and partners is tightly controlled by legislation.

2.3.18 Like the FRC, the ICAEW treats local authorities and NHS bodies as a single population for quality assurance review purposes. The 2018-19 quality assurance process is ongoing. ICAEW has selected 15 audits for quality assurance review, split roughly two thirds local government and one third health. The results of this quality assurance review process are not yet available.

2.3.19 Similarly to the FRC, the ICAEW quality assurance reviews focus on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The methodology used to assess the audits of English local authorities is the same as is used to assess audits undertaken by the Auditor General for Wales. This methodology does not require review teams to meet with Audit Committee chairs. As with the FRC, the ICAEW does not have any powers to fine or otherwise sanction auditors whose audits do not meet appropriate quality standards.

2.3.20 ICAEW and the FRC liaise to make sure that all audits fall within one or other of their sample populations and use, broadly, the same quality ratings. Both use well established methodologies to arrive at those ratings.

CIPFA

2.3.21 CIPFA has a dual role. It has been given the statutory responsibility for producing many of the finance related codes of practice that local authorities are required to observe. At the same time, it is a professional institute that represents the majority of accountants working in the local government sector, including most CFOs.

2.3.22 The Accounting Code is prepared by a small secretariat employed by CIPFA who report to the CIPFA/LASAAC Accounting Code Board ("CIPFA/LASAAC"). CIPFA/LASAAC is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom. Its membership primarily comprises accounts preparers representing the different types of authorities in England, Scotland, Wales and Northern Ireland, the Supreme Audit Institutions, and a representative of one of the external audit firms active in the sector in England. The FRC along with representatives of MHCLG and the Scottish, Welsh and Northern Irish governments have observer status on CIPFA/LASAAC.

2.3.23 In England CIPFA/LASAAC is supported by a CIPFA facilitated Local Authority Accounting Panel, which focuses on local government accounting and financial reporting issues and produces guidance for practitioners.

2.3.24 The Accounting Code could be characterised as long and complex. Part of the reason for this is the challenge of writing a Code that covers four countries, each of which has its individual statutory framework with a different set of statutory adjustments and disclosures. In addition to this, CIPFA has taken the decision to draft a highly prescriptive Code that provides detailed guidance on the correct accounting for each class of transactions. An alternative approach would be to draft a principles-based Code, which requires local authorities to comply with generally accepted accounting practice ("GAAP") and only provides detailed guidance where GAAP is adapted or interpreted, specifically for the local authority context. **Chapter 7** covers the accounting framework in more detail.

Assessment of whether an existing body could act as the system leader

2.3.25 The detailed analysis of the bodies responsible for the framework supports the conclusion reached in Sir John Kingman's Independent Review of the Financial Reporting Council:

"*The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks*"[2]

2.3.26 The Kingman Review recommended that the fragmented structure be resolved by designating a single body as the system leader. When asked whether an existing body or a new body would be best placed to take on the role of a system leader, 82% of respondents expressed a preference for a single regulatory body. Many stakeholders who were interviewed also agreed. The other suggestions made were either that the C&AG or the FRC should take the role of system leader.

2.3.27 The C&AG clearly has the relevant experience and expertise to take on such a role. However, taking on responsibility for an element of a framework that is the policy responsibility of a government department could significantly increase the risk of a conflict of interest with the C&AG's main responsibility, which, as already stated, is to hold government departments to account on behalf of Parliament.

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

2.3.28 As the regulator for the audit profession in the UK, the FRC will continue to have an important role in setting standards for all external auditors, including those working in local public audit. However, the FRC's main focus is corporate sector external audit, and to be fully effective the system leader for local public audit will need to demonstrate detailed expertise and a clear focus on that sector.

2.4 Interactions with other inspectorates

2.4.1 There are a number of other inspectorates who cover the local authority sector. Ofsted and the CQC assess the effectiveness of children's services and adult social care respectively in authorities with those statutory responsibilities; HM Inspectorate of the Constabulary and Fire and Rescue Services (HMICFRS) undertakes independent inspections of PCCs and FRAs covering both service delivery and financial planning; the Local Government and Social Care Ombudsman (LGSCO) looks at individual complaints against councils, all adult social care providers in both public and private sector, FRAs, and some other organisations providing local public services; and the Independent Office for Police Conduct performs the same function for PCCs.

2.4.2 Evidence suggests that where a local authority receives an "Inadequate" rating for its children's services, the auditor as a general rule qualifies the value for money conclusion. For example; when PSAA published its summary report on the results of 2017-18 audit work, it listed 32 qualified Value for Money (VfM) opinions; half of these were due to an "inadequate" Ofsted rating[3]. The auditor's value for money conclusion remains qualified until a future Ofsted inspection finds that children's services are no longer "Inadequate". Local authorities questioned the benefits of including Ofsted judgements in the audit report. The circumstances supporting an "inadequate" Ofsted rating are fully explained in a detailed and publicly available report. In the light of this there is a question as to how qualifying the VfM opinion solely for this reason fully reflects the governance arrangements within the authority that could be brought to the attention of elected representatives and other key stakeholders. When asked whether a value for money opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate, 97% of respondents thought that it should not. There is no evidence of reports by other inspectorates leading to modifications to the auditor's opinion.

2.4.3 We have been told by external audit firms and local authorities that external auditors utilise inspectorate reports on a case by case basis. There is little evidence of any additional dialogue between external audit and other inspectorates to discuss inspectorate reports or take into consideration any improvements that a local authority may have made since an inspectorate rating had been issued. This is a change from practice since prior to 2015, where external auditors and inspectorates liaised much more frequently. Whilst external audit firms were broadly in agreement that there should be engagement with inspectorates, many felt that the current arrangements were sufficient.

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[3] Report on the results of auditor's work (Oct 2018) – list of qualified opinions will not include LAs where the 2017-18 audit was concluded after the PSAA report was published.

2.4.4 Whilst recognising that each inspectorate focuses on a different area, there is a question as to whether more liaison may add value. Many examples of service delivery and financial failures are underpinned by weaknesses in governance and senior leadership. Given this, it may be valuable for the auditor or an inspector that has concerns, to find out if those concerns are reflected in other areas of a local authority's business or indicative of wider financial resilience issues.

2.5 The role of MHCLG

2.5.1 The Ministry of Housing, Communities and Local Government (MCHLG) has a statutory role in regulating and monitoring the financing and service delivery of local government. The Accounting Officer within the Department has responsibility for overall expenditure control within local authorities given the funding regime under which the sector operates. In addition, he has policy responsibility for the effective operation of the local authority audit and accounting framework.

2.5.2 Support to the Accounting Officer in fulfilling these responsibilities is split between two directorates:

- Local Government Finance; and
- Local Government and Communities (formerly Local Government Policy)

Local Government Finance

2.5.3 This Directorate covers payments to local authorities through the grant system, has responsibility for business rates and council tax policy, oversees borrowing, capital and fiscal arrangements and is responsible for assessing the financial sustainability of local government. When a local authority experiences financial difficulty, it is the Local Government Finance Directorate that usually leads the government response. It also provides the MHCLG representation on CIPFA's accounting panels.

Local Government and Communities

2.5.4 This Directorate has overall responsibility for MHCLG's local government assurance framework as set out in the Accounting Officer's system statement. Regular advice is given to the Accounting Officer on whether the framework for which he is responsible is operating effectively.

2.5.5 The directorate includes a team that maintains a view of local authorities where concerns exist about financial resilience, service delivery or officer/member conduct issues. In appropriate circumstances this may lead to statutory interventions into local authorities or, alternatively, statutory support. Qualified audit opinions are considered a part of this view.

2.5.6 Another team has responsibility for the local audit policy framework, the 2014 Act and the Accounts and Regulations 2015, managing relationships with PSAA, SAAA, NAO, ICAEW, Institute of Chartered Accountants of Scotland (ICAS) and FRC insofar as their activities relate to the local audit framework and logging Public Interest Reports.

2.5.7 In 2014 the team responsible for local audit set up a Local Audit Delivery Board to support implementation of the 2014 Act. In 2018, it became the Local Audit Monitoring

Board, with revised terms of reference and expanded membership. The Board comprises representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the framework. This Board is a consultative body, that holds meetings in private and has no formal powers or remit.

2.5.8 In viewing these roles from a local authority perspective, it is clear that MHCLG provides a national oversight of the financing of local government, capital and revenue spending, accounting arrangements and financial resilience. This work is substantial and seeks to offer assurance regarding the financial stability of individual local authorities and it includes, within its brief, responsibility for testing adherence to legislation and regulations governing local audit.

2.5.9 The responsibility for regulating local audit sits elsewhere yet MHCLG has a key role in offering assurance about the financial health of local authorities. The intelligence network and information flow relating to accounting and audit reporting on financial sustainability should reach MHCLG in a structured, timely and coordinated fashion. Given the strategic roles that the Department and The Accounting Officer carry it is crucial that systems and procedures are in place to enable this to happen. Clarity, coherence and consistency in fulfilling the Department's role are key to helping to ensure effective local audit.

3. Procurement of local audit

3.1 Statutory framework and eligibility criteria

3.1.1 In order to bid for a local authority audit, both audit firms and every individual responsible for signing off an audit opinion, typically but not always a KAP, needs to be pre-approved either by ICAEW or ICAS. Eligibility criteria are set out in Schedule 5 to the 2014 Act. These criteria stipulate that it is impossible to bid for local authority audits unless both the firm and each nominated KAP has recent experience of undertaking local authority audits. It is difficult for new entrants to enter the local authority market as a consequence of these criteria as audit firms not currently in the market are unable to gain the relative knowledge and expertise that would be required to become a KAP.

3.1.2 Despite the high barriers to entry, since 2016 there has been a 7% increase in the number of KAPs eligible to sign off local authority Audits. Firms active in the market continue to register new KAPs. 39% of KAPs currently registered were not KAPs in 2016, with the firms with a smaller market share being responsible for much of this increase. However, the headline KAP figure is slightly misleading. The number of KAPs has declined by 13% once those who are working for firms who do not currently hold contracts with PSAA are excluded.

Figure 3.1

Number of Key Audit Partners registered with ICAEW

Firm	2016	2020
BDO	5	7
EY	13	16
GT	32	26
Mazars	4	10
KPMG	22	23
Deloitte	6	8
Total KAPs (Firms holding contracts with PSAA)	76*	67*
Cardens	0	1
Moore Stephens	2	0
PWC	12	9
Scott-Moncrieff	0	3
Total KAPs	96	103

** Deloitte did not hold any PSAA contracts in 2016. KMPG does not currently hold any PSAA contracts.*

3.1.3 There is a risk that the Competition and Markets Authority: Statutory Audit Services Market Study[4] recommendation to implement an operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality will further reduce the number of KAPs qualified to sign off local authority audits. KAPs may be responsible for a mixture of external audit, internal audit and consultancy engagements. If required to choose between specialisms, there is, of course, no guarantee that they will opt for external audit.

[4] See Annex 5 for a more detailed analysis of the potential impacts of the CMA, Kingman and Brydon recommendations for local audit.

3.2 The 2017 procurement process

3.2.1 As detailed in **Chapter 2**, PSAA took over the administration of the bulk audit contracts let by the Audit Commission in 2014. These ran from 2015-16 to 2017-18. They comprised five lots let on a regional basis. In 2017 PSAA ran a new procurement to contract for local authority audits for the period 2018-19 to 2022-23.

3.2.2 PSAA chose to split lots by market share rather than on a regional basis. The reason for this was a concern that some regions could prove less popular with bidders than others. They also checked for potential conflicts of interest. Five lots comprising between 40% and 5% of the total market were let, each for a period of five years. No firm could win more than one lot. A sixth lot with no guaranteed work was let, with the aim of providing some resilience in the market.

3.2.3 Local authorities were notified of the lot to which they had been allocated and were given the opportunity to request transfer to a different lot; for example, if they were in a shared service arrangement with an authority in a different lot. Seven local authorities asked for their audit to be transferred to a different lot. Five of these requests were accepted.

3.2.4 Of the nine firms registered to undertake local authority audits seven bid for one or more lots. One firm decided not to bid and a second was excluded from the bidding process by PSAA because it felt the firm was too small to have a realistic chance of submitting a competitive bid.

3.2.5 Assessment of audit firms was split 50:50 between price and quality, compared to the final Audit Commission procurement which was done on a price quality ratio of 60:40. The team assessing quality scores was not given sight of the price each firm had bid. In addition, PSAA asked an ex-District Auditor working for the LGA to quality assure the assessors' quality scores. The assessment of quality was based solely on the tender documents submitted. Past performance was not considered.

3.2.6 One of the firms bid at a much higher price point than the other firms. This generated such a low "price" score that it was effectively impossible for its quality score to make up sufficient difference to win a lot.

3.2.7 Although the headline quality price ratio was 50:50, as highlighted in **Figure 3.2**, many of the questions included in the quality score do not directly relate to factors impacting audit quality.

3.2.8 Four firms bid for the largest two lots (including the firm who priced themselves out of the market); and six for the remaining four lots. Each successful firm was eliminated from consideration for each smaller lot, leaving only two firms from which to choose when awarding Lot 5.

3.2.9 After excluding the firm that priced itself out of the market, the firms awarded the five contracts were those with the highest quality scores. The firm with the highest quality score won the largest lot; the second highest quality score the second highest lot; and there was a marginal difference between the quality scores for the other successful firms.

Figure 3.2: Audit Quality Questions – PSAA tender document

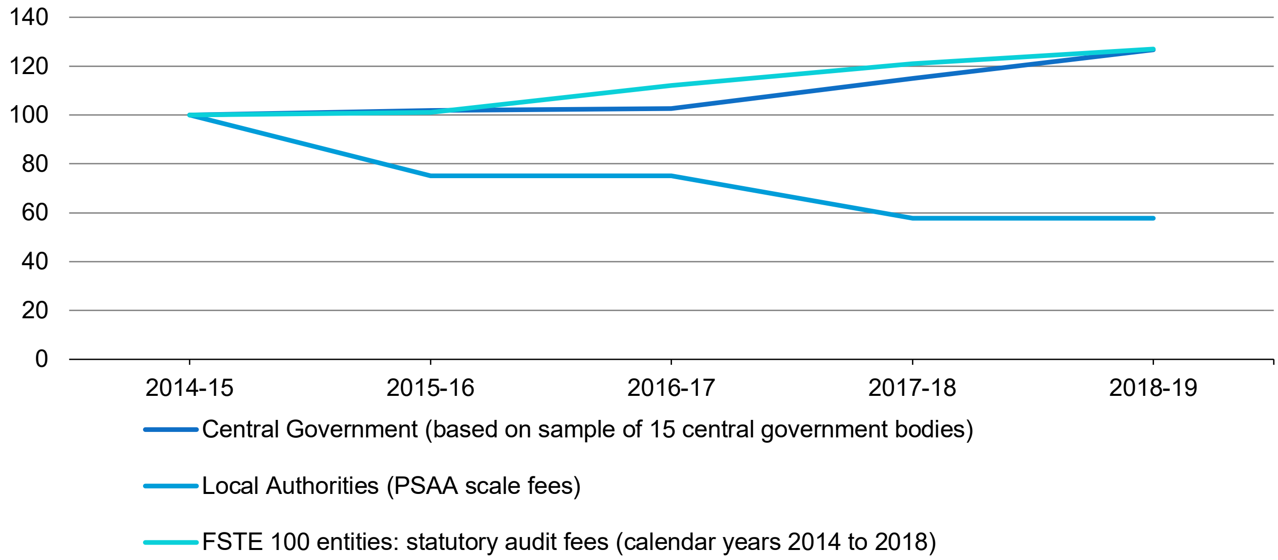
Question number	Question	Weighting	Maximum weighted score
1.1 and 1.2	Confirmation of information in SQ Response; and other declarations; Guarantee (if applicable) and completed, unqualified Form of Tender	N/A	N/A
2.1	Identifying and addressing risks and issues and engaging with different stakeholders	0.5	5
2.2	Continuing professional development	0.2	2
3.1	Providing a clearly articulated audit plan to address the risks identified, and arrangements for carrying out the planned work effectively	1	10
3.2	Information assurance	N/A	N/A
4.1	Quality assurance arrangements to ensure that local audits are undertaken to a consistently high standard	0.6	6
5.1	Schedule of staff	N/A	N/A
5.2	Details of resourcing	0.5	5
5.3	Details and role of Contact Partner	0.3	3
6.1	Selection of a team to work on an individual audit	0.5	5
6.2	Arrangements for discharging statutory reporting responsibilities under the Local Audit and Accountability Act 2014, managing authority and public expectations	0.4	4
7.1	Arrangements to ensure a smooth transition for audits of local government bodies transferring between audit firms	0.5	5
8.1	Opportunities to be commenced and completed	0.3	3
8.2	Other economic, social and environmental initiatives to be undertaken	0.2	2
Overall quality score			50
Price	Ranking of Bid Rate %	1	50%
Overall score (quality and price combined)			

Questions 2.1, 3.1 and 4.1 are direct indicators of quality.

3.2.10 Lot six was designed to provide spare capacity in the market. However, this has not worked as intended, in part because mergers mean that the firm that won Lot 6 no longer exists.

3.2.11 As demonstrated by **Figure 3.3**, audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen. As well as the overall external audit fee paid by the sector declining in cash terms it has also dropped as a percentage of net current expenditure of local authorities, from 0.05% in 2014-15 to 0.04% in 2018-19. Within the sector there are further variations with PCCs and Local Authority Pension Funds typically paying much lower audit fees as a percentage of net expenditure than other types of local authorities.

Figure 3.3
Sector by sector comparison of change in audit fees over time



Notes

1 2014/15 base 100

3.3 Translating bids into audit fees paid by LAs

3.3.1 PSAA told the Review that the scale fee paid by individual LAs under the current contracts has been calculated by taking the total annual fee paid to external auditors under the contract and adding PSAA's margin; comparing the total amount paid to the total amount paid under the 2014 contracting process; and applying the percentage reduction in total amount paid equally across all local authority audits.

3.3.2 The Audit Commission adopted the same approach for allocating fees to individual local authorities when it let the 2012 and 2014 contracts. This means that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.

3.3.3 Since 2010, there have been changes to the major powers and duties of local authorities and to the business environment within which they operate. Individual local authorities will have been impacted by these changes to differing extents. As a result, there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

3.3.4 88% of local authorities who responded to the Call for Views think that the current procurement process does not drive the right balance between cost reduction, quality of work, volume of external auditors and mix of staff undertaking the work.

3.3.5 Audit fees for those local authorities who have opted out of the PSAA arrangements have changed in a way similar to fees for those who have opted in.

3.4 Fee variations and contract management

3.4.1 When an auditor requests a fee variation, this must be agreed by PSAA[5]. In practice, PSAA may challenge fee variations by asking for more information from the firm but expects the auditor and the local authority to come to an agreement as to the additional fee to be paid. PSAA records and monitors this activity. It may also facilitate a conversation between the auditor and local authority in the case of disagreement.

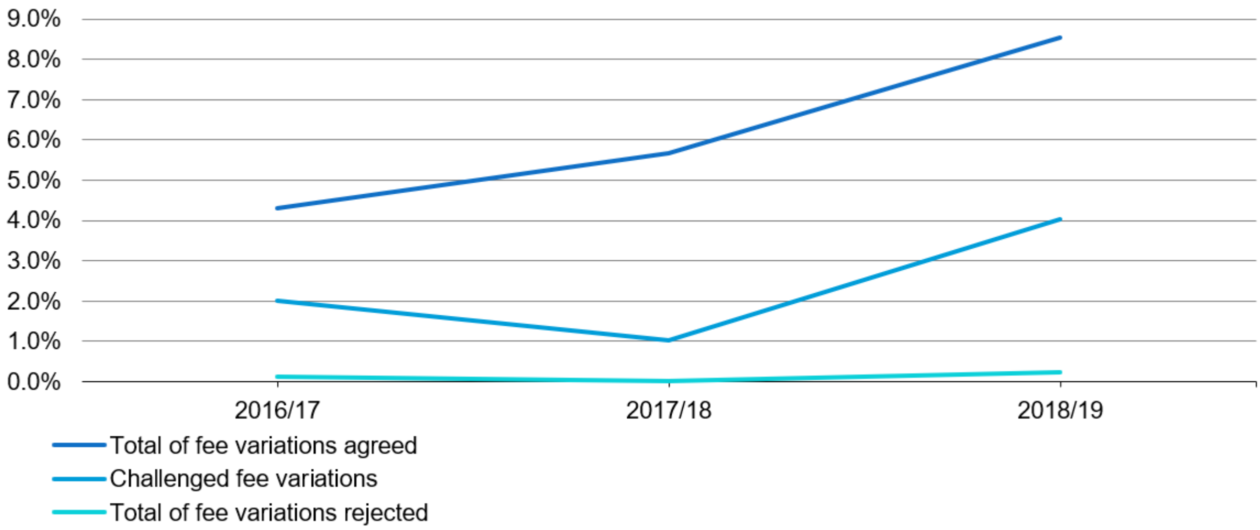
3.4.2 As demonstrated by **Figure 3.4** the number and size of fee variation requests have increased over time. Fee variation requests are often received some months after audits are completed, which means it is difficult to assess the true level of fees paid by the sector. As delayed audits are more likely to generate issues that require more work and thereby attract fee variations, and some firms are not always prompt in submitting fee variations, there are likely to be some requests outstanding relating to 2017-18 and 2018-19 audits.

3.4.3 Audit firms consider the fee variation process to be unsatisfactory. They have raised concerns that the scope to claim fee variations is not sufficient to meet their costs. Increasing the scale fee, to reflect changes in regulatory requirements is for practical purposes not possible under the current arrangements.

3.4.4 The majority of local authorities' representatives who offered a view on fee variations also considered them to be unsatisfactory. A concern, which has been raised by a not insignificant number of authorities, is the fact that fee variation requests are not always supported by any evidence of additional work done. Some local authorities passed examples to the Review of auditors, representing more than one audit firm, refusing to provide evidence to support a requested fee variation.

Figure 3.4

Fee variations as a percentage of total scale fees



Notes

1 Transitional arrangements in 2016-17 & 2017-18, PSAA contract in 2018-19.

2 Some fee variation requests for 2018-19 audits still to be received and agreed.

[5] https://www.psaa.co.uk/wp-content/uploads/2019/12/PSAA-fee-variation-process.pdf

3.4.5 Some local authorities questioned why they have been asked to join a call with a significant number of a firm's technical experts, most of whom do not contribute to the discussion, when they need to resolve technical accounting issues. They have questioned whether the costs of these calls are factored into later fee variation requests.

3.4.6 Fee variations can be submitted at any time which increases uncertainty for local authorities. In addition, some local authorities have claimed that they were led to believe by their auditors that they would refuse to sign off their accounts until they agreed a fee variation.

3.4.7 Finally, some authorities have also claimed that they are being asked to fund the costs of additional audit fieldwork because auditors have not resourced the planned audit visit properly and as a result, need to conduct additional audit testing. It has not been possible to assess whether this is happening or how widespread is the practice.

3.4.8 For the 2019-20 audit cycle, PSAA has taken steps to manage fee variations more proactively. Rather than wait for fee variations to be submitted, PSAA has asked all of the firms active in the market to estimate the additional fee required to ensure that their audit work and audit files meet current quality standards. Four of the firms have suggested that an increase of between 15% to 25% on the scale fee is required with the fifth firm requesting an increase of 100% on the scale fee. PSAA informed local authorities that it expects audit firms to provide fee variation information at the earliest possible opportunity, and that PSAA has emphasised this to the firms in its recent auditor communications. PSAA is currently in the process of reviewing how each firm's standard audit testing programmes have changed over the past three audit cycles to identify whether the increases requested are justified. PSAA will use this work to enable it to provide reassurance to audited bodies that extra work has been validated.

3.4.9 Some local authorities have suggested that PSAA has an incentive to approve fee variations as they are funded through making a margin on audit fees. This is not correct. Because PSAA calculates its margin on a total system cost, it is not possible for local authorities to calculate how much of each audit fee or fee variation is due to PSAA. However, as a not for profit company, PSAA has no incentive to claim more funding than it is entitled to. The company's Articles of Association requires PSAA to return surpluses to the sector. In late 2019, under the transitional arrangement, a distribution of the surplus funds of £3,500,000 (9.3% of the 17-18 scale fee £37.6m) was approved by the Board to be returned to the sector, apportioned between local authorities on a scale fee basis. This might be interpreted as an effective transfer of funds from LAs charged fee variations to those who have not been charged variations.

3.4.10 Some LAs have stated through interviews, that PSAA's role is opaque and that they feel that they have no route to challenge audit fees that they feel are unfair or to raise concerns relating to poor quality or delayed audits. The contract provides no mechanism for individual LAs to complain about the service they receive from their auditors.

3.4.11 PSAA states that its role as defined under statute does not include active contract management and it does not currently have the expertise to do so. However, in the *Local Audit (Appointing Person) Regulations 2015* the additional functions of appointing person include requirements to:

"monitor compliance by a local auditor against the contractual obligations in an audit contract… [and] resolve disputes or complaints from— (aa)local auditors, opted in authorities and local government electors relating to audit contracts and the carrying out of audit work by auditors it has appointed."[6]

3.4.12 During the transitional period implementing the new arrangements (2015-16 to 2017-18), there was a Memorandum of Understanding (MoU) between MHCLG and PSAA, which required PSAA to fulfil its statutory functions. When the MoU expired MHCLG did not renew it.

[6] https://www.legislation.gov.uk/ukdsi/2015/9780111126134

4. Audit performance

4.1 Introduction to local authority audit

4.1.1 Auditors of local authorities provide two audit opinions. These are:

- A financial audit opinion; and
- An opinion on the effectiveness of the systems in place to meet the best value duty (known as the 'value for money' opinion).

Scope of financial audit opinion

4.1.2 The purpose of a financial audit is to form an opinion on a set of financial statements. Financial audits are required to be conducted in accordance with International Standards on Auditing – UK (ISAs). The auditor is required to certify whether the financial statements are free from *material* misstatement and are properly prepared in accordance with the relevant accounting and legislative framework. For local authorities, the relevant accounting framework is the Code of Accounting Practice prepared by CIPFA.

4.1.3 In a local authority context, the audit opinion covers the financial statements, the Collection Fund Account and the Housing Revenue Account. It does not cover the narrative statement or annual governance statement. These are covered by what is known as a 'negative assurance' or 'consistent with' opinion. The auditor is required to read these statements to confirm that there is nothing inconsistent or misleading based on what is reported in the accounts and their understanding of the business. If these statements contain information which is misleading or inconsistent, auditors should insist that the relevant sections are appropriately reworded or removed. If not, no further work is required.

4.1.4 Materiality is a key concept in financial audits. Errors or misstatements are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of the financial statements. Auditors are not required to take account of individual users, but do need to assess them as a group.

4.1.5 Auditors do not test every transaction supporting a set of financial statements. Instead they split the financial statements into groups of transactions with similar characteristics and assess the risks of material misstatement for each. The amount and types of audit testing for each of these areas is informed by this risk assessment.

4.1.6 It therefore follows that the key factors in delivering a quality audit are understanding the needs of the users of the accounts; and undertaking an effective risk assessment informed by a proper awareness of the business.

Scope of value for money opinion

4.1.7 The framework for the value for money opinion is set out in the NAO's Statutory Code of Audit Practice, published in April 2015.[7] ISAs do not apply to VfM audits.

[7] https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

4.1.8 The 2015 Audit Code requires auditors to:
"undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period."

4.1.9 The Audit Code goes on to say:
"Ultimately, it is a matter for the auditor's judgement on the extent of work necessary to support their conclusion on value-for-money arrangements".

4.1.10 The Audit Code requires documentation of the overall conclusion, consideration of risk and of the planned response and work done to address significant risks. If there are no significant risks, the Code does not explicitly require documentation of work done.

Changes introduced by the 2020 Code of Audit Practice

4.1.11 In 2020, the C&AG published a new Code of Local Audit Practice. This is effective from the 2020-21 financial year. The main changes made are in respect of the value for money opinion and supporting work and have been broadly welcomed by auditors and those local authorities who have so far expressed a view.

4.1.12 The binary audit opinion on whether appropriate arrangements are in place has been replaced by a commentary on:

- *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.*

In addition, the updated Code will explicitly require auditors to document clearly the work that they have done to support their findings.

4.1.13 The consultation on the supplementary statutory guidance issued by the NAO to support the new Code closed on 2 September 2020. Once this guidance is finalised auditors will need to consider the factors including the following:

- whether a revised risk assessment is required;
- how to design an approach that moves away from obtaining evidence to support a binary audit opinion, to one that generates information to support a commentary on the arrangements in place.
- whether additional or different types of audit testing will be required, and how to structure and produce the new narrative reports.

Other statutory duties and powers

4.1.14 In addition, auditors of local authorities have other statutory powers and duties. These are:

- The power to issue a Public Interest Report at any time;
- The power to issue statutory recommendations to management, copied to the Secretary of State;
- The power to issue an advisory notice setting out potential illegal expenditure;
- The power to apply to the Courts to have unlawful expenditure disallowed;
- The duty to consider qualifying whistleblowing disclosures; and
- The duty to respond to objections raised by electors or other relevant persons.

The Audit Code includes guidance on the scenarios that might give rise to use of these powers and duties. Use of the powers along with the work required to support reports, recommendations and responses to objections is a matter of judgement.

4.2 Defining audit quality

4.2.1 Audit quality is a key determinant of audit performance and this must be seen, not only as a measure against agreed standards and principles, but also whether the output of an audit is seen to meet the legitimate expectations of council taxpayers and other users of accounts.

4.2.2 Financial audit is fundamental to these requirements to give assurance to the reader that the accounts are properly prepared and fairly reflect the council's financial position and use of resources.

4.2.3 Value for money audit should be designed to provide the reader with assurance that the systems in place for use of resources in an effective and efficient way are adequate and appropriate, and that the local authority plans will deliver financial resilience in the immediate and medium term.

4.2.4 The effectiveness of audit also depends on the usefulness, impact and timeliness of auditor reporting. Consideration of Public Interest Reports and Statutory Recommendations is relevant here. Finally, the effectiveness of audit also depends on the Authority's response to audit recommendations. This is a wider definition than that currently used by regulators. Ultimately, regulators consider a local authority financial audit to be of acceptable quality if the audit opinion is supported by sufficient and appropriate evidence and if the work complies with auditing standards, relevant legislation and the Code of Audit Practice. As VfM audit is not covered by auditing standards, the regulators focus principally on whether the audit complies with the Code of Audit Practice.

4.2.5 Nevertheless, the effectiveness and usefulness of local audit has to be measured alongside the assessment of quality. The Review has considered the extent to which the auditors of local authorities:

- Meet the contract specification;
- Demonstrate sufficient understanding of the local authority environment through identification and testing of key financial audit and value for money risks;

- Deliver audits in a cost-effective way;
- Make balanced and considered recommendations; and
- Issue reports and make recommendations in timely fashion.

4.3 Assessing Audit Quality

Meeting the Contract Specification

4.3.1 The contract between PSAA and audit firms largely follows standard terms and conditions. It requires providers of audit services to deliver audits in accordance with statutory obligations and appropriate professional standards. These are discussed below.

4.3.2 The contract is supplemented with a Statement of Responsibilities published, on the PSAA website, which is intended to set out the engagement between PSAA and the appointed auditors. The contract requires audit firms to familiarise themselves with this statement. In accompanying text on their website, PSAA makes clear that the responsibilities of auditors are derived from statute, principally, the 2014 Act and from the NAO Code of Audit Practice and nothing in the Statement is meant to vary those responsibilities.

Demonstrating an understanding of the local authority environment

4.3.3 Feedback received from interviews with local authorities is that KAPs tend to be knowledgeable, skilled and experienced. However, the amount of time devoted to the audit has become more limited in recent years. Anecdotal evidence on the accessibility of KAPs varies. Local authorities largely stated that the senior partners were brought in to resolve significant issues, so were not often visible during the course of the audit. This matched many audit firms' comments that senior partners were brought in for the specific and more complex issues. Most local authorities commented that this was reasonable, and as expected, but some felt that it was difficult to secure input from their KAP on specific issues. Some local authorities commented that during 2018-19 audits, the visibility of both the audit team and KAP had declined somewhat compared to prior years.

4.3.4 As demonstrated by the responses in **Figure 4.1,** despite valuing KAPs, many local authorities had a negative opinion of the overall knowledge and expertise of their audit teams. The two areas of particular concern were:

- the knowledge and continuity of working level audit staff; and
- whether audit work always covered the most important areas of the accounts from a financial resilience and service user perspective.

4.3.5 There is a question as to whether external audit could make more use of the knowledge and expertise of internal audit in developing sufficient understanding of the local authority. It is usual for the external audit team to meet the Head of Internal Audit as part of the audit planning process, but it is unclear if liaison extends much beyond that. Internal auditors are likely to be much closer to the business than external audit and, in many authorities, a proportion of their work focuses on governance and service delivery matters. This could make internal audit a rich source of knowledge, should the external audit team wish to use it.

Knowledge, experience and continuity of audit staff

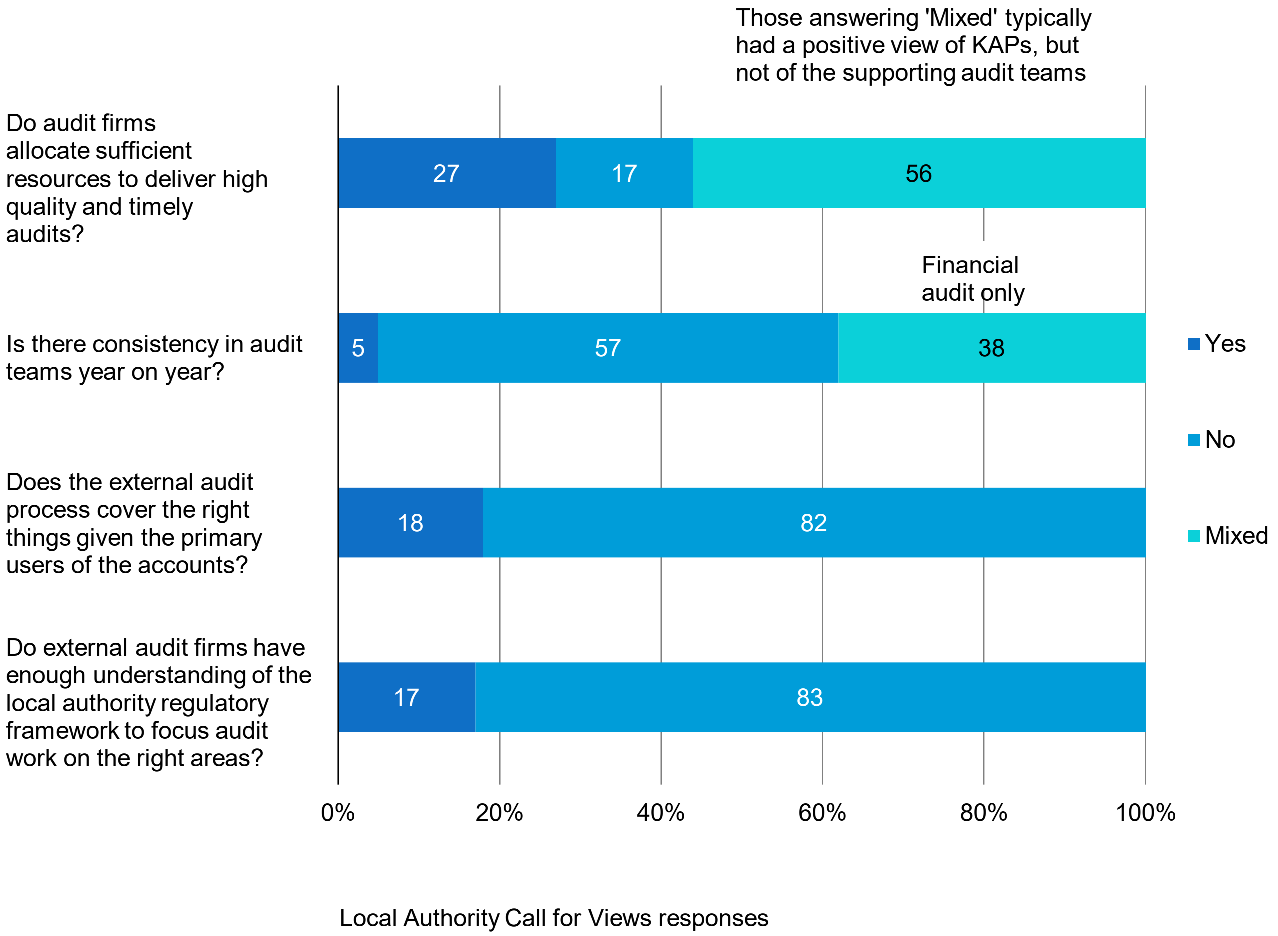
4.3.6 All audit firms active in the local audit market told the Review that they had expert technical teams who provided sector specific training to staff working on local authority audits. Nonetheless, many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit. Issues identified included:

- audit examiners not having a full understanding of how local authorities were funded and how this impacted the accounts;
- a lack of continuity from year to year, or in some cases from week to week, leading to a lack of client knowledge; and
- a lack of understanding of local authority specific financial statements such as the Collection Fund and Housing Revenue Account.

4.3.7 Local authorities also reported the use of audit examiners from other countries to help manage the local audit peak. This is not unique to audits in the local authority sector and can be advantageous as different countries will encounter different audit peaks. However, may local authorities whose audits are staffed in this way reported that such examiners processed very little training in respect of English local government.

Figure 4.1

Opinions on External Audit Quality



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4.3.8 Firms agreed that consistency in audit teams could sometimes be compromised by either the difficulty in attracting and retaining quality junior staff or the challenge to retain more experienced staff.

4.3.9 Underpinning the concerns about the quality and continuity of working level audit staff is a concern that there are not enough audit examiners with local authority expertise, and that this is an area in which accountancy trainees no longer wish to specialise.

4.3.10 This is a concern that has developed since 2015. Prior to 2012, the Audit Commission's in-house audit practice, District Audit (DA), was responsible for 70% of the local authority audit market. In its 2012 procurement the Audit Commission outsourced its audit practice. DA staff were TUPE'd[8] to the private sector firms who largely took over responsibility for auditing local authorities. This meant that there was then a plentiful supply of audit examiners with local authority experience. Since 2015, many of those audit examiners have left the external audit profession and have not always been replaced.

4.3.11 A reason for the decline in the number of audit examiners with sector specific expertise is the route taken by auditors to qualify as accountants. Currently, there are five chartered British and Irish professional accountancy bodies that include external audit as a significant element in their qualification. Only one of these bodies (CIPFA) has a mainly public sector focus. All District Audit service trainees would have followed the CIPFA qualification route. Only one of the firms currently active in the market (Grant Thornton) uses the CIPFA qualification route for its public sector audit staff. In addition, audit firms highlight that between 2010 and 2015 the Audit Commission cut back on its recruitment of audit examiners. This means that an increasing number of local authority auditors will not have had the public sector as their main focus whist studying for their accountancy qualification.

4.3.12 In March 2020, PSAA published research it had commissioned on the future of the local audit market.[9] In this research firms raised two main issues that made it difficult for them to attract and retain high quality staff that wanted to specialise in local authority audit:

- **Timetable** - In 2017-18 the target date for completing local authority audits was brought forward from 30 September to 31 July. This reform was requested by many local authorities, who wanted to complete their accounts and audit process as quickly as possible, so as to free up their finance teams to work on other areas. The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.
- **Fees** – Firms stated generally that the lack of profitability changes the way that local audit work is perceived within the firm. As the contribution that local audit makes to the overall profit of the Partnership is low, specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

[8] TUPE stands for the Transfer of Undertakings (Protection of Employment) Regulations and its purpose is to protect employees if the business in which they are employed changes hands.

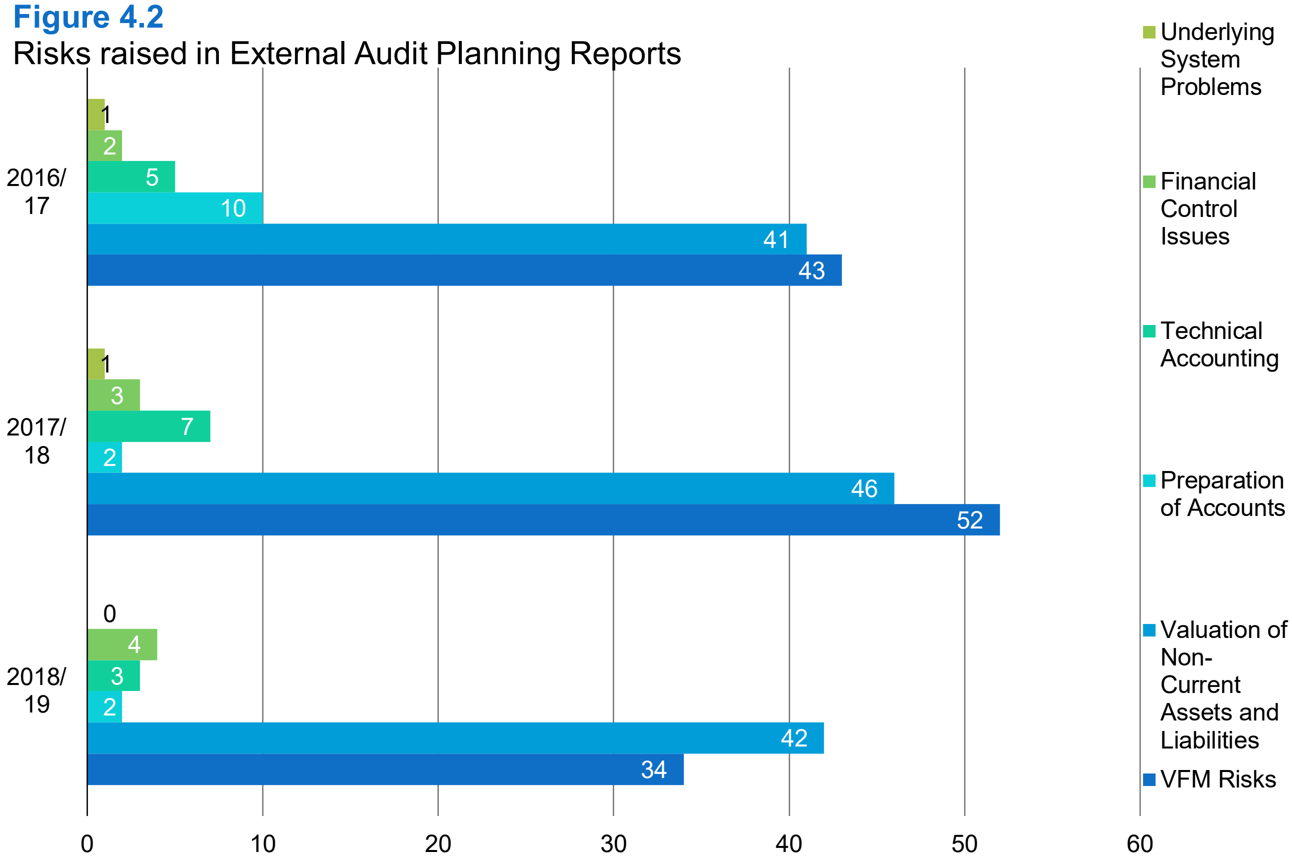
[9] https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Focus of audit work

4.3.13 Many local authorities have raised concerns that auditors spend a significant amount of time focusing on fixed asset and pension valuations, whereas a fuller understanding of the business would lead to more of a focus on major areas of expenditure, together with the level of usable non-ringfenced revenue reserves. The reason for this argument is that most changes to fixed asset and pension values are ‘reversed out’ of the accounts by a range of statutory adjustments. As a result, in those circumstances, these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority.

Figure 4.2

Risks raised in External Audit Planning Reports



Notes

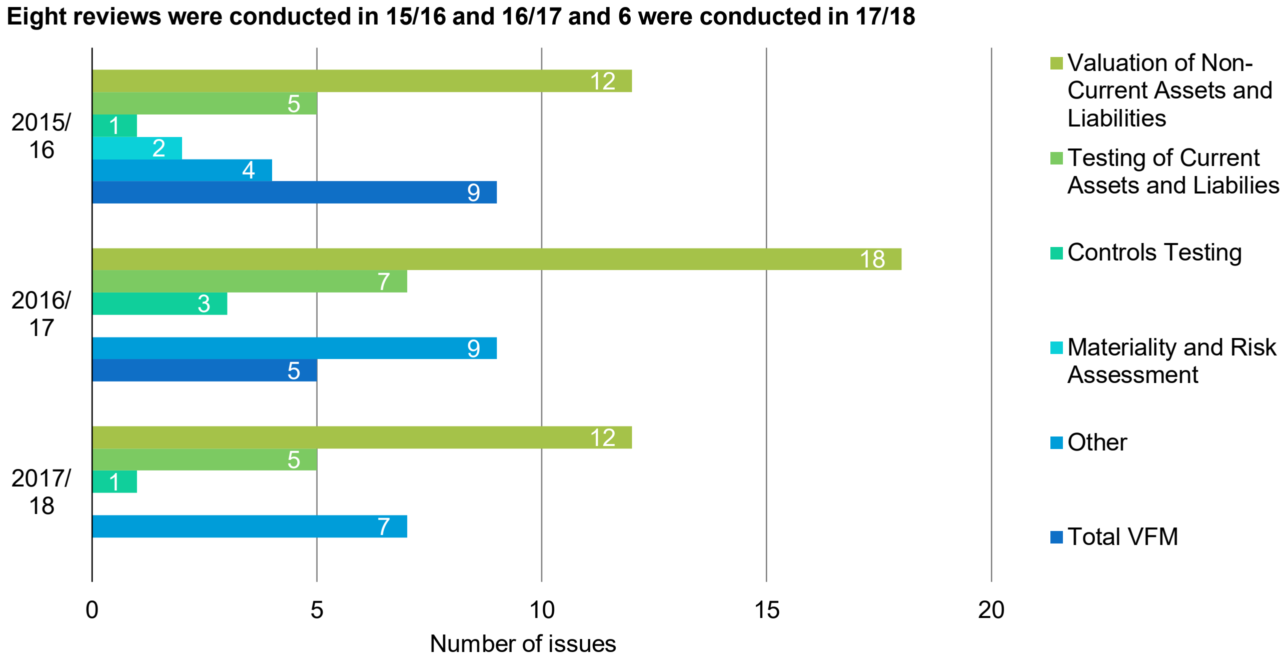
1 Representative sample of 30 local authorities. Presumed risks excluded

4.3.14 As demonstrated in **Figure 4.2**, valuation of non-current assets and liabilities have been the most common significant financial audit risk category identified in Audit Planning Reports. In addition, irrespective of the risk profile, the amount of detailed testing undertaken on these balances has increased significantly over the past three audit cycles. To manage the risk of regulatory criticism, that more scepticism is needed when assessing non-current assets and liabilities, audit firms are increasingly using their own expert valuers to assess valuations provided by a local authority employed expert. Some audit firms agreed that they would prefer to do less work on asset and pension valuations but explained that these areas of the accounts were given more attention as it was important in the context of securing a positive assessment from the FRC quality assurance processes.

4.3.15 The results of the quality assurance reviews of local authority audit files undertaken between 2015-16 and 2017-18 in **Figure 4.3** demonstrate clear and continuing concerns about the quality of audit work to support fixed asset and pension valuations. The FRC commented that, overall, the local authority audit files it reviewed tended to be of slightly lower quality than the files of corporate sector audits.

Figure 4.3

Issues identified by FRC file reviews conducted on behalf of PSAA



4.3.16 The FRC quality reviews identified far fewer significant issues in VfM audit work. This may be because the current Audit Code gives auditors quite a lot of discretion as to how much work they need to undertake before forming their VfM opinion.

Deliver audits in a cost-effective way

4.3.17 Since 2015, audit fees paid by local authorities have dropped by 42.25% (in cash terms). The decrease in fees has been welcomed by the LGA and by many local authorities. This reduction in fees has been attributed to the following reasons:

- PSAA costs being lower than those of the Audit Commission;
- Improved audit efficiency;
- Reduction in firms' profit expectations; and
- Reduced financial risks for the firms from staff previously TUPEd.

4.3.18 It is difficult to identify the extent to which local authority audits are more efficient than previously. All of the audit firms active in the market have looked to generate efficiencies through making significant investments in digital technology and innovation to equip audit teams with the appropriate tools to deliver a digital audit. However, audit firms note that many local authorities have IT systems that do not lend themselves to the delivery of a digital audit, so some of the anticipated efficiencies have not been realised.

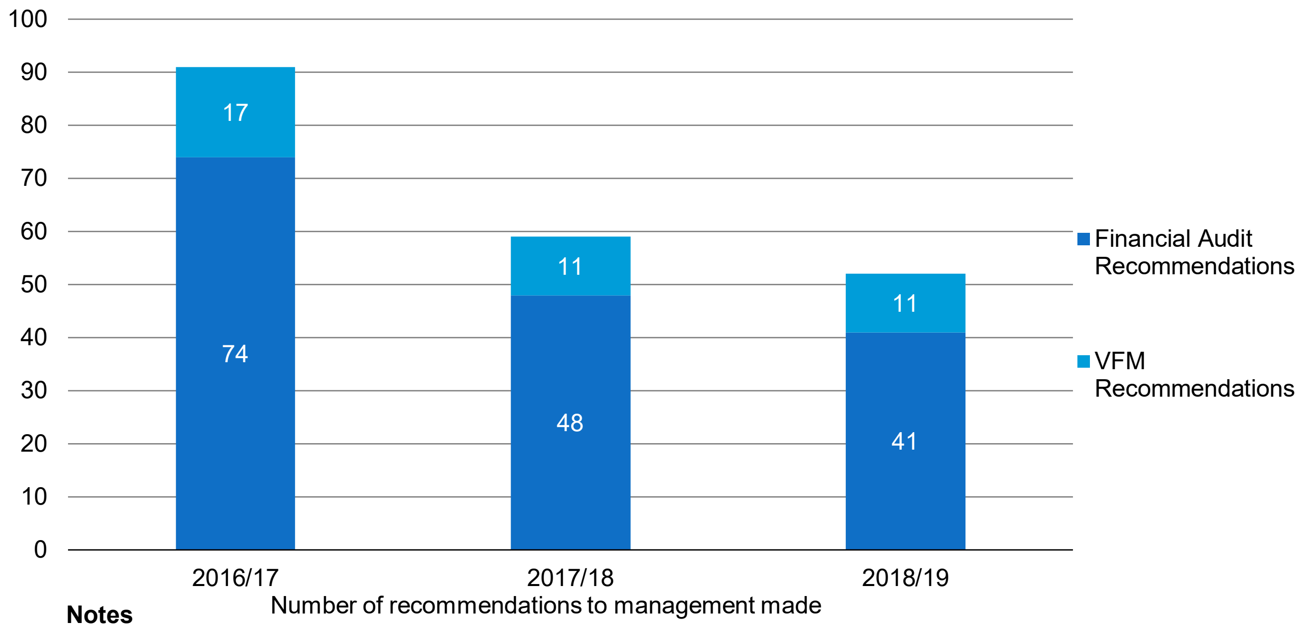
4.3.19 The decrease in fees must be set against the potential impact on quality if audit is considered to be cost effective. Audit firms have raised concerns about whether audit fees are at a sustainable level. One of the registered firms not active in the local authority market said that they had decided not to bid because it was impossible to deliver cost effective and high-quality audits at current fee levels.

4.3.20 Firms have the power to request fee variations where the cost of the work is greater than allowed for by the contract fee. As discussed in **Chapter 3** the fee variation process is an ongoing and increasing source of tension, with auditors concerned that they are not always able to recover legitimate costs. Local authorities are concerned about late notifications and that requested variations are not always supported by evidence of additional work done.

Make sensible recommendations

4.3.21 Auditors can issue recommendations to management through their end of audit communications. These can either be statutory recommendations, which must be copied to the Secretary of State, introduced through the "management letter" recommendations. Eleven statutory recommendations have been issued since 2015.

Figure 4.4
Number of External Audit recommendations given to local authorities



Notes

1 Representative sample of 30 local authorities.

2 Not all audits in 17/18 18/19 have been signed off in this sample.

4.3.22 As demonstrated in **Figure 4.4,** a review of Audit Completion Reports indicates that the number of management letter recommendations issued seems to be declining year on year. The practice on following up management letter recommendations was mixed and Audit Committees were more likely to check progress on implementation of internal audit recommendations rather than external audit recommendations. A majority of the recommendations made relate to technical accounting issues rather than financial control or value for money matters. This is not surprising given the focus of external audit, but it contributes to a perception that the process is not adding as much value as formerly.

Provide useful and timely reports

4.3.23 As demonstrated by **Figure 4.5,** the number of delayed audit opinions has significantly increased over the past three years. For 2018-19, all the audit firms in the market had some outstanding audit opinions as at 30 September 2019, though the extent varied from firm to firm; one firm completed just less than 40% of audits by the deadline while another completed 80%. All firms have made progress in completing these delayed audits although at December 2019, there were still 85 outstanding audit opinions (17.5%); and by July 2020, 42 (8.6%) of 2018-19 audits remained incomplete. These delays are likely to have had a knock-on impact for the 2019-20 timetable.

Figure 4.5

Audit opinions signed off by the statutory deadline for publishing audited accounts

	2018/19	2017/18	2016/17
Opinions issued by the statutory publication deadline	57% *31 July 2019	87% *31 July 2018	95% *30 September 2017
Opinions issued by 30 September	70%	95%	N/A

*statutory deadline for publishing local authority accounts 30 September in 2016-17; and 31 July thereafter.

4.3.24 PSAA asks audit firms to explain the reason for delayed audits. The four most common reasons provided were:

- poor quality accounts/working papers submitted by the local authority;
- potential qualification issues;
- outstanding objections on the accounts; and
- for the first time in 2019-20, having insufficient qualified individuals to deliver all audits at the appropriate time was included as a reason for some of the delays.

4.3.25 Audits are by their nature backwards looking and the increasing delays in signing off local authority audits have an impact on the timeliness of reports. The more material issues that an auditor finds, the greater the risk that the sign off of the audit opinion is delayed. When a judgement needs to be made about modifying an audit opinion, audit firms are required to undertake enhanced quality assurance procedures, and these take time. In addition, some audits will be delayed if a local authority presents poor quality accounts or if there is an outstanding objection. As a result, a number of local authority audits will inevitably be signed off after the reporting deadline.

4.3.26 In recognition of the increased challenges posed by Covid-19, MHCLG has extended the deadline for signing off 2019-20 audits to 30 November 2020. If a majority of audits are not signed off by this date, there could be a significant impact on MHCLG's ability to run the non-domestic rates system effectively. It is too early to say how many local authority audits will make this target date or whether the extension of the deadline will enable audit firms to complete more of the outstanding 2018-19 audits.

4.3.27 Examples of useful and timely auditor reporting through client communications are relatively few. Some local authority Chief Financial Officers commented that they no longer got the useful and informative advice, challenge and support that they had received from KAPs prior to 2015. Audit Planning Reports tend to be presented in February, March or April, which is rather late in the financial year. This means that local authorities get late notification of audit risks. In addition, it is not possible to undertake interim audit work on management controls if the plan is presented in the last month of the financial year and this increases the pressure on the year end peak.

4.3.28 If an Auditor is assessing a significant issue, which they believe needs to be brought to the attention of elected representatives and the public as soon as possible, the have the power to issue a Public Interest Report (PIR). PIRs can be issued at any time. However, only four PIRs have been issued since 2015. Three of these related to matters identified prior to 31 March 2015 and the fourth, issued on 11 August 2020, related to a wholly-owned local authority company.[10] This means that the opportunity to enhance transparency and accountability by sighting key stakeholders on significant issues in a timely fashion is not often used.

4.3.29 Audit firms have not commented on why there is not a greater use of the statutory powers available to them. The position in which auditors find themselves can relate to a situation where intervention in a local authority may be warranted by the use of statutory powers. It is possible that the legal and reputational risks of using these powers may play a part in their thinking as may the difficulty of recovering the costs of the extra work required to support use of these powers.

4.4 Interactions between external audit and relevant stakeholders

4.4.1 The areas of concern that particularly stood out from interviews with local authorities and through the Call for Views were:

- Senior audit staff not being contactable by clients when issues arose;
- Late notification of audit risks;
- Changes to the audit timetable – without justification given;
- Late notification of fee variations with no justification or breakdown of cost given; and
- The auditor's valuation expert overriding asset valuations provided by client experts with equivalent qualifications sometimes with no justification given.

4.4.2 It is important to note that these concerns are not unreciprocated. Auditors raised concerns about LAs not preparing properly prepared draft accounts supported by high quality working papers or not being available to answer audit questions.

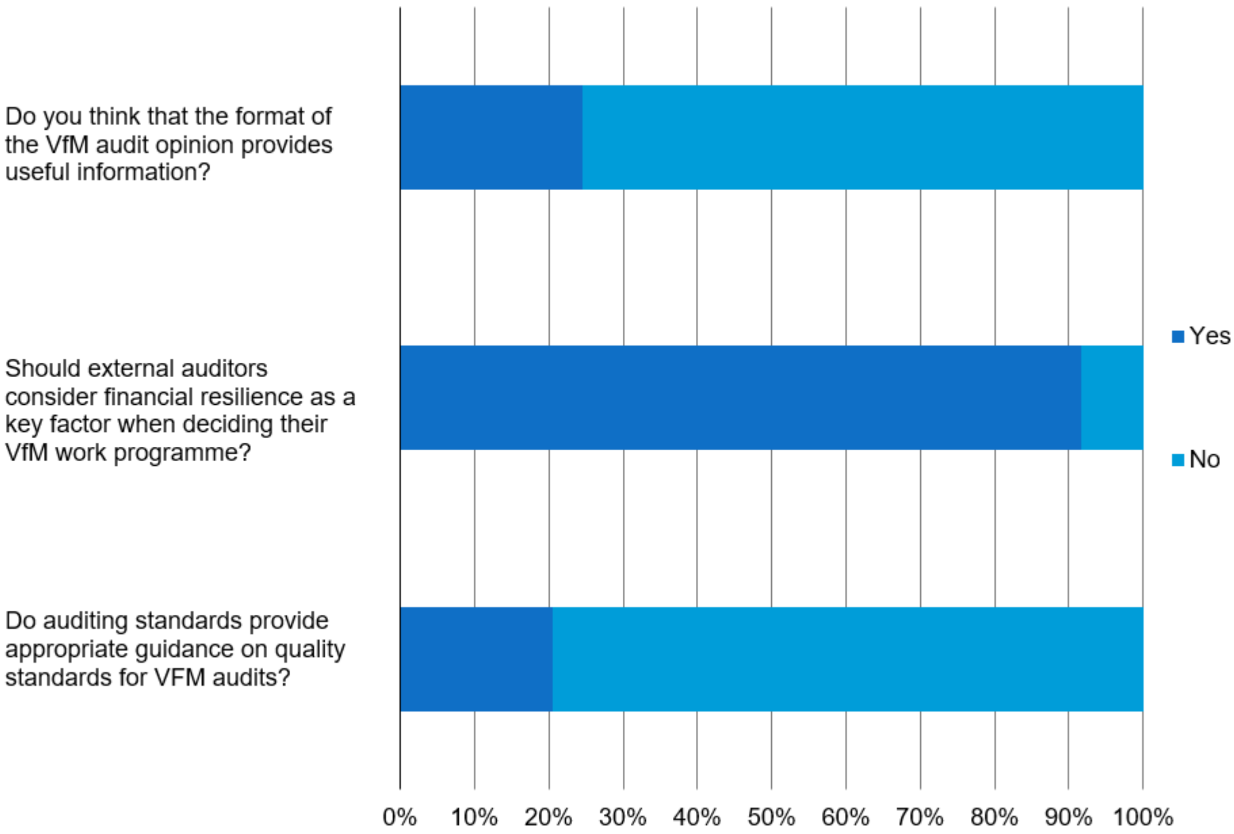
4.5 VfM expectation gap

4.5.1 Whilst audit firms feel that the NAO's new code of practice resolves many of the VfM conclusion shortcomings, some local authorities believe that more significant changes need to be made. There is a large expectation gap between what local authorities

[10] https://www.nottinghamcity.gov.uk/publicinterestreport

expect a VfM opinion should provide and what it actually provides. The VfM conclusion is viewed by many local authorities to be an exercise with limited use to them as it is too retrospective and often states what the local authority often already knows. **Chapter 6** includes a more detailed consideration of the extent to which the VfM opinion covers financial resilience risks.

Figure 4.6
Opinions on the VfM opinion and auditing standards



Notes

1 Data from Local Authority Call for Views responses.

4.5.2 As demonstrated in **Figure 4.6**, 74% of the local authority respondents to the Call for Views think the format of the VfM opinion does not provide useful information. Some of these respondents recognised that the opinion is limited to giving assurance only that processes are in place to secure value for money and therefore that the opinion needs to be expanded to provide useful information. 79% of these respondents do not think the standards provide appropriate guidance on quality standards for VfM audits.

4.5.3 91% of respondents think external audit should be required to assess financial resilience. Although 3% of these respondents felt that financial resilience is already covered to an appropriate amount, most of the other respondents thought that financial resilience should be considered in the medium and long term as part of the value for money audit opinion. This included most audit firm respondents to this question, all of whom stated that the updated NAO Code of Audit Practice, effective from 2020-21, would provide a suitable level of coverage. No local authorities specifically mentioned the NAO Code of Audit Practice in their responses, although this may be due to the fact that the updated Audit Code had not been finalised at the time the Call for Views closed. However, 16% of local authority respondents thought the non-statutory CIPFA Financial Management Code (published Oct 2019) could provide a suitable framework for assessing financial resilience and financial management.

4.6 Summary of audit performance

4.6.1 There is an expectation gap that extends across both the financial and the VfM audit. The coverage of the financial and VfM audits is far narrower than many stakeholders expect.

4.6.2 There are questions about the level of audit performance. In addition, although external auditors may be meeting the contract specification by delivering audits that, for the most part, meet the quality standards set out in ISAs and the Audit Code, an increasing number of audits are not being completed by the statutory deadline for publishing audited accounts.

4.6.3 Audit fees paid by local authorities have reduced, whereas, over the same period, they have increased in other sectors. There is some evidence that the reduction in fees has led to a decline in the number of examiners with appropriate skills, knowledge and expertise. This has had an impact on the timeliness of audits, the usefulness of auditor reporting to management and the quality of interactions between external auditors and local authorities.

4.6.4 Underpinning concerns about audit performance is a question of focus. There is a perception amongst many local authorities that an increasing amount of time is spent auditing fixed asset and pension valuations. It is clear that external audit increasingly has a greater focus on these areas, and that this has been driven by the requirement to meet quality standards and comply with relevant statutory guidance. What is less clear is the extent to which this has led to a reduction of audit work in other areas, but given the reduction in audit fees, it is likely to have had some impact.

4.6.5 It is more difficult to summarise audit performance in relation to the VfM engagement. This is partly because the 2015 Audit Code requires minimal documentation unless significant VfM risks are identified. This makes it impossible to assess whether the external audit assessment of VfM risks is complete in all cases. However, given the squeeze on audit fees and the reduction in the number of audit examiners with appropriate skills, knowledge and expertise, this remains a matter of significant concern.

5. Governance arrangements in place for responding to audit recommendations

5.1 Outline of the different frameworks in operation

5.1.1 The effectiveness of audit must, in part, be determined by the arrangements in place within each body subject to audit for considering and acting upon external audit reports. All local authorities are required to set up Audit Committees or the equivalent with responsibility for considering the annual accounts and receiving internal and external audit plans and reports. The specific arrangements vary between different types of local authorities. However, the purpose of an Audit Committee is to provide independent challenge on behalf of the authority in respect of accountability and risk management arrangements.

Arrangements within PCCs

5.1.2 A PCC is an elected official charged with securing efficient and effective policing of a police area. The policing function is delivered by the constabulary, led in large part by Chief Constables. PCCs are required to set up Joint Audit Committees covering the activities of both the PCC and the constabulary. These arrangements appear to work effectively and the findings and conclusions in the rest of this Chapter do not apply to PCCs.

5.1.3 Some PCCs also have responsibility for overseeing the delivery of Fire and Rescue Authorities, which deliver the fire service, in their local area. In other areas, primarily Shire Counties, the fire service is the responsibility of the County Council.

Arrangements within other types of local authorities

5.1.4 Mayoral Combined Authorities[11] are required by statute to have an Audit Committee, although there is no statutory guidance on the membership or remit. Whilst not a requirement for other types of local authorities, in practice most have set up an Audit Committee or equivalent.

5.1.5 Constitutionally, Audit Committees in local authorities are sub-committees of Full Council. This means that a majority of its members will be elected as a councillor or its equivalent. As highlighted in **Figure 5.1,** membership tends to be based on the political balance of the council and the chair is often, but not always, a member of the ruling group.

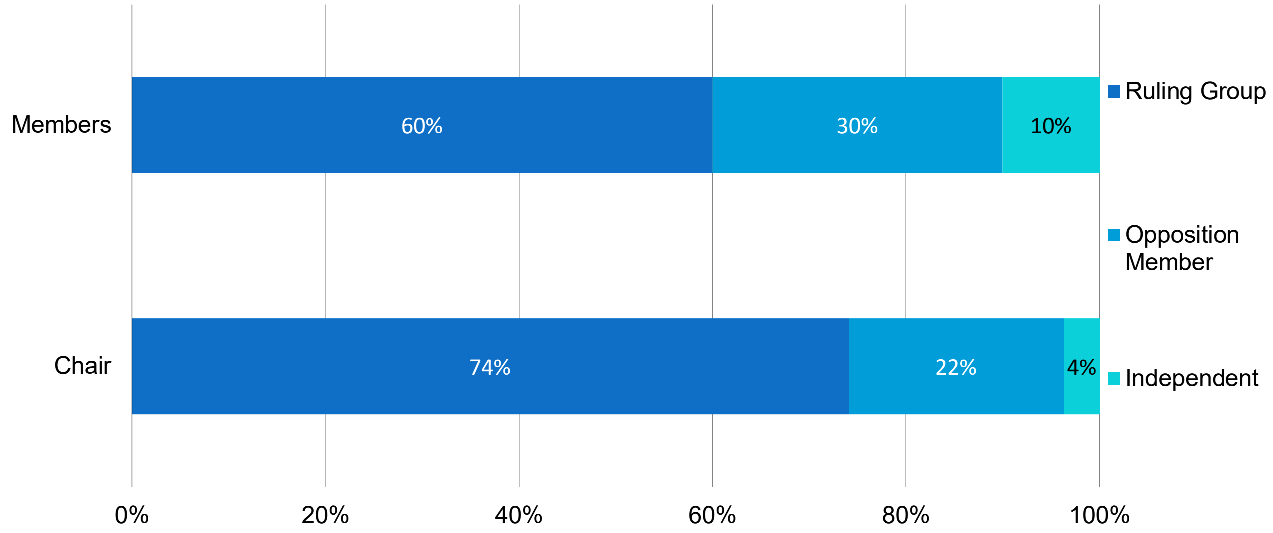
5.1.6 The number of members of Audit Committees varies from four to seventeen, with seven being the most common. This compares to common practice in central government and the private sector, which is to have no more than three or four Audit Committee members. The size of the committee might vary according to the number of councillors an authority has; however, Birmingham City Council, which by expenditure is the largest local authority and has more councillors (99) than any other local authority in England, has eight members on its Audit Committee, whereas the

[11] Combined Authorities are statutory bodies made up of neighbouring local authorities that broadly cover a city-region that have agreed to work together. A Mayoral Combined Authority is where a mayor is the directly elected leader of the combined authority.

Audit Committees of some Shire District Councils have memberships that far exceed this.

Figure 5.1
Composition of audit committees in councils

56% of committees had no independent members



Notes

1 Representative sample of 27 Local Authority Committees (not including FRAs or PCCs).

5.1.7 Local authority accounts are very complex and there appears to be a significant difference between the assurance that external auditors provide and public expectations. Elected members may or may not have relevant skills, expertise or background to fulfil the role of a member of an Audit Committee. Many local authorities provide training for Audit Committee members, but it has not been possible to assess how comprehensive or effective this training is. As a result, it is not possible to conclude whether members are always equipped to provide effective challenge to Auditors or Statutory Officers.

5.1.8 As part of its Audit Quality Reviews of 2018-19 audits, the FRC review teams have met with Audit Committee chairs of 12 selected local authorities. Although the reviews of the related audits are not yet publicly available, a mixed picture was reported, with some chairs being very engaged and informed, but others being less so. As the FRC is responsible only for the quality assurance reviews of the 230 larger local authorities and NHS bodies, the experience provided by their quality reviews may not be fully representative of the sector.

5.1.9 Whilst the vast majority of local authorities interviewed were supportive of the principle of appointing independent members, only about 40% of Audit Committees currently have done so. The reported experience of having independent members on Audit Committees was mixed. In some cases, they provided useful challenge, but some authorities reported that the effectiveness of independent members was hampered by their lack of sector specific knowledge.

5.1.10 A particular challenge for authorities is attracting independent members with the relevant technical experience. This challenge can sometimes be greater depending on an authority's geographical location. Some PCCs have found that the introduction of Joint Audit Committees, which are seen as more prestigious, has made Audit Committee membership more attractive to appropriately qualified independent members, but there is still not an abundance of suitable applicants for vacant positions.

5.1.11 The independent member is often a voluntary position across the local authority sector. This compares to NHS trusts who are more likely to pay independent Audit Committee members, which may make it slightly easier for them to attract applicants with relevant expertise.

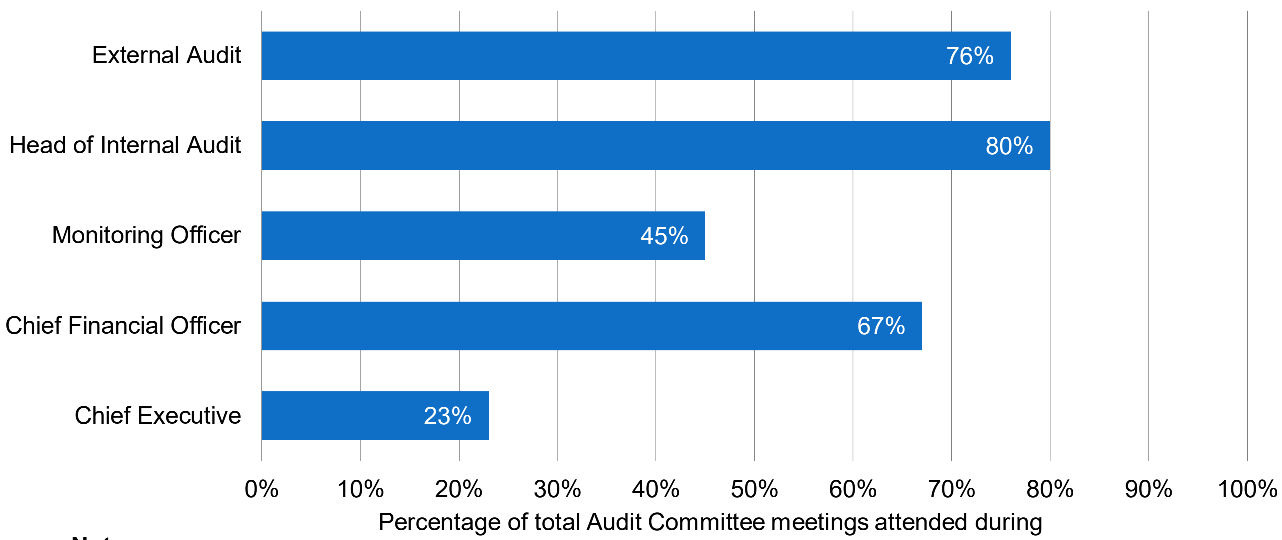
5.1.12 Local authorities have a number of statutory officers, three of whom have responsibilities that may be covered by audit work. They are:

- The **Head of Paid Service** – typically the Chief Executive or Managing Director
- The **Section 151 Officer** – typically the Chief Financial Officer or Finance Director
- The **Monitoring Officer** – typically the Head of Legal Services

5.1.13 As demonstrated by **Figure 5.2** the frequency of attendance of statutory officers at Audit Committee meetings is mixed. Whilst the Chief Financial Officer and Head of Internal Audit attend a majority of meetings, Monitoring Officers attend just under half of the meetings and the Chief Executive attends such meetings less often. Other statutory officers and service heads usually attend Audit Committee meetings if a matter relevant to their service area is discussed.

5.1.14 The Chief Financial Officer is more likely to attend meetings where external audit completion reports are presented. Attendance of the Chief Executive increased by 2% and the Monitoring Officer attendance decreased. This may be reflective of the fact that in local government, the Chief Financial Officer signs the accounts on behalf of the local authority, or it may be indicative of the profile of external audit.

Figure 5.2
Audit Committee attendance: Local Authority Officers and External Audit Representative



Notes

1 Representative sample of 30 local authorities

5.1.15 In local government, representatives of external audit are not expected to attend every Audit Committee meeting. Based on a representative sample, the KAP attended 56% of meetings, rising to 87% of meetings where either external audit papers were tabled or where the final accounts were presented. For the 13% of these meetings where the KAP was not in attendance, external audit was represented by a less senior member of the audit team.

5.2 Scope of audit committees within local government

5.2.1 The scope of Audit Committees also varied between authorities. CIPFA's *Position Statement and supporting guidance on Audit Committees (2013)* says that the Audit Committee should cover:

- The annual governance statement
- The work of internal audit
- Risk management
- Assurance framework and assurance planning
- Value for money and best value
- Countering fraud and corruption
- External audit
- Partnership governance

and may also cover:

- Specific matters at the request of statutory officers or other committees
- Ethical values
- Treasury management

5.2.2 Most of the committees reviewed covered most of the items in the CIPFA position statement. There were two areas which had either minimal or no specific coverage: *partnership governance,* which was considered by only two of the 30 authorities reviewed; and *value for money and best value* which was not considered by any of those 30 authorities. The *CIPFA Survey on Local Authority Audit Committees* (November 2016) also found that Audit Committees were much less likely to consider these two areas. However, the scope of Audit Committees in local authorities is not limited to the areas suggested in the CIPFA guidance.

5.2.3 The scope of committees whose responsibilities included audit varied. The second most common name, after the 'Audit Committee' itself was a name which indicated the combining of audit with the functions of an overview and scrutiny committee. Overview and scrutiny committees are required by statute[12] and are responsible for overseeing and scrutinising the whole range of the Council's functions and responsibilities, as well as other public service providers' work and its impact on the local community. Whilst the functions of these two committees have some synergy, there is a question as to whether it enables the audit responsibilities to be fully addressed.

5.2.4 In one example a local authority had set up an Audit, Resources and Performance Committee. This is a significant concern because the prime purpose of an Audit

[12] Schedule 2, Localism Act 2011

Committee is to review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. The Resources Committee will use financial projections and risk management information to take decisions about use of resources. If the same committee is responsible for using information to take management decisions and providing independent assurance over the reliability of that information, there is no effective segregation of duties. There is also a potential for conflicts of interest.

5.3 Relationship between Audit Committees and Full Council or equivalent

5.3.1 Full Council has a role, ultimately, in responding to audit matters that is beyond receiving Public Interest Reports or qualified audit opinions. Full Council is generally more visible to the public than committees/subcommittees. The Council's public accountability to local taxpayers and service users is best served by having significant matters relating to audit discussed in a transparent and accessible way.

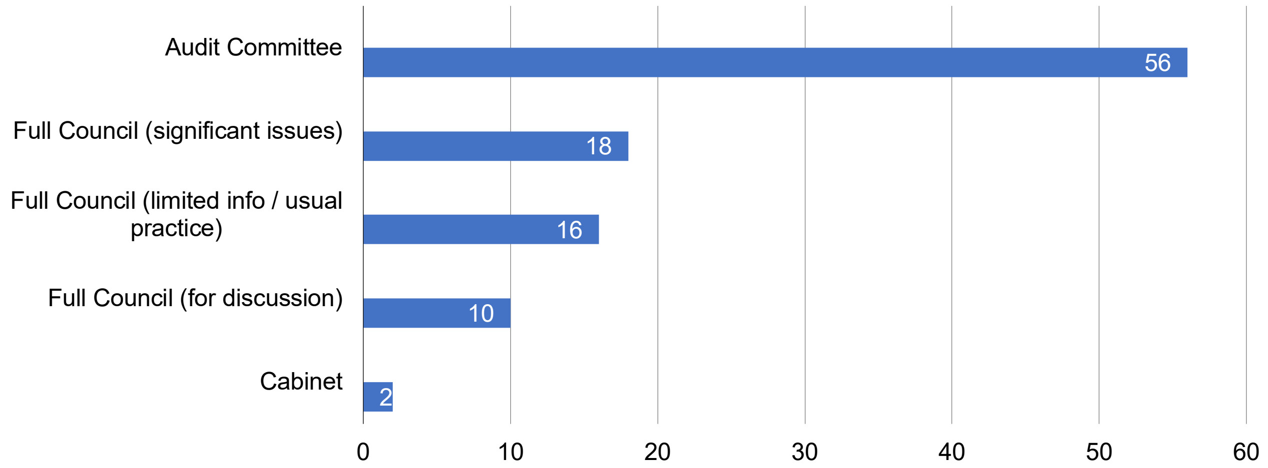
5.3.2 Matters raised at Audit Committee can be referred to Full Council. In addition, the auditor has the power to present some statements, for example an advisory notice that planned expenditure may be unlawful, directly to Full Council.

5.3.3 In practice the auditor tends to present matters to the Audit Committee, which decides if a matter is serious enough to be referred to Full Council. Most local authorities feel that this arrangement is appropriate. It is rare for an Audit Committee to put a substantive item onto the Full Council's agenda. The exception is the Treasury Management Strategy, where some local authorities have a practice of ensuring that it is considered by the Audit Committee before being forwarded to Full Council for approval.

5.3.4 Many local authorities stated that the existing relationship between Audit Committee and Full Council involved either forwarding for information a yearly summary report or meeting minutes and that this was considered to be sufficient. Many also commented that if there were significant recommendations made by the external auditor, such as a Public Interest Report, that then should be a matter for Full Council.

5.3.5 In some cases, some quite serious matters seem not to have been passed onto Full Council. For example, the 'best value' report into Northamptonshire County Council found that when the external auditor reported that appropriate arrangements to deliver best value outcomes were not in place, for the second year in succession, there is no evidence that the Audit Committee forwarded the qualified audit opinion to Full Council.

Figure 5.3
To whom should external auditors present audit reports and findings?



Notes

1 92% of local authorities respondents answered this Call for Views question

5.3.6 If this practice is widespread, there is a significant risk that in many councils, a majority of elected members may not be sighted on serious governance or financial resilience issues. This risk does not fully pertain to PCCs, where the PCC and Chief Constable are expected to attend the Joint Audit Committee and generally do so. There is a question as to whether Audit Committees, including Joint Audit Committees, are sufficiently transparent to local taxpayers and service users. Whilst by default, proceedings of these committees are public, it is not clear that taxpayers and service users are aware that they have a right to attend or to read the papers and the minutes.

5.3.7 As demonstrated in **Figure 5.3** most local authorities felt that external audit reports should be presented to the Audit Committee rather than to Full Council. Reasons given included:

- Full Council only taking items for decision;
- elected members not having the skills, knowledge or experience to understand the report unless they had received Audit Committee training.

5.3.8 Many commented that external audit reports should be reported to Full Council only in exceptional circumstances where there is significant cause for concern. One respondent commented that given the target dates and tight deadlines, there is insufficient time to report to Full Council prior to sign off of the accounts by the external auditors.

Raising the profile of external audit work

5.3.9 The content of the standard suite of external audit reports is mandated by auditing standards. Whilst audit firms have made significant strides in making reports more accessible to clients, much of the required disclosure is highly technical. Given this, it is perhaps understandable that many local authorities do not present such documents to Full Council.

5.3.10 Nevertheless, external auditors may have insights from their work, that could provide assurance to Elected Representatives that their local authority is being run with the best interests of service users and taxpayers in mind. The auditor also has the facility to sight elected representatives on matters that audit work has highlighted as a potential issue.

5.3.11 This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely. Given the increase in the number of delayed audits, this report should not necessarily be linked to the certification of the financial accounts as it should be made at the most useful point in the year. Comparatively few local authorities commented on what was the right point in the year to receive audit reports. Two thirds of those who did, expressed a preference for end-September, coming as it does near the start of the following year's annual budget setting planning cycle.

Collating the results of external audit work

5.3.12 Prior to 2015, the Audit Commission published an annual report summarising the results of the audits of local authorities and the NHS. Up to the end of 2017-18 responsibility for preparing this report passed to PSAA. The report summarised the number of audits completed by the statutory deadline and the number of qualified financial audit and value for money opinions, with the latter categorised by theme. It also listed all Public Interest Reports, Statutory Recommendations and Advisory Notices issued in the preceding year. It did not include any details on risks raised by auditors in their Audit Planning Reports or non-statutory recommendations made to local authorities. Just over two thirds of Call for Views respondents think a publication summarising the results of local authority audits adds value.

5.3.13 The responsibility for preparing this report was included in the Memorandum of Understanding between PSAA and MHCLG. When MHCLG decided not to renew the Memorandum of Understanding, PSAA's responsibility for reporting on the results of audit work lapsed. This reinforces the point that no entity currently has the responsibility to collate and report on the results of the work of the external auditors of local authorities and individual NHS bodies.

6 Audit work on the financial resilience of local authorities

6.1 Stakeholders' expectations regarding financial resilience

6.1.1 Reference has been made to the role of external audit in assessing financial resilience and sustainability in local authorities. In England, neither the financial nor the value for money audit includes a specific responsibility to provide an opinion on whether a local authority is financially sustainable.

6.1.2 However, it is legitimate to expect the auditor to examine the ability of the local authority to provide resources sufficient to deliver the statutory services for which it is responsible. It would not be appropriate for this Review to provide a commentary on local government funding, but there are a number of key questions that it would be reasonable to expect the auditor to assess. These could include:

- Has the auditor scrutinised the balance sheet to understand the debt profile of the authority and the level and depletion rate of usable reserves?
- What metrics does the authority use to determine the level of financial risk it faces?
- When the annual budget is approved by Full Council or equivalent, the CFO is required to present a "Section 25" report, providing a view on the reasonableness of financial estimates and the adequacy of reserves. Should the auditor be required to confirm that this report is sound?
- It is good practice for local authorities to prepare a mid-term financial strategy, normally covering a three to five-year period that is presented alongside the budget. Is it reasonable to expect the auditor to consider the assumptions underpinning this strategy or to form a view on its whether it is robust and realistic?
- Local authorities are also required to prepare statutory reports that have implications for financial sustainability and available resources in future years. These include setting a Prudential Borrowing limit, calculating an appropriate provision for repayment of debt (known as "Minimum Revenue Provision"), preparing an Investment Strategy, and potentially preparing a Flexible Use of Capital Receipts Strategy. Is it reasonable to expect the auditor to consider some of these strategies and estimates?

6.1.3 CFOs may have specific expectations of auditors. As previously indicated, many of the CFOs who contacted the Review made it clear that they valued the informal contact and challenge from the KAP. Dialogue between the KAP and the CFO does take place, if not on as wide a scale as it did pre-2015, and there is no doubt this can be beneficial. However, the independence of the auditor must be preserved in the way that advice and guidance may be tendered.

6.2 What does financial resilience mean in a local authority context?

The statutory framework

6.2.1 Financial resilience in a local authority is different to a private sector context. The powers and responsibilities of local authorities along with the financial control framework within which they operate are set by statute.

6.2.2 The services that local authorities are required to provide are set out in legislation along with the accompanying powers and duties. The statutory responsibilities to deliver these services exist even if the local authority's resources may be considered to be insufficient at any given time.

6.2.3 The key financial controls set out in statute are:

- The requirement to calculate an **annual balanced revenue budget** for the upcoming financial year, that must be approved by Full Council or the equivalent. Local authorities are not allowed to run a deficit budget. Instead they are required to calculate a level of Council Tax that equates to the difference between income and expenditure. The increase in the level of Council Tax that can be charged is restricted by a 'referendum principle'. If a local authority wishes to raise Council Tax by more than a percentage specified by Ministers, they are required to put the planned increase to a referendum of local electors. Local authorities can borrow to fund capital investment but are not normally allowed to do so to finance in-year expenditure.
- The CFO's **"Section 25" report** on the robustness of the council's budget estimates and the adequacy of its reserves, which must be presented to Full Council alongside the annual balanced budget.
- The CFO has the power to issue a **"Section 114 notice"** if the CFO believes that the local authority is unable to set or maintain a balanced budget. After a section 114 notice is issued, the local authority may not incur new expenditure commitments, and the Full Council must meet within 21 days to discuss the report. There is no legal provision regarding what action they then must take. There is no procedure in law for a UK local authority to go bankrupt, and none has ever done so.

6.2.4 If a local authority mismanages its budgets over a number of years so that it is unable to recover its financial position, then central government has the choice of intervening under its "best value" powers, providing exceptional financial support, facilitating an offer of leadership and governance support from elsewhere in the sector, or using a mixture of these options.

6.2.5 Intervention on the grounds of lack of financial resilience is very rare. The most recent statutory intervention using best value powers was in Northamptonshire in 2018. Although there have been three other statutory interventions in the intervening years (Doncaster due to pervasive corporate governance failures, Rotherham due to institutional failure in responding to child sexual abuse and Tower Hamlets due to pervasive governance and financial impropriety issues), Northamptonshire was the first statutory intervention primarily due to financial resilience issues since Hackney in 2000.

6.2.6 In both Northamptonshire and Hackney, central government supported the council during the intervention by providing exceptional financial support, primarily by allowing receipts from sale of assets to be used to support revenue expenditure. Northamptonshire was also permitted to raise council tax by 2% more than other authorities for 2019-20 without triggering a referendum.

6.2.7 Whilst this might suggest that financial resilience is not an issue for local authorities, that may not always be the case. Firstly, central government support cannot always be guaranteed and secondly, a local authority experiencing severe financial resilience issues may also be facing governance and service delivery issues, with a consequential impact on those who depend on those services. Furthermore, the impact of financial resilience issues on service delivery is iterative. It must be emphasised here that the system must identify and highlight financial resilience issues at the earliest opportunity in order to avoid negative impact on service. When a service fails, it is likely that that cost of recovery will be greater with a possible consequential impact on financial resilience.

6.2.8 This suggests that in a local authority context, financial resilience means the ability to manage budgets over the medium term whilst continuing to deliver high quality and effective services, that can be accessed by service users. The level of service provided is very important. Local authorities in financial difficulties can seek to cut costs by reducing the level of service. This may be the case for demand led services such as social care where it is more difficult to forecast accurately local demand pressure.

Commercialisation and local authority resilience

6.2.9 One of the most significant sectoral trends since 2015 is the increased commercialisation of local authorities. To simplify, there are two main categories of local authority commercialisation:

- Investment in commercial property, usually through the general fund; and
- Investment in wholly owned companies set up using the "general power of competence". The most common type of wholly owned local authority company is the housing company. Other examples identified include energy companies, recruitment agencies, back office service delivery companies and leisure trusts. PCCs and FRAs do not have a "general power of competence".

6.2.10 The risks commercialisation poses to local authority financial resilience were highlighted in a recent NAO study on *"Local Authority Investment in Commercial Property"*[13] which concluded:

"Buying commercial property can deliver benefits for Local Authorities including both the generation of income and local regeneration. However, as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs or may become significantly dependent on commercial property income to support services. At the national or regional level, Local Authority activity could have an inflationary effect on the market or crowd out private sector investment."

6.2.11 Although the NAO study focused solely on commercial property, this conclusion is as relevant to investments in wholly owned companies. If a company that is set up using the "general power of competence" gets into difficulty, the parent local authority may ultimately be responsible or may have to write off loans or equity funding, and this can impact financial resilience.

6.2.12 An additional risk with wholly owned companies is a potential lack of transparency. It can be very difficult for a reader to identify a local authority's exposure as a result of

[13] https://www.nao.org.uk/wp-content/uploads/2020/02/Local-authority-investment-in-commercial-property.pdf

investments in or loans to wholly owned companies by looking at the accounts. Unless an investment in, or transactions with, a wholly owned company is material by value, there is no requirement to consolidate the company's income, expenditure, assets or liabilities in the local authority's accounts. Instead, what is required is a disclosure of transactions between the authority and each of its wholly owned companies in what is known as the "Related Parties note". This note is presented less prominently in the annual report and accounts document. In addition, decisions a local authority makes pertaining to its wholly owned companies, including those relating to providing additional finance and awarding contracts, are often held in private on grounds of commercial confidentiality.

Defining local authority financial resilience

6.2.13 CIPFA has attempted to define financial resilience in a local authority context. In *Building Financial Resilience (Jun 2017)*[14]. This publication highlights four pillars of sound financial management and five indicators of financial stress.

Figure 6.1

CIPFA Pillars of Financial Resilience

Pillars of financial resilience	Indicators of financial stress
Getting routine financial management right	Running down reserves
Benchmarking against nearest neighbours – e.g. unit costs, under/overspends by service area, under-recovery of income.	Failure to deliver planned savings
	Shortening medium term financial planning horizons
Clear plans for delivering savings	Increase gaps in saving plans (i.e. where proposals are still to be identified)
Managing reserves over the medium-term financial planning horizon.	Increase unplanned overspends in service delivery departments.

6.2.14 The pillars of financial resilience identified by CIPFA related to process and governance points, so could be covered by the auditor's VfM opinion. Likewise, the indicators of financial stress could be covered by a sector-wide VfM audit framework.

6.2.15 An alternative and more detailed model, mentioned by some local authorities, is the seventeen principles set out in CIPFA's recently published Financial Management Code. Although only three of the seventeen principles are categorised under the heading of sustainability, in practice, all of the principles relate to matters that directly or indirectly contribute to an authority's capacity and capability to deliver sustainable services over the medium term.

6.2.16 A challenge common to both the *Pillars of Financial Resilience* and the *Financial Management Code* is that neither has any statutory basis. Whilst CIPFA requires its members to follow the *Financial Management Code*, compliance cannot be enforced. As a result, auditors may be reluctant to treat non-compliance with either as a matter serious enough on which to report.

[14] https://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities

6.2.17 A further challenge with the *Financial Management Code* is that the key principles are fairly detailed. Whilst an auditor could assess compliance with these principles, the costs of doing so in terms of both the auditor and of local authority time could be quite high.

6.2.18 Finally, neither the *Pillars* nor the *Financial Management Code* explicitly cover the impact of commercial activity on a local authority's financial resilience. General fund investments should be considered as part of the audit of financial accounts but wholly owned companies would only be considered if material enough to be consolidated into the accounts.

6.3 Current audit requirements to assess the sustainability and resilience of LAs in England

The Going Concern opinion

6.3.1 An underpinning principle of a financial audit is a 'going concern assumption'. The going concern principle means that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. When an auditor conducts the examination of the accounts, there is an obligation to review its ability to continue as a going concern for the next twelve months.

6.3.2 If the auditor concludes that there is significant doubt that the reporting entity is a going concern, the audit opinion is qualified, and a report explaining the auditor's financial resilience concerns is included with the audit opinion. In addition, if an entity is not a going concern, assets and liabilities must be valued at the amount they can be sold for rather than by assessing their ongoing value to the entity.

6.3.3 This particular way of validating a local authority's financial health has attracted much criticism from respondents. The view of practitioners is that that a local authority cannot face the prospect of bankruptcy/liquidity in the way that a company might.

6.3.4 In addition, local authorities are presumed to be a going concern for the purpose of forming an audit opinion, as the financial reporting frameworks for these bodies dictate a continued service approach, unless there is a clearly expressed Parliamentary intention to discontinue the provision of the services which the entity provides. The NAO has consulted on Supplementary Auditor Guidance, that reinforces this point.

6.3.5 87% of respondents to the Call for Views think the going concern assumption is meaningless in a local authority context. Respondents noted that local authorities would be likely to receive support from Central Government in the wake of a serious event. Many highlighted the example of Northamptonshire remaining a going concern for audit opinion purposes, even when the auditors had issued an advisory notice on what was considered to be an undeliverable budget. as an apparent example of the opinion's flaws. Those who responded that the opinion was meaningful included a majority of audit firms who acknowledged the going concern opinion's flaws and suggested changes but, on the whole, felt that it was still important that this assessment was carried out.

The value for money opinion

6.3.6 The other dimension of audit which could look at financial resilience is through the work required to support what is known as the 'value for money opinion'. The work required to support this opinion is governed by the NAO's Code of Audit Practice ("the Audit Code"). What the auditor is required to do is to form an opinion on the adequacy of the systems in place to support the economy, effectiveness and efficiency of service delivery. Under current practice in England, the auditor may test the adequacy of systems and procedures used to construct the mid-term financial plan but is only required to do so if a significant risk is identified during the audit. The auditor is not required to examine the mid-term financial plan from a sustainability perspective or form a conclusion on the financial resilience of the authority.

6.3.7 The update to the Audit Code, effective from 2020-21, will require auditors to provide a narrative statement on the arrangements in place. The aim of this statement is to provide more useful information to stakeholders, to report in a timelier manner and, through the move away from a binary opinion, encourage auditors to be bolder in highlighting concerns. The updated Audit Code has been broadly welcomed by stakeholders and has the potential to enhance value for money reporting in England.

6.3.8 What the updated Audit Code does not do is specify that auditors consider specific matters or judge local authority systems and performance against specific standards or good practice examples, such as CIPFA's *Pillars of Financial Sustainability* or their *Financial Management Code*. Nor does the updated Audit Code provide any guidance on how to assess whether a value for money risk is material.

Timeliness of the value for money opinion

6.3.9 Less than half of respondents to the Call for Views expressed an opinion on the timing of the VfM opinion. Two thirds of those who expressed an opinion agreed that the statutory reporting deadline of end-September was the right point in the annual cycle to present the VfM opinion, coming as it does near the start of the following year's annual budget setting planning cycle. Many commented that the external audit firms still had the capability to raise any significant VfM concerns outside this process, a process where they were happy with the content.

6.3.10 Those that disagreed included all but one of the audit firms who responded to this question. In addition, many of the local authorities who responded to the Call for Views didn't have strong opinions either way. Some thought that the opinion might be better presented in May, right at the start of the following financial year, but others expressed concern as to whether audit firms would have the capacity to handle a split reporting timetable.

6.3.11 A subsidiary, but still important, factor when considering the timing of the opinion is auditor resourcing. If the full benefits from the revised VfM opinion in the new Audit Code are to be realised, auditors will need to do more work.

6.3.12 Therefore, thinking about how to time the publication of the opinion so that it is of the most use, has the most impact, and can be supported by timely audit work must be a matter for serious consideration.

6.4 Practice in other jurisdictions

6.4.1 Audit requirements in other jurisdictions, for example Scotland, Wales and New Zealand provide alternative models, all of which provide practices that could help bridge the expectation gap between what auditors are required to do and what stakeholders expect them to do to assess financial resilience. The Review has explored New Zealand as it has a different model that is worthy of consideration.

6.4.2 Scotland and Wales have different models of value for money reporting, with Scotland's model requiring the auditor to assess future plans and Wales' model including the option for the auditor to undertake more focussed work on financial resilience as a separate engagement.

6.4.3 In New Zealand, there is no VfM opinion, but instead the financial audit opinion has been extended to cover a large number of pass/fail service delivery and financial resilience metrics. The financial resilience metrics are common to all authorities, allowing comparisons to be made.

6.4.4 Care needs to be taken when assessing the appropriateness of these models. There are currently 32 unitary authorities in Scotland, 22 unitary authorities in Wales and 78 local, regional and unitary councils in New Zealand compared to 343 local authorities in England. It may not be possible to scale-up practices that are appropriate in these jurisdictions to England in a coherent way or to do so at a reasonable cost.

Practice in Scotland

6.4.5 When scoping, planning, performing, and reporting on their 'best value' work, auditors in Scotland are required to consider four audit dimensions. The first of these, financial sustainability, interprets the short term going concern opinion and requires auditors to look *"forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered."*

6.4.6 The results of VfM audits of Scottish local authorities tend to produce quite rich reports, which the Accounts Commission, the public spending watchdog for local government in Scotland, uses to identify and highlight key trends and risks across the sector. For example, the *Local Government in Scotland, Financial Overview Report 2018-19 (Dec 2019)*[15] found that Scottish councils were increasingly drawing down on their revenue reserves; and whilst all councils had medium term financial planning covering the next three to five years, long term financial planning had not improved since the last report.

[15] https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf

Practice in Wales

6.4.7 The value for money audit opinion an auditor of a Welsh local authority is required to provide is the same as that in England; that is an opinion on the "arrangements for securing economy, efficiency and effectiveness in its use of resources". However, the Welsh Code of Audit Practice requires auditors to review significant arrangements in place irrespective of whether material risks have been identified.

6.4.8 Where an auditor identifies notable financial resilience or other value for money concerns, the Auditor General for Wales has the statutory power[16] to publish a separate substantive report. These reports are publicly available on the Wales Audit Office's website and provide an in-depth assessment of the issues identified and the appropriateness of the plans that the local authority has to address these.

Practice in New Zealand

6.4.9 Local authorities in New Zealand are required to report performance in the Annual Report and Accounts against a range of financial prudence benchmarks specified in legislation. The auditor is required to report on the completeness and accuracy of the local authority's disclosures against these benchmarks. As all of the benchmarks have pass/fail thresholds, they lend themselves to a binary audit opinion.

6.4.10 The purpose of this statement is to disclose the Council's financial performance in relation to required benchmarks in order to assess whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. Although the benchmarks are backwards looking, five-year trend information is presented which helps the user of the accounts to understand how effective the local authority is in managing its financial resilience.

6.5 The audit of financial resilience – a new model for England?

Introduction

6.5.1 There is a significant gap between the reasonable expectations of many stakeholders and what the auditor is required to do when assessing the financial stability and resilience of local authorities.

6.5.2 To help bridge the expectation gap, the scope of audit should include a substantive test of a local authority's financial resilience and sustainability. Care and attention will need to be taken to define how the auditor should address historical, current and future financial sustainability issues, so that the engagement does not become overly burdensome or provide false comfort to stakeholders. In addition, expanding the scope of the audit will increase costs, and there needs to be a balance between those costs and the potential benefits of additional audit coverage and reporting.

6.5.3 However, cost should not be a deterrent in and of itself. The expansion of the opinion to encompass financial resilience and sustainability would, potentially, provide comfort to the authority and to council taxpayers that the finances are in good order. This

[16] under Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009

would represent a genuine demonstration of public accountability both from a local authority and from an audit perspective.

Form of the opinion

6.5.4 The revised narrative opinion proposed in the new NAO code should lead to a significant enhancement in the usefulness of auditor reporting. The 2020 Audit Code sets out three reporting criteria (para 3.10)[17]:

- 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.*

6.5.5 These criteria are not dissimilar to the four reporting pillars in the Scottish model. The pillar that auditors of English local authorities are not explicitly required to report on is financial management. It is unclear why this has been omitted but a possible reason is that an auditor would normally be expected to review material financial management controls as part of financial audit work.

6.5.6 The reporting requirements contained within the 2020 Audit Code will take time to settle down and embed and there will be a role for the regulator in identifying and promoting good practice. However, if practice develops as the NAO intends, the new reports should provide more useful information to stakeholders.

Work required to support an assessment of financial resilience

6.5.7 The 2020 Audit Code requires auditors to do less work to assess financial resilience than is required in either Scotland or Wales.

6.5.8 Specifically, auditors in England will not be required to test whether the body is planning effectively to continue to deliver its services or the way in which they would be delivered over the medium or longer time horizon as in Scotland. Nor will auditors be requested to review the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, test the operating effectiveness of those arrangements as in Wales.

6.5.9 In addition to the factors mentioned in the Code, auditors could use the indicators of financial stress in the CIPFA publication, *Pillars of Financial Resilience*, as a key element of the risk assessment.

6.5.10 To support such an assessment the auditor could be required to critically assess and, in cases where significant risks are identified, test the CFO's Section 25 report along with any other statutory reports or management estimates that have an impact on medium or long term financial resilience. This testing could include an assessment

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

of whether there are clear plans for delivering savings, the usage rate for non-ringfenced revenue reserves and whether the local authority benchmarks its costs against nearest neighbours and takes appropriate action in response to variances, as set out in accordance with CIPFA's *Pillars of Financial Resilience*.

6.5.11 In addition, the auditor could explicitly be required to assess whether the local authority has complied in practice, and in spirit, with statutory guidance that it is required to "have regard to".

6.5.12 CIPFA's *Financial Management Code* is another model that provides a set of standards against which auditors could assess value for money and financial resilience. However, it is too detailed to assess without a considerable amount of additional audit work. Nevertheless, the principles in the *Financial Management Code* would enhance the consistency of local authority financial management. MHCLG could take the opportunity to give it statutory status when the opportunity arises and require local authorities to report on their compliance with it in their Annual Governance Statement. Since auditors are required to read the Annual Governance Statement to ensure it is consistent with their knowledge of the business this, combined with the enhanced resilience testing recommended, would require auditors to report material breaches.

6.5.13 Consideration has also been given to whether it would be appropriate to require a specific investigation. A more detailed report would enable specific VfM or financial resilience issues to be identified, as in the Welsh model. This is not recommended, as this element of the Welsh model is not applicable due to scale.

7. Financial reporting in local government

7.1 The purpose of financial reporting in the local authority sector

7.1.1 Financial reports provide information to people who seek to understand the performance of an entity. As most of the money that local authorities receive is provided from general or local taxation, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with this money.

7.1.2 Local taxpayers and service users do not have the power to require a local authority to produce bespoke financial information for them. Instead, they have to rely on the financial statements. They can inspect the financial statements and the underlying accounting records for a 30-day period that must comprise the first ten days in June. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to allow them to ask appropriate questions.

7.2 Introduction to the framework

7.2.1 When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these are overridden by specific statutory requirements. As set out in **Figure 7.1**, Government retains the power to use secondary legislation either to override normal accounting practices or to require local authorities to include additional disclosures in their accounts.

Figure 7.1
Hierarchy of the Local Authority Accounting Framework

Primary Legislation	**Local Government Act 2003** Allows SoS to make provision about accounting practices that local authorities must follow.
Secondary Legislation	**Capital Finance and Accounting Regulations 2003** Gives CIPFA the power to produce a statutory accounting code. Introduces statutory overrides to private sector accounting practices; which must be reflected in the accounting code.
Statutory Code of Practice	**CIPFA Accounting Code of Practice** Statutory code setting out proper practices for local authority accounting in England.

7.2.2 When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of all the key stakeholder groups. MHCLG has observer status on this Board.

7.2.3 This Accounting Code board does not act in isolation. Its decisions are reported to the Financial Reporting Advisory Board (FRAB), which advises HM Treasury on public sector accounting. In practice, both the annual update to the Accounting Code and any amendments or adaptations to accounting standards for the local authority sector need to be considered at FRAB as well as at the CIPFA/LASAAC Board.

7.2.4 The Accounting Code applies to Principal Councils, PCCs, Chief Constables, FRAs, the GLA, Mayoral Combined Authorities, Passenger Transport Executives and National Park authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.

7.2.5 The Accounting Code is updated annually, and a new edition is published each financial year. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that at least one third of local authorities do not purchase an Accounting Code in any given year.

7.2.6 The Accounting Code does not apply to smaller authorities, for example Parish Councils, Ports Authorities or Independent Drainage Boards with gross income or expenditure of less than £6.5m per annum (which is currently all but one of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG), which comprises representatives of all of the key stakeholder groups. Smaller Parish Councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 8**.

7.3 Format of local authority accounts

7.3.1 Local authority accounts are very lengthy compared to accounts in other sectors, typically numbering in excess of 50 pages for shire districts and more than 80 for upper and single tier local authorities. They have more primary statements than central government and private sector accounts. **Figure 7.2** shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

7.3.2 Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector. This is primarily because there is a difference between the budget analysis of information for council tax purposes and the statutory basis of year end accounts.

Figure 7.2

Local Authority Accounts – Primary Statements and Supplementary Accounts

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
Movement in Reserves Statement (MIRS)*	Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes.
Balance Sheet	Sets out the Council's financial position at the year end.
Expenditure and Funding Analysis (EFA)*	Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.
Collection Fund Account* • Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA)* • LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

** Statements unique to local authority accounts*

7.3.3 Local authorities calculate their annual council tax requirement through setting a "balanced budget". The balanced budget calculation that local authorities are required to make is specified in primary legislation and is undertaken on a receipts and payments basis. Following the adoption of accruals accounting[18] by the local authority sector and as IFRS have continued to develop, successive governments have sought to protect council taxpayers from accruals movements that do not have an immediate impact on the costs of service delivery. They have done this through introducing statutory overrides.

7.3.4 The most significant of these statutory overrides relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the Movement in Reserves statement (MIRS) and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).

[18] Accruals accounting is a form of accounting where you recognise the economic cost of assets and liabilities over the period when benefits accrue. For example, if you are using accruals accounting and buy a car that you expect will last five years you would split the purchase cost of that car over five years. By comparison if you are accounting on a receipts and payments basis you would recognise the full cost of the car in the year you pay for it.

7.3.5 The adjustments process has two consequences. Firstly it substantially increases the length of local authority accounts as the financial statements report some transactions on both an accruals basis (through the CIES) and a funding basis (through the EFA and MIRS) and include notes reconciling the two; and secondly, unlike for financial statements produced by other sectors, neither the CIES nor the Balance Sheet shows the true financial position of a local authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

7.3.6 In addition to the statements in **Figure 7.2**, those local authorities who are also "administering authorities" for local authority pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. The Pension Fund accounts are audited as a separate audit engagement. This further lengthens the document and means that the audited accounts cannot be published as final until both the local authority audit and the pension fund audit have been completed. The sector has asked MHCLG to look at decoupling the local authority and pension fund accounts. However, it is not possible to do this without primary legislation.

7.4 Usefulness, understandability and transparency of local authority accounts

7.4.1 The Annual Accounts that each local authority must prepare are prescribed in detail and relevant standards must be observed in the preparation of the statutory accounts and financial report. IFRS cover both the public and private sectors so auditors seek to adhere to those principles when auditing local authority accounts. There is widespread agreement that the resultant accounts are not transparent or easily understandable.

7.4.2 Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and "market value" is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised. Underlying this point is the question of whether IFRS should continue to be a key element of local authority statutory accounts.

7.4.3 An issue related to the concern in local government about the complex local authority accounting arrangements is the capacity of the external auditor to test and validate technically intricate accounting treatment without a familiarity with local authority finance and accounting. Such an assertion by local government is not universal but it is a concern of many. However, the audit community, whilst recognising that there has been depletion in the number of auditors who served in the District Audit Service, is confident it has necessary skills and resources to fulfil the role.

7.4.4 As highlighted in **Chapter 4**, there is evidence of market stress in the supply of appropriately experienced and qualified local authority auditors. Some auditors have also argued that local government itself does not always have accounting staff with the technical expertise to complete the final accounts without guidance and support from external audit.

7.4.5 That the local authority accounts are very complex is not in dispute. There is wide acknowledgment from all stakeholder groups that the annual financial statement of accounts is understandable only to those with the necessary technical and professional knowledge of local authority accounts. When asked whether local authority accounts allow the user to understand an authority's financial performance and its financial resilience, 93% of respondents said no.

7.4.6 Whilst some local authority respondents argued that the understandability of the accounts is not an issue, because service users and taxpayers can take assurance from the fact that they are prepared and audited to internationally recognised standards, it is questionable whether this is a defensible position.

7.4.7 The lack of transparency and understandability of local authority accounts raises a fundamental and serious challenge in terms of transparency and public accountability. Potential users extend beyond councils, government and auditors. Key stakeholders include council taxpayers/service users, the general public, academia, the media and local authority partners and contractors. Without an appropriate level of transparency these users may not have the information to challenge their local authority effectively. The rigour underpinning local authority accounting and auditing may not be at issue but the accounts, as currently structured and presented, do not enable the public to understand how local authorities are stewarding public funds.

7.5 Options for reform

7.5.1 There are three broad options for enhancing the transparency and usefulness of local authority financial statements, so that they better serve the needs of a wider group of stakeholders. These are:

- Review of IFRS as a basis for the preparation of local authority accounts.
- Expansion and standardisation of the current narrative statement.
- Introduction of a new summary statement presented alongside the IFRS accounts.

7.5.2 The underlying purpose of all three options is to strengthen financial transparency and accountability by providing a simplified presentation that is more relevant to stakeholders. All options have costs associated with them but these need to be set against the benefits of that increased transparency.

Review basis on which accounts are prepared

7.5.3 CIPFA could be asked to review the basis of accounts, with the aim of updating the Accounting Code so that the transactions presented in the annual financial statements are prepared on the same basis as the annual budget approved by Full Council.

7.5.4 If followed to its logical conclusion, this would allow local authorities to prepare simplified accounts that could be easily reconciled to the annual budget. If accounts are presented on a funding basis, the reconciliations between the funding and accounting basis would no longer be required. In addition, many of the lengthier notes to a set of financial statements, such as the financial instruments disclosures, are mainly required to support IFRS disclosures and could be removed or simplified. This would lead to much shorter documents.

7.5.5 There are some issues that would have to be addressed with this recommendation. Firstly, designing and implementing a new accounting framework would be challenging. CIPFA could go back to the pre-2010 near cash accounting framework, but it is questionable whether this would be appropriate. Many local authorities are far more commercial in their operations and have far more leveraged balance sheets than in 2010, so removing much of the accounting for long term assets and liabilities could present a misleading picture of financial resilience to service users. It could lead to local authorities to leveraging their balance sheet yet further, storing up potential financial problems for future years.

7.5.6 Secondly, there is the perception risk of such a step. There could be a perceived disconnect if local authorities reverted to cash accounting at the same point that some are becoming more commercial, taking on more debt to invest in assets acquired solely or partially to generate a return.

7.5.7 Thirdly, moving away from IFRS accounting would create consistency problems between various parts of the public sector. The Accounting Code applies to Scotland, Wales and Northern Ireland as well as to England. If English local government moved to a near cash accounting framework, the other UK jurisdictions would face the decision of mirroring that move or else the Accounting Codes would need to diverge. In addition, the results of UK local government bodies are consolidated into the Whole of Government Accounts, which are prepared on an IFRS basis. If English local authority accounts moved to a near-cash accounting basis, those authorities would in practice be required to maintain financial records and prepare accounts on two bases: on a near-cash basis for their own accounts and an IFRS basis for consolidation into WGA. This would impose considerable additional cost.

7.5.8 Finally, the UK public sector is held up as applying a gold standard of accounting, primarily because it is one of the few to apply IFRS fully. If part of the sector moved away from this it could generate considerable reputational risk. As a result, HM Treasury and FRAB may well oppose any significant modification of the English local authority accounting framework.

Expansion and standardisation of the narrative statement

7.5.9 The framework for local authority annual reports and accounts is unusual in that, although local authorities are required to prepare an annual report, it does not include any mandatory disclosures. In 2015 CIPFA launched the “Telling the Story” initiative, which encouraged local authorities to use the annual report to accurately reflect financial and service performance. Some local authorities have produced innovative and informative annual reports following the launch of this initiative, but performance varies, with other authorities making minimal disclosures. In addition, because “Telling the Story” does not include mandated standards or disclosures it is not consistent across authorities.

7.5.10 By comparison, the UK Central Government Financial Reporting Manual (the "FReM") requires all central government reporting entities to prepare a Performance Report and an Accountability Report, both of which are based on Companies Act requirements as adapted for the public sector and contain mandated disclosures.

7.5.11 A similar approach could be adopted for local authority accounts. In this model, local authorities could be required to include a Performance Report in their annual report and accounts containing a reconciliation between the approved budget and year-end service expenditure, along with explanations for significant variances and the impact of the variances on revenue reserves, prepared on a budget setting basis whilst being reconcilable to the statutory accounts. Potentially this could be supplemented with standardised service delivery metrics and an explanation of longer-term risks and mitigations linked to key financial management strategies such as the Mid-Term Financial Plan, as appropriate.

7.5.12 The proposed Performance Report could be a transparent element of a local authority's Annual Report and Accounts, which discloses what the local authority planned to spend on each major service area, what it actually spent, where there were significant variances between the two what the reasons were, and what impact that has had on the reserves available to support the following year's expenditure. With the addition of service delivery metrics, the Report could also start to give an indication of what service users and taxpayers have got for their money. If the financial information and performance metrics are prepared to common standards, this could start to bring a degree of comparability between authorities, which could promote improvements in the effectiveness and efficiency of service delivery.

7.5.13 Finally, if the reconciliation between budget and outturn is presented in the Annual Report, it may be possible to remove or reduce the MIRS, the EFA and supporting disclosures. This could offset the increased work required to produce the new Performance Report.

7.5.14 There are some challenges with this approach:

- it would mean extending the scope of the audit engagement, particularly if the auditors are required to form an opinion on non-financial information.
- if non-financial service delivery metrics are subject to audit they will need to be prepared and disclosed on a consistent basis. It will be necessary to identify appropriate metrics across a range of service areas, a process that could take time. In addition, including metrics for all of the services that a local authority provides would require very lengthy disclosures.
- if included in a long Annual Report and Accounts document, there is no guarantee that this statement would be any more visible to the general public than the current financial statements are.
- there is a risk that some local authorities use the narrative element of such a statement to present an overly positive view of their achievements and finances.

Introduction of a new summary statement

7.5.15 A variation in part, and a replacement of the enhanced narrative statement, is to leave the current local authority accounts largely unaltered and instead require the production of Summarised Accounts, prepared on the budget setting basis. As with the enhanced narrative statement, the Summarised Accounts would need to be reconcilable to the Statutory Accounts and be subject to audit to have credibility.

7.5.16 Statutory Guidance would need to be developed to set out the form and content of the Summarised Accounts. Potentially they could contain:

- A statement of service information and costs prepared in a standard format and to a standardised framework. The most appropriate framework would probably be the statutory Service Reporting Code of Practice (SERCoP).
- Comparison between budget setting information and outturn performance.
- A degree of detail to encompass all key service expenditure heads; where appropriate this could be extended to present unit cost information. A simplified balance sheet, including some form of assurance relating to non-ringfenced revenue reserves and debt levels and borrowing plans, with the latter linked to the Prudential Framework disclosures, could also be produced.
- A brief narrative. This could be limited to a financial commentary comprising explanations of significant variances between budget and outturn along with an assessment of the impact on medium term financial sustainability. It may also be possible to include a brief description of outcomes though this would need to be linked back to the objectives set when the annual budget was approved.

7.5.17 The aim of this document would be to present a statement aimed at the local community rather than as a basis for compiling national statistics. Because of differences between local authorities, comparability would be difficult and potentially misleading. Local authorities could be asked to think about a range of communication methods to reach their local communities more effectively.

7.5.18 The summary accounts would be a vehicle to increase transparency. As this would be a short stand-alone document, it would be much more accessible to taxpayers and service users.

7.5.19 Local authorities would have to reconcile outturn between the funding basis and IFRS accounting basis. However, the value of disclosing these reconciliations could be reassessed, potentially allowing the MIRS, the EFA and supporting disclosures to be discontinued. This could allow the statutory financial statements to be prepared on an IFRS basis without statutory adjustments.

7.5.20 Finally, consideration would need to be given as to the level of audit required for the Simplified Statements, and the agreed procedures that auditors would be required to undertake to provide assurance over reconciliations between the IFRS Financial Statements and the Simplified Financial Statements, that are not disclosed in either.

8. Smaller authorities

8.1 Introduction

8.1.1 Smaller authorities are defined in the 2014 Act as an authority where the higher of gross annual income or expenditure does not exceed £6.5 million for three years (or one or two if the authority has not existed for three years). Currently there are just under 10,000 smaller bodies, only one of which has to prepare a full set of IFRS compliant accounts and undergo a full audit.

8.1.2 There are different types of smaller authority with a varied range of responsibilities and powers:

- Local councils including Parish, Town, Village and Community Councils and parish meetings. Some common responsibilities can include, but are not limited to, commons and open spaces, car parks, lighting, footpaths, leisure and sports facilities, litter bins, and tourism activities. Some of these services are delivered on behalf of the unitary and district councils.
- IDBs which are responsible for managing water levels including managing flood risks and land drainage.
- Other smaller authorities such as charter trustees, port health authorities, conservation bodies and crematorium boards.

Smaller authorities are financed primarily through a precept which is collected as part of council tax by the unitary or district council. They can also apply for grants and awards.

8.1.3 Governance arrangements depend on the type and size of the authority. All local authorities are required to have a clerk; however, for small authorities, this could be their only employee or may be a volunteer or part-time worker. Roughly two-thirds of smaller authorities have a single employee, and some don't have any employees. The clerk is analogous, in part, to a CFO in a principal authority, as there is a requirement to give guidance to councillors, in many cases carrying out the role of the Finance Officer. Smaller authorities must publish the statement of accounts together with any certificate or opinion provided by the local auditor[19].

8.2 Scale of audit

8.2.1 Smaller authorities are not required to produce IFRS based accounts but instead produce a simplified statement of account on a receipts and payments basis. Some larger Parish Councils present accruals-based accounts alongside this, although these are unaudited. As set out in **Figure 8.1**, smaller authorities are either exempt from audit or undergo a 'limited assurance engagement'. As the name suggests, this provides less assurance than a full-scale audit.

8.2.2 While most authorities with an income or expenditure of up to £25,000 are exempt from audit, a request can be made for a 'limited assurance engagement' from SAAA who will then appoint an auditor to undertake this work. More than 100 bodies have chosen to do this.

[19] The Accounts and Audit Regulations 2015
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Figure 8.1

Table of audit thresholds and associated requirements for smaller authorities [20]

Level of income or spending	Form of external assurance to be provided from 2017-18 onwards	% of smaller authorities in each band
More than £6.5 million.	'Full audit' under international auditing standards.	0.01%
Up to £6.5 million but more than £200,000 (accounts on income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	11%
Up to £200,000 but more than £25,000 (accounts can be on either receipts and payments or income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	31%
Gross income or gross expenditure up to £25,000	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt. Work by an auditor may still be needed in certain circumstances – notably if there are objections to the accounts.	58%
No financial transactions and no accounts	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt.	

8.2.3 Smaller authorities are also required to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes[21]. Quality of internal audit staff is said by some respondents to be variable, which has the potential to cause issues for the external audit.

8.2.4 One of the trends in recent years has been the transfer of assets and associated running costs to Parish Councils. If smaller authorities are given more responsibility, or if the spending of smaller authorities were to change to where many such authorities approach the £6.5 million threshold, the current accountability arrangements may no longer be appropriate. The assurance levels may need to be reviewed by MHCLG. This is especially pertinent as smaller authorities are not bound

[20] NAO AGN02 Specified Procedures for Assurance Engagements at Smaller Authorities https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-02-Specified-Procedures-for-Assurance-Engagements-at-Smaller-Authorities.pdf

[21] The Accounts and Audit Regulations 5(1) 2015https://www.legislation.gov.uk/uksi/2015/234/made#:~:text=5.,internal%20auditing%20standards%20or%20guidance.

by council tax referendum rules[22] and can raise their precept by the amount they consider necessary.

8.2.5 In 2020, one IDB met the threshold for preparing full statutory accounts. Available evidence suggests that this is the first occasion of this happening. The cause of the IDB's increase in income and expenditure was the capital grants it received and, as such, the requirements for a full code audit may be temporary. PSAA and the Association of Drainage Authorities (ADA) have worked with the authority to find a new auditor as the previously appointed auditor does not qualify under the statutory framework to undertake full audits. This also resulted in an increased audit fee, from less than £5,000 to £40,000. Producing full IFRS accounts will considerably increase the amount of internal work required by the IDB and this is likely to represent a challenge to its available skills and infrastructure.

8.3 Procurement of audit

8.3.1 Prior to 2017, smaller authorities were included in the audit contracts let by the Audit Commission in 2014 that were taken over by PSAA through the transitional arrangements. SAAA was designated as an appointing person under legislation[23] by the Secretary of State to take over this role from 2017-18. SAAA is an independent, not for profit company. SAAA was set up by the National Association of Local Councils (NALC), Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). Although smaller authorities have the same power to appoint their own auditors as principal authorities, in practice, all smaller authorities opted in to SAAA's procurement. SAAA has appointed external auditors for a 5-year period from 1 April 2017.

8.3.2 SAAA's procurement comprised 17 equally sized lots. Other than for IDBs, which were grouped together, lots were geographically based. The SAAA procurement was based on price once a supplier had met a minimum quality threshold. There were five firms that met this threshold. The result of this exercise was that 15 were awarded to a single audit firm and two other firms won one lot each. This met SAAA's declared objective of having a minimum of three firms in the market. Of the three firms, two had previously held contracts with PSAA and one re-joined the market. With regard to the quality and price ration for appointing auditors, SAAA believes that once a certain threshold is reached, it is very difficult to differentiate between firms on the basis of quality.

Fee scale

8.3.3 SAAA's fee scale is based on 15 bands of income or expenditure (whichever is higher). Audit Commission and then PSAA, through the transitional arrangements, also used this fee scale. Exempt authorities do not pay an audit fee. Authorities with income or expenditure of between £25,000 and £50,000 pay an audit fee of £200. Fees rise in stages up to a maximum of £3,600 in cases where income or expenditure is more than £5 million but less than £6.5 million.

[22] The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012 https://www.legislation.gov.uk/ukdsi/2012/9780111519035/regulation/3
[23] The Local Audit (Smaller Authorities) Regulations 2015 https://www.legislation.gov.uk/ukdsi/2015/9780111126103

8.3.4 The scale fees paid by smaller authorities for their audit have remained unchanged for the past 12 years. There have been savings for those smaller authorities that, from 2017, could declare themselves as exempt and, therefore, did not have to pay for an audit.

8.3.5 This audit fee model relies on larger authorities supplementing the cost of audit work for smaller authorities. As there are 15 bands of fees, there may be councils receiving the same level of audit work whilst paying different amounts. Although this may offer the most efficient method of payment to ensure audit is affordable for all smaller authorities, the banding system may warrant review.

8.3.6 Overall, smaller authorities seem content with the level of audit fees they pay. The only area of concern raised related to capital grant funding. Two Parish Councils raised concerns that the impact of the rising scale fee could be a deterrent for local authorities investing in future capital schemes in the local community.

Fee variations

8.3.7 Smaller authorities may be subject to variations to the scale fees set out above if additional work is needed. Some of this work is costed as a fixed supplement of the fee scale and some is charged at fixed hourly rates. SAAA agreed a maximum hourly rate for additional work and this is published on their website. Examples of where fee variations may be charged include the auditor considering objections to the accounts from local electors, and where special investigations are undertaken.

Quality

8.3.8 There is no indication that the smaller authority audit market is encountering delayed audit opinions, as is the case for larger authorities. SAAA use trackers completed by the firms to collate and analyse key management information to track and report on the management, delivery and the outcomes of limited assurance reviews. SAAA also reviews the underlying data quality and system interfaces on a light touch risk basis.

8.3.9 In carrying out its quality assurance role, as set out in the Appointing Person Legislation, SAAA review and test the firms' internal quality assurance processes and contract compliance systems (quality aspects) to ensure the delivery of good quality reviews. An overall rating for both quality of limited assurance review work and contract management, compliance and data quality is provided. The findings of this process are reported to each firm and to SAAA's Board. They do not publish these findings, though they maintain the right to do so.

8.3.10 A very small number of smaller authorities responded to the Call for Views; therefore, it must be stressed that the following comments are not necessarily reflective of the sector. One Parish Council commented that the arrangement with SAAA made it feel that the auditor didn't consider the council to be its customer. Similar feedback has been received concerning PSAA's role. It also commented that it felt the quality of their audit was very poor and that it added no value. This may be in part due to the framework of limited assurance audit for smaller authorities and a resulting 'expectation gap'. The Review is unable to corroborate whether this is a commonly held view.

8.3.11 Two other Parish Councils questioned whether auditors provided the right level of assurance. One commented that larger Parish Councils should be held to the same standards for financial reporting, transparency and accountability as those applied to principal authorities of equivalent size. The council linked this to the fact that some councils are playing an increasingly significant role in their communities. It is true that there are currently three smaller authorities that have an annual income or expenditure of over £5 million which is similar to the smallest Category 1 authority which is subject to a full audit. However, there are not many Category 1 authorities that are this small. The other respondent was specifically concerned about governance and financial transparency within the council and the lack of clarity on spending.

8.4 Accountability

8.4.1 In addition to producing a financial return, most smaller authorities are subject to transparency requirements. There are two Transparency Codes; authorities with an income or expenditure of £200,000 or more are included in the same mandatory Transparency Code[24] as principal authorities. Exempt authorities are subject to a specific smaller authority Transparency Code[25], made mandatory in April 2015, that:

"will enable local electors and ratepayers to access relevant information about the authorities' accounts and governance".

8.4.2 Authorities with income and expenditure under £200,000 but above £25,000 are expected to follow the same requirements but it is not mandatory. As these authorities are subject to audit, the transparency code was not considered to be applicable. Such difference in approach may warrant further attention. However, Commitment 8 in the governments UK National Action Plan for Open Government[26], sets out the government's plan for local transparency which includes MHCLG developing proposals to:

"help and encourage councils to publish all the information they can".

Objections

8.4.3 Local objections can be made to an item of expenditure in a smaller authority's finance return. It is very difficult to ascertain how many objections to the accounts smaller authorities receive, as the auditor is required to respond, by statute, only to the objector. As a result, most objections are never made public, the exceptions being if an objector choses to publish a response or the investigation leads to a Public Interest Report. However, one authority reported over 100 objections in a single year. NALC commented that several authorities at the smaller end of the income and expenditure level are consistently subject to objections, sometimes by the same individual or group of objectors.

[24] Local Government Transparency Code 2015
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf

[25] Transparency Code for Smaller Authorities
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf

[26] 2019-2021 UK National Action Plan for Open Government
https://www.opengovernment.org.uk/resource/uk-national-action-plan-for-open-government-2019-2021/

8.4.4 The auditor is responsible for reviewing all objections that meet the statutory requirement. In deciding whether to investigate, the auditor has to review the objection, which will result in a cost to the authority (not exceeding the maximum hourly rates as specified by SAAA) even if they do not subsequently pursue an investigation.

8.4.5 The auditor can refuse to investigate an objection[27] if:

- the cost of dealing with the complaint would be disproportionate to the underlying sum;
- the objection is frivolous or vexatious; or
- it is a repeat of a complaint made in a prior year of account.

8.4.6 A number of smaller authorities receive repeat or vexatious complaints. Where an authority receives such a complaint, it can choose to terminate communication with the complainant. However, if that individual raises an objection, an auditor must consider it to see if it is something to be pursued. This work incurs a supplement to the scale fee as set out by the SAAA. Given the size of many smaller authorities, objections can be proportionately very costly, both in terms of additional fees paid to auditor firms and in terms of resources that the authority requires to support, appropriately, the objection process. As with larger authorities, outstanding objections can cause a delay in issuing the audit opinion

8.4.7 The objections regime does provide a solid basis of accountability and ensures the auditor investigates potential issues further, to supplement the 'limited assurance' audit. There may be cases where the system is misused. Consideration should be given to provide more support to auditors to enable them to identify repeat or vexatious objectors in a more efficient manner.

Public Interest Reports

8.4.8 External auditors have a duty under the 2014 Act to consider whether to issue a report where there has been a significant matter identified that needs to be addressed in the interests of the public. There are more PIRs issued for smaller authorities than there are for larger authorities. SAAA publishes reports from the 17/18 financial year on their website, and previous financial years are available on the archived PSAA website.

Figure 8.2

Smaller Authorities - Reasons why a PIR was issued

	16/17	17/18	19/20
Failure to produce an annual return (for 16/17) or an AGAR (from 17/8 onwards)	16	22	23
Criteria submitted for exemption not all satisfied	N/A	0	8
Other	6	1	0
Total	22	23	31

The "other" category includes issues relating to governance, fraud, employment law, and non-compliance with VAT regulations.

[27] NAO Local Authority accounts: A guide to your rights https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Council-accounts-a-guide-to-your-rights.pdf

8.4.9 One authority had a PIR issued for all three years for failure to produce an annual return or annual governance and accountability returns (AGAR), and a further seven authorities had a PIR issued in two of the three years for the same reason. Failure to produce an AGAR from 2017/18 triggers a statutory recommendation to the authority from the external auditor that it should submit an approved AGAR within 42 days. A public interest report is then issued if the authority fails to do so.

8.4.10 Out of the six PIRs issued in 16/17 that were *not* due to a failure to produce an annual return, four of them related to work carried out by auditors in response to objections raised by a local elector. In one authority's case, it received objections on a multitude of issues with one issue (ineffective internal audit and other governance failings) receiving a number of objections.

8.4.11 If a smaller authority chooses not to engage with external audit recommendations or PIRs, there is no mechanism, other than through local elections, to hold smaller authorities to account. The LGSCO investigates complaints against larger local authorities, but this does not extend to Parish Councils. If MHCLG wishes to devolve more powers to smaller authorities or smaller authorities increase their spending considerably, MHCLG should consider further accountability arrangements for smaller authorities.

8.5 Financial Reporting in Smaller Authorities

8.5.1 Smaller authorities that are able to declare that they have had had no financial transactions in the year of account do not need to prepare accounts. Instead they can send a declaration that they are exempt to their auditor.

8.5.2 Smaller authorities that cannot declare themselves exempt have to prepare an Annual Governance and Accountability Return (AGAR). The AGAR which is freely available, is updated and produced by SAAA and approved by the SAAA board. The cost of its production is met by SAAA.

8.5.3 JPAG is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities, together with stakeholder partners representing MHCLG, the Department of Environment, Food and Rural Affairs, CIPFA, the NAO and a representative of the external audit firms appointed to smaller authorities.

8.5.4 The AGAR has a number of sections. In order these are:

a. Guidance notes on how to complete the template and what information needs to be published on the authority's website.
b. The Annual Internal Audit Report.
c. Section 1: The Governance Statement.
d. Section 2: The Accounting Statement, which is prepared on a receipts and payments basis.
e. The External Auditor Report and Certificate.

8.5.5 Each non-exempt smaller authority is required to complete parts b, c, and d of the AGAR and send it together with a bank reconciliation and an explanation of any variances between the budget and the outturn to the auditor. The template itself is quite short, but fairly busy, with detailed guidance included in each section.

8.5.6 Under the Accounts and Audit Regulations 2015, authorities must publish the following information on a publicly accessible website. Before 1 July, smaller authorities must publish:

- Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited;
- Section 1 - Annual Governance Statement, approved and signed; and
- Section 2 - Accounting Statements, approved and signed.

8.5.7 Not later than 30 September, smaller authorities must publish:

- Notice of conclusion of the audit;
- The External Auditor Report and Certificate: and
- Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.

9. Conclusions

9.1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of The Review

9.2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:

- providing clarity of purpose in local audit;
- giving emphasis to performance and accountability in local audit framework;
- maintaining and improving the stability of the local audit market;
- reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
- improving and strengthening the governance arrangements underpinning effective local audit;
- developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
- engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
- providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

9.3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

9.4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.

9.5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.

9.6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.

9.7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.

9.8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to ‘turnover’ thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.

9.9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.

9.10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local authority’s financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO’s annual Section 25 report of the budget. This could be further assisted by a review of the local authority’s observance of CIPFA’s Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor’s work is genuinely transparent and accessible to local taxpayers an Auditor’s Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

9.11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.

9.12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.

9.13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

10. List of Annexes

1. What are auditors required to do?
2. Roles and duties of Statutory Officers
3. Functions of the Office of Local Audit and Regulation
4. Illustrative Simplified Financial Statements
    a. District Council
    b. Fire and Rescue Authority
    c. Police and Crime Commissioner
    d. Unitary Authority
5. Potential impact of recommendations made by other reviews of audit
6. Approach of other state auditors to performance audit
7. Terms of Reference
8. Call for Views respondents

Appendix – Glossary of Key Terms, Acronyms and Abbreviations

ACCA – Association of Chartered Certified Accountants
Professional accounting body offering the Chartered Certified Accountant qualification

Accounting Officer
Normally the Permanent Secretary of a government department who is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources

Accounts and Audit Regulations 2015
Statutory Instrument that sets the deadlines for publishing unaudited local authority accounts for inspection and for publishing audited local authority accounts; requires local authorities to have an internal audit; and details the information that must be included in local authority annual report and accounts.

Adverse Opinion
An audit opinion - a conclusion that an authority's accounts are not true and fair/proper arrangements to secure the economy, effectiveness and efficiency of service delivery are not in place.

AGN – Auditor Guidance Notes
Guidance produced by the National Audit Office to support external auditors in their work and to facilitate consistency of approach between auditors of the same types of entity. These have the same status as the NAO Audit Code of Practice

ALB – Arm's Length Body
A body which has a role in the processes of national government but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Annual Audit Letter – also known as Audit Completion Report or ISA260 Report
The annual audit letter summarises key findings from the auditor's yearly audit; often includes management recommendations.

AQR – Audit Quality Review team
The part of the Financial Reporting Council that monitors the quality of the audit work of statutory auditors and audit firms in the UK that audit Public Interest Entities (PIEs). Since 2018-19 AQR has been responsible for the quality assurance of larger local authority audits.

ARGA – Audit, Reporting and Governance Authority
A planned independent regulatory body to replace the Financial Reporting Council. This was recommended by Sir John Kingman in his review of the Financial Reporting Council and supported by Sir Donald Brydon in his review into the quality and effectiveness of audit

Audit Commission
A now disbanded independent public corporation that had the responsibility for appointing auditors to a range of local public bodies in England. They set the standards for auditors and had oversight their work

Audit Scotland
The body responsible for supporting the Auditor General for Scotland in providing independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

BEIS – Department for Business, Energy & Industrial Strategy
Has policy responsibility for statutory audit, including taking forward the recommendations made by the Kingman and Brydon reviews.

Best Value
A local authority should make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Under the Duty of best value, therefore, authorities should consider overall value, including economic, environmental and social value, when reviewing service provision. Central government may use its best value powers to intervene in a local authority in exceptional cases where that best value duty has not been met.

Brydon Review
Independent Review into the Quality and Effectiveness of PIE Audits led by Sir Donald Brydon (published December 2019).

C&AG – Comptroller and Auditor General
An independent officer of the House of Commons who leads and is supported by the National Audit Office. Has the statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Responsible for preparing, maintaining, and developing the Code of Audit Practice for local authority auditors (the Audit Code).

Capital Finance and Accounting Regulations 2003 (as amended)
Regulations governing local authority capital finance and investment. Include the statutory overrides to GAAP that local authorities in England are required to apply.

Category 1 Authority
A relevant authority that either: (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations. All local authorities with income or expenditure of more than £6.5m are Category 1 authorities. The Council of the Isles of Scilly and Shire Districts with income and expenditure of less than £6.5m are also Category 1 authorities.

Category 2 Authority
A relevant authority that is a smaller authority (that is a parish council, parish meeting or internal drainage board) and has annual income and expenditure of less than £6.5m

CFO – Local Authority Chief Financial Officer / Head of Finance (also referred to as the S151 Officer)
A local authority officer, who has statutory responsibility for the proper conduct of that local authority's financial affairs.

CIAA – Chartered Institute of Internal Auditors
A representative body of internal auditors

CIPFA – Chartered Institute of Public Finance and Accountancy
A professional public finance accountancy body. Maintains four statutory codes that local authorities are required to 'have regard to'.

Clean opinion – also known as an "unqualified opinion"
An audit opinion – that the accounts are true and fair, free from material misstatement and have been properly prepared in accordance with the applicable accounting framework.

Code of Audit Practice
The "Audit Code" sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. The Comptroller and Auditor General is responsible for the preparation, publication and maintenance of the Code of Audit Practice.

Code of Practice on Local Authority Accounting
Public sector organisations responsible for locally delivered services are required by legislation to prepare their accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

CIPFA/LASAAC
A partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). Responsible for preparing, maintaining, developing and issuing the Accounting Code.

CMA – Competition and Markets Authority
A non-ministerial government department responsible for strengthening business competition and preventing and reducing anti-competitive activities

CMA Markets Study - Audit
The CMA carried out a study into the statutory audit market, to see if the market is working as well as it should. (published October 2018)

County councils – also known as Shire Counties
Upper tier authority responsible for services across the whole of a county such as: education; transport; planning; social care.

CQC – Care Quality Commission
An executive non-departmental public body responsible for monitoring, inspecting and regulating health and social care services.

DHSC – Department for Health and Social Care

District Audit Service
Set up in 1844, and originally part of HMT, was the Audit Commission's in-house audit practice until all local authority audits were outsourced for the 2012-13 financial year. Most staff working in the DAS at that time transferred to the private sector accountancy firms who took on responsibility for local authority audits.

District Council – also known as Shire District
Lower tier authority, responsible for services over a smaller area than county councils such as: rubbish collection; recycling; Council Tax collections; housing; planning applications

EFA - Expenditure and Funding Analysis
Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES

Except for opinion
An audit opinion - a conclusion that in all material respects the accounts are true and fair/proper arrangements are in place except for the matters detailed in the audit certificate and report OR a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether one or more material items in the accounts are true and fair/a material element of proper arrangements are in place

Financial Reporting
Financial reporting uses financial statements to disclose financial data that indicates the financial health of an entity over during a specific period of time. These reports provide information to people who wish to understand the performance of an entity

FRA – Fire and Rescue Authority
A supervisory body which ensures that a local fire service performs efficiently and in the best interest of the public and community it serves. FRAs can be part of a another type of local authority or can be stand-alone entities.

FRAB – Financial Reporting Advisory Board
The role of the board is to ensure that government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice as far as possible.

FRC - Financial Reporting Council
An independent regulatory body which regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. Currently transforming into a new body the Audit, Reporting and Governance Authority.

FReM - UK Central Government Financial Reporting Manual
The technical accounting guide to the preparation of financial statements, prepared after consultation with the Financial Reporting Advisory Board. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland

General Fund
The main revenue account that local authorities are required to maintain. The majority of income goes into the general fund account and most service expenditure is funded from it.

General Power of Competence
Introduced by the Localism Act 2011 and took effect in February 2012. In simple terms, it gives councils the ***power*** *to do anything an individual can do provided it is not prohibited by other legislation. Most wholly-owned local authority companies are set up under the General Power of Competence.*

Generally Accepted Accounting Practice/Principles (GAAP)
A collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced "gap." GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Going Concern Test
An element of the audit report certifying that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. Going concern reporting is very specifically about ensuring that the correct accounting basis is being used, not about confirming whether an authority is running out of resources.

Greater London Authority (GLA)
A type of local authority. The GLA regional authority, with powers over transport, policing, economic development, and fire and emergency planning in Greater London. The GLA is unique in the British devolved and local government system, in terms of structure elections and selection of powers.

Head of Paid Service
The Head of Paid Service has statutory responsibility for the management and coordination of the employees appointed by the Council. Although the roles are separate, frequently the Chief Executive or Managing Director of a local authority.

HMICFRS - Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
Inspectorate responsible for independently assessing the effectiveness and efficiency of police forces and fire & rescue services.

HMT – Her Majesty's Treasury

HOFMCP - Home Office Financial Management Code of Practice
The financial management code of practice provides clarity around the financial governance arrangements within policing

Housing Revenue Account
Legislation prohibits social housing expenditure from being subsidised by general fund expenditure and vice versa. Therefore, local authorities with social housing stock are required to maintain a separate "housing revenue account", which must be self-financing.

ICAEW - Institute of Chartered Accountants of England and Wales
A professional membership organisation that promotes, develops and supports chartered accountants and students in the UK, Wales and globally. Responsible for maintaining the register of firms and KAPs qualified to sign off audits of local authority accounts.

ICAS - Institute of Chartered Accountants of Scotland
A professional membership organisation that promotes, develops and supports chartered accountants and students in Scotland.

IFRS – International Financial Reporting Standard (set by the International Accounting Standards Board)
A public interest organisation which has developed and maintains a single set of globally accepted accounting standards.

Internal Drainage Board
A type of local authority which is established in areas of special drainage need in England and Wales with permissive powers to undertake work to secure clean water drainage and water level management within drainage districts. The area of an IDB is not determined by county or metropolitan council boundaries, but by water catchment areas within a given region.

ISA - International Standards on Auditing
Standards for audits of financial statements, which include objectives for the auditor, together with requirements and related application and other explanatory material. ISAs(UK) are issued by the FRC.

KAP – Key Audit Partner
A senior member of staff within an audit firm who is registered to sign off a set of local authority accounts. Does not need to be a partner in the firm.

Kingman Review
Independent Review of the Financial Reporting Council led by Sir John Kingman (published December 2018). Included commentary and recommendations for local audit.

KPI – Key Performance Indicator
A performance measurement which helps evaluate the success of an organisation or of a particular activity in which it engages.

LGA – Local Government Association
The national membership body for local authorities.

LGSCO – Local Government and Social Care Ombudsman
A service that investigates complaints from the public about councils, registered adult social care providers and other select bodies providing public services in England

Limitation in Scope
An audit opinion - a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether the accounts are true and fair and/or proper arrangements are in place to deliver economy, efficiency and effective services.

Local Audit and Accountability Act 2014
Abolished the Audit Commission and established the current arrangements for the audit and accountability of the local public audit system

Local Audit Delivery Board
Consultative board chaired by MHCLG, which compromises of representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the local authority accounting framework. Meetings are held in private and it has no formal powers or remit.

Local Government Act 2000
An Act to make provision with respect to the functions and procedures of local authorities

London Borough
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through the Greater London Authority.

Mayoral Combined Authority
A type of local authority created in areas where they are considered likely to improve transport, economic development and regeneration. MCAs are led by metro mayors who make decisions about policy and spending in conjunction with council leaders from each constituent council. Both the metro mayor and each of the council leaders have a single vote and must approve or oppose decisions.

Metropolitan borough – also known as Metropolitan District
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through 'joint authorities

MHCLG – Ministry of Housing, Communities and Local Government
The government department with policy responsibility for the local audit framework.

MIRS - Movement in Reserves Statement
Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes

Monitoring Officer
A local government officer with three main roles: to report on matters he or she believes are, or are likely to be, illegal or amount to maladministration; to be responsible for matters relating to the conduct of councillors and officers; and. to be responsible for the operation of the council's constitution.

NAO – National Audit Office
The UK's independent public spending watchdog. The NAO support Parliament in holding government to account and they work to improve public services through their audits. They are led by the Comptroller and Auditor General

NHSI(E) – NHS England and NHS Improvement
The umbrella body for the NHS in England. From 1 April 2019, NHS England and NHS Improvement have worked together as a new single organisation to better support the NHS to deliver improved care for patients.

Ofsted - Office for Standards in Education
Office for Standards in Education, Children's Services and Skills. Inspect services providing education and skills for learners of all ages. Also inspects and regulate services that care for children and young people including those delivered by local authorities.

Parish Council – can also be known as community councils
A civil local authority found in England and is the lowest tier of local government. They are elected corporate bodies, have variable tax raising powers. Responsibilities of parish council's vary considerably but can include allotments, bus shelters, burials and maintenance of common land and rights of way.

Parish Meeting
A meeting to which all the electors in a civil parish are entitled to attend. In some cases, where a parish or group of parishes has fewer than 200 electors, the parish meeting can take on the role of a parish council, with statutory powers, and electing a chairman and clerk to act on the meeting's behalf.

PCC – Police and Crime Commissioner
An elected official in England and Wales charged with securing efficient and effective policing of a police area. Commissioners replaced the now-abolished police authorities.

PIE – Public Interest Entity
A listed company or an entity with listed debt. Under EU Law, entities are designated by Member States and are usually defined as having undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

PIR – Public Interest Report
When an Auditor considers there to be a matter that is sufficiently important enough to be publicly brought to the notice of the council or the public they can make a report in the public interest.

PSAA - Public Sector Audit Appointments Ltd
Public Sector Audit Appointments is a company limited by guarantee wholly owned by the Local Government Association. PSAA are specified as an appointing person for local authority under provisions of the Local Audit and Accountability Act 2014. The functions of PSAA are specified in statute.

Qualified Audit Opinion
When an external auditor concludes that financial records have not been maintained in accordance with the Generally Accepted Accounting Principles. There are three types of qualified opinion; an except for; adverse; and limitation in scope opinion

SAAA - Smaller Authorities' Audit Appointments Ltd
The sector-led limited company appointed as the specified person to procure and appoint external auditors to smaller authorities and to manage the ongoing smaller authority audit contracts.

SERCoP - Service Reporting Code of Practice
A statutory code that sets out the proper practices with regard to consistent financial reporting for services; all local authorities in the UK are expected to adopt its mandatory requirements and recommendations and use them when reporting statistical data to central government.

Smaller Authorities - parish, community and town councils and internal drainage boards
These operate at a level below district and borough councils and in some cases, unitary authorities. They sometimes deliver additional services on behalf of the district council.

SOLACE – Society of Local Authority Chief Executives
Members' network for local government and public sector professionals throughout the UK

TUPE - Transfer of Undertakings (Protection of Employment)
Regulations to protect employees if the business in which they are employed changes hands. The two types of transfer protected by TUPE regulations are business transfer and service provision changes

Unitary Authorities
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide.

Unqualified Audit Opinion
When an external auditor concludes that the financial statements of an entity present fairly its affairs in all material aspects

VfM Conclusion – Value for Money Conclusion
A requirement that external auditors undertake sufficient work to be able to satisfy themselves as to whether the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period

Welsh Audit Office
The Wales Audit Office provides staff and other resources for the Auditor General's work, and monitors and advises the Auditor General for Wales.

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Report Title:	2020/21 Audit and Investigation Annual Report
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor C. Bateson, Chairman of the Committee
Meeting and Date:	Audit and Governance Committee, 17 May 2021
Responsible Officer(s):	Adele Taylor, Director of Resources (S151 Officer); Andrew Vallance, Head of Finance (Deputy S151 Officer)
Wards affected:	All

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REPORT SUMMARY

1 This report and supporting appendices summarise the Shared Audit and Investigation Service (SAIS) activity and outline the progress in achieving the 2020/21 Audit and Investigation Plan as at 31 March 2021.

2 This recommendation is being made to ensure that the Council meets its legislative requirements and those of the Audit and Governance Committee's Terms of Reference.

3 The Audit and Investigation Plan aims to ensure that the Council provides an effective Internal Audit activity function and assists the organisation in achieving its objectives in the most economic, efficient and effective way, whilst ensuring that Council assets and interests are being safeguarded from misappropriation/loss and thereby giving confidence to residents that public funds are being used appropriately.

4 The key financial implications for the Council are revenue costs of the SAIS.

1. DETAILS OF RECOMMENDATION

RECOMMENDATION: That Audit and Governance Committee notes the report and:

i) The SAIS activity for the financial year end 31 March 2021.

ii) Progress in achieving the 2020/21 Internal Audit and Investigation Plan.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
Note the attached report and supporting appendices and the activity of the SAIS during 2020/21 and progress in achieving the 2020/21 Audit and Investigation Plan. **This is the Recommended Option**	This will ensure that the Council meets its statutory requirements. In addition, the Audit and Governance Committee will comply with its responsibilities as set out within their Terms of Reference.
Note the attached report with amendments.	Members may wish to request that this report be amended / altered if they feel that there are material issues which have not received sufficient emphasis or if there are specific issues the report is deficient in.
Do nothing: Not note the attached report.	This may expose the Council to unnecessary risks by not having an adequate internal control framework leading to poor performance and poor outcomes for service users/residents. It may result in a qualification in the External Auditor's Annual Management Letter.

2.1 Regulation 6 (1) of the Accounts and Audit Regulations (2015) requires the Council to undertake an adequate and effective internal audit of its accounting records and the system of internal control in accordance with proper internal audit practices.

2.2 Proper practices for Internal Audit are defined in the CIPFA/IIA Public Sector Internal Audit Standards (PSIAS) and require that the 'Chief Audit Executive' (Assistant Director, Governance – Wokingham Borough Council) delivers an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Annual Report is required to: -

- include an opinion on the overall adequacy and effectiveness of the Council's internal control environment,
- present a summary of the audit work on which the opinion is based,
- draw attention to any key issues that may impact on the level of assurance provided,
- provide a summary of the performance of the Service,
- comment on the Audit Service's level of compliance with PSIAS.

2.3 The aim of the report at Appendix A and the supporting Appendix A(I) is to cover these legislative requirements and those of the Audit and Governance Committee's Terms of Reference.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
SAIS work is effective and is on track to achieve the 2020/21 Internal Audit and Investigation Plan, approved by the Corporate Overview and Scrutiny Panel on 4 February 2020. In addition, the Audit and Governance Committee is complying with the requirements of its ToR and the requirements of the Council's Anti Fraud and Anti Corruption Strategy.	Failure of the Council to meet its statutory requirements and failure of the Audit and Governance Committee to discharge its responsibilities.	Council meets its statutory requirements to provide an adequate and effective internal audit of its system of internal control. The Audit and Governance Committee discharges its responsibilities.	n/a	n/a	31 March 2021
Unqualified External Audit Financial Accounts and Management Letter.	Adverse comment and a qualified External Audit Management Letter if the Council fails to maintain an adequate Internal Audit function.	Unqualified External Audit Management Letter as Council meets its requirements to provide an adequate and effective Internal Audit function.	n/a	n/a	31 March 2021
Residents have confidence that public funds are being used economically, efficiently, and effectively and that Council assets and interests are being safeguarded from misappropriation, loss or fraud.	Loss of residents' confidence, Council assets and interests may not be safeguarded, and the Council's reputation may be affected if	Gain residents' confidence, Council assets and interests are safeguarded, and the Council's reputation is protected as Council	n/a	n/a	Ongoing

	there are not effective Internal Audit and Investigation functions.	provides an effective Internal Audit function.			
External Audit fee kept to a minimum.	Increase in the External Audit fee arising from them being required to undertake additional audit work by not being able to place reliance on the work of Internal Audit.	External Audit relies on the work of Internal Audit keeping the External Audit fee to a minimum.	n/a	n/a	Ongoing

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 a) Financial impact on the budget

Revenue - Officer time in dealing with provision of the SAIS.
Capital – None.

b) Financial Background

Revenue - Officer time in dealing with provision of the SAIS. The proposal relates to existing budgets, no new funds are being sought.
Capital – None.

5. LEGAL IMPLICATIONS

5.1 Internal Audit carry out their activities under: -

- Regulations 6 (1), 6(3) and (4) of the Accounts and Audit Regulations 2015.
- S151 Local Government Finance Act 1972.
- CIPFA/IIA Public Sector Internal Audit Standards 2017.

5.2 Investigatory activities are carried out under: -

- Fraud Act 2006
- Criminal Justice Act 1987
- Theft Act 1968
- Forgery and Investigation Act 1981
- Social Security Administration Act 1992.
- Welfare Reform Act 2012.

6. RISK MANAGEMENT

Table 3 Impact of Risk and Mitigation

Risks	Level of Uncontrolled Risk	Controls	Level of Controlled Risk
1. Failure of the Council to adequately plan and undertake audit reviews leading to failure to meet its statutory requirements. Without an adequate internal audit function, the Council's key systems and services are consequently at risk of not achieving their objectives in the most economic, efficient, and effective way thus being exposed to misappropriation / loss.	High	Ensure and demonstrate an adequate internal audit function. Provide a regular written progress report on the work of internal audit to those charged with governance for endorsement.	Low
2. Failure to provide assurance that the work of the Internal Audit function properly supports the governance framework, the content of the AGS and the requirement for additional External Audit work at an enhanced cost to the Council.	High	Internal audit coverage included as part of the governance assurance framework and informing the AGS. Sufficient Internal Audit coverage for External Audit to be able to place reliance on the work.	Low
3. Without an appropriate internal audit governance framework in place, which includes an Internal Audit Charter, improved organisational processes and operations will not be identified across the Council which means that value for money is not achieved.	Medium	Approved Internal Audit Charter in operation and being followed.	Low (font)

7. POTENTIAL IMPACTS

7.1 Equalities The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service, or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. This report is a non-decision-making report and hence an Equality Impact Assessment is not required. In undertaking our audit and investigative work, we ensure we have regard for equalities.

7.2 Climate change/sustainability. We have considered the potential impact of the recommendations in relation to climate change / sustainability and have identified no impact.

7.3 Data Protection/GDPR. No personal data is being processed for this decision Data Protection Impact Assessments are a lawful requirement under certain conditions but do not impact on this report.

7.4 There are no other potential impacts e.g.: staffing/workforce, Human Rights and community cohesion, accommodation, property, and assets.

8. CONSULTATION

8.1 Consultations were undertaken with both internal stakeholders (Members of the Corporate Overview and Scrutiny Panel, Corporate Leadership Team, S151 Officer and the Insurance and Risk Manager) in preparing the 2020/21 Internal Audit and Investigation Plan.

8.2 Management and staff have been consulted prior to and during the audit and investigation reviews to ensure that work is timed to suit both parties, to incorporate managements' priorities and to agree a course of action to implement the outcome of those reviews.

8.3 Consultation in respect of investigations work is as set down in the Council's Anti Fraud and Anti Corruption Strategy.

9. TIMETABLE FOR IMPLEMENTATION

9.1 The full implementation stages are set out in Table 4.

Table 4: Implementation timetable

Date	Details
31 March 2021	2020/21 Internal Audit and Investigation In Year Review Plan

10. APPENDICES

10.1 This report is supported by 2 appendices:

- Appendix A – 2020/21 Audit and Investigation Annual Report (to 31 March 2021)
- Appendix A(I) – 2020/21 Internal Audit Plan Status (as at 31 March 2021)

11. BACKGROUND DOCUMENTS

11.1 This report is supported by 3 background documents:

- 2020/21 Audit and Investigation Plan
- 2020/21 Audit and Investigation Plan – In Year Review (September 2020)
- Anti Fraud and Anti Corruption Strategy
- CIPFA/IIA Public Sector Internal Audit Standards 2017

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Bateson	Chairman of Audit and Governance Committee		
Duncan Sharkey	Managing Director	5/5/21	6/5/21
Adele Taylor	Director of Resources/S151 Officer	5/5/21	7/5/21
Andrew Durrant	Director of Place	5/5/21	
Kevin McDaniel	Director of Children's Services	5/5/21	
Hilary Hall	Director of Adults, Health and Commissioning	5/5/21	6/5/21
Andrew Vallance	Head of Finance	5/5/21	7/5/21
Elaine Browne	Head of Law	5/5/21	
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	5/5/21	
Nikki Craig	Head of HR Corporate Projects and IT	5/5/21	7/5/21
Louisa Dean	Communications	5/5/21	
Karen Shepherd	Head of Governance	5/5/21	

REPORT HISTORY

Decision type:	Urgency item?	To Follow item?
Audit and Governance Committee for noting	No	No

Report Authors:
Andrew Moulton, Assistant Director Governance; Wokingham Borough Council for the Shared Audit and Investigation Service; Tel no.07747 777298
Catherine Hickman, Lead Specialist, Audit and Investigation;
Tel no: 07885 983378

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Royal Borough of Windsor & Maidenhead

WOKINGHAM BOROUGH COUNCIL

ANNUAL INTERNAL AUDIT & INVESTIGATION REPORT 2020/21

CONTENTS

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1. PURPOSE OF THE ANNUAL REPORT

1.1 This Annual Report provides a summary of the work completed by the Shared Audit and Investigation Service (SAIS) during 2020/21. Its purpose is: -

- to include an opinion on the overall adequacy and effectiveness of the Council's internal control environment,
- present a summary of the audit work on which the opinion is based,
- draw attention to any key issues that may impact on the level of assurance provided,
- provide a summary of the performance of the Service,
- comment on the Audit Service's level of compliance with the Public Sector Internal Audit Standard (PSIAS).

2. HEAD OF INTERNAL AUDIT OPINION AND KEY HEADLINES

2.1 The original 2020/21 Audit and Investigation Plan was approved by the Corporate Overview and Scrutiny Panel on 4 February 2020. Audit work in Quarters 1 and 2 of the financial year saw delays with the commencement of specific audit work being put on hold due to services responding to the impacts of the Covid-19 pandemic.

2.2 The original Plan was reviewed and updated to take account of the impact of the pandemic on both the risk profile of the organisation, to agree new audit priorities and to refocus and reprioritise the work of the team to support the organisation to respond to the new risks and changes from the impact of Covid-19; and the resources to deliver the internal audit and investigation activity and in the context of being able to provide adequate assurance over key risk areas and provide an annual audit opinion. The 2020/21 Audit and Investigation Plan In Year Review, which has been required to be more fluid than normal as a result of the pandemic on the Council, was approved by this Committee on 14 September 2020.

2.3 During the year, there have been changes to the resource base of internal audit, as well as some operational disruptions that impact on the access of internal auditors to key officers, information or systems as those officers have responded to the impact of the pandemic on their services resulting in inefficiencies and reduced outputs. In addition, the SAIS itself has responded to the impacts of Covid-19 by adapting its processes to respond to services being delivered remotely and by providing its own service remotely.

2.4 Additional work for the SAIS during the year has related to the various Covid Grants and the Central Government requirements with set timescales and this has had a significant impact on the work of the team in responding to these requirements within tight timescales. This work is summarised in section 6.3 in the main body of this report.

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2.5 This report provides a summary of the work undertaken by the SAIS in the financial year 2020/21 and the results of that work, whilst also taking account of other assurance mechanisms, which feed into that Head of Internal Audit (Chief Audit Executive) overall opinion. The overall opinion is given based on the audits undertaken during the 2020/21 financial year and summarise the opinion on the internal control environment based on the work in those areas of coverage.

2.6 Members will be aware of the CIPFA review that identified weaknesses in the overall wider financial governance arrangements of the council and given the initial independent review that was being undertaken, certain areas were omitted from the internal audit scope in order to avoid duplication with the CIPFA work and additionally with work that would be undertaken by External Audit.

2.7 In forming the overall audit opinion, in terms of taking into account other assurance mechanisms account has been taken of the work undertaken by officers during the year within the Council to address the actions arising from the CIPFA Report and Action Plan in respect of the Council's financial management and financial governance arrangements. Progress in addressing those action points (for which progress for some areas has, as noted in the main body of the report, been tested as part of the audit work programme) was reported to Corporate Overview and Scrutiny Panel in April 2021.

2.8 From the work undertaken during the year during this period of uncertainty and from assurances provided by other assurance frameworks, our overall opinion on the adequacy of the Council's arrangements internal controls within the areas reviewed during the year is that: -

Audit Opinion 2020/21

Substantially Complete and Generally Effective but with some improvements required". Based on audits completed during the year, most key controls are in place and are operating effectively with the majority of residual risks being reduced to an acceptable level and reported concerns being aimed by management to be reduced to a predominately moderate impact level. A small number of exceptions were identified, and these have been presented to previous meetings of the Audit and Governance Committee and the current position in respect of these specific reviews is summarised in the body of this report. This audit opinion supports other assurance mechanisms such as External Audit, external professional body inspections and the Annual Governance Statement (AGS).

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2.9 Our opinion is based on evidenced assessment of the control framework in a number of areas in accordance with our revised audit and investigation plan. It should be noted that in devising the annual audit and investigation plan, a risk-based approach is taken and as such areas of highest risk are targeted for review of the mitigation and controls in place.

2.10 Full details of the internal audit work we have completed that has informed this opinion can be seen in Appendix A(I), together with the assurance levels we have been able to provide for each review. For each audit review completed, the assurance level is determined based on the level of control found as set out in Appendix A(I) - Legend Section.

3. AREAS OF RISK EXPOSURE

3.1 From internal audit work undertaken during 2020/21, for those audits completed to Final Report stage, three audits received the third category (third lowest) of audit opinion (on a scale of category 1 being 'High' and 4 being 'Low'). Whilst previously reported in our 2020/21 Interim Report, a summary of key concerns is provided below for completeness, with action by officers to address the concerns since the audits were previously reported.

3.2 It should be noted that two of these subject areas (Debt Management and Reconciliations) were highlighted in the CIPFA Action Plan as areas for improvement in Financial Management. The outcome of the Internal Audit work in these areas is provided below.

Category 3 Audit Opinions

Debtors

- This audit assessed whether appropriate controls were in place to minimise the risks in this area. Although we did not look at specific AfC and Optalis transactions, we considered the role that Optalis plays in ensuring that all debts due are raised and that valid debt can be collected. Findings were based on sample testing and discussions with key operational staff in RBWM and Optalis. Debtors was given a category 3 audit opinion in 2018-19 and again in this audit. The key areas of concern were:

  - A trend of increasing debt in Adult Social Care and Housing, with no debt recovery activity taking place for Bed and Breakfast debt.
  - A lack of measures setting out corporate expectations for debt collection.
  - A lack of supporting documentation to enable debt recovery.
  - Insufficient reconciliation of data held by, and transferred between Optalis and RBWM.
  - Lack of agreement and ownership of responsibility across relevant teams in RBWM and Optalis

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- The audit identified a number of positives including the Debt Panel; significant reduction in the balance of unallocated credits; and sample testing indicated active management of debts incurred within the last financial year.

- Since the audit took place, the Revenue and Benefits Team and Optalis have worked together to review their processes and define roles and responsibilities, including workshops held in September and October 2020. ASC has a specific goal related to income maximisation in their Transformation Plan, with designated responsible Officers and associated savings. Progress is reported to the Adults Transformation Board on a regular basis.

- The Head of Housing has reported that controls have been put in place to address the concerns raised. Audit will be reviewing Housing Income in Q1 of 2021-22 and this audit will explore the issues identified in the Debtors Audit in more detail.

- In summary, 2 major concerns have a specific action plan in place within the Service Area with responsible officers, savings targets and regular reporting and scrutiny. 2 major concerns are a work in progress. For the remaining moderate concerns, 3 have steps in place, 2 are a work in progress, 5 are either related to projects that have been delayed due to Covid or are awaiting progress updates.

Cash and Bank Reconciliation

- The principal objective of this audit, which was concluded in the second part of the year, was to provide assurance on the effectiveness, accuracy, and completeness of reconciliations. This followed on from a joint investigation in 2019-20, by Internal Audit and Finance, to address unreconciled transactions of £1,136,953 in expenditure that remained on the balance sheet. As approved and agreed by Council in June 2020, this figure was matched off against a credit identified on the Housing Benefit subsidy account.

- This audit received a category 3 opinion because Finance continues to use a balancing figure in the Cashbook (to address the discrepancy between income in the bank account and that on Agresso). The risk therefore remains of a further significant unreconciled amount arising.

- Audit fieldwork was completed in February 2021 and this audit was based on the systems in place for the January 2021 reconciliation. The following issues were identified:

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  - It was not possible to obtain assurance that all income is being posted correctly.
  - It was not possible to identify the transactions that the balancing figure relates to in order to clear it.
  - Without a check of bank statement items line by line, it was not possible to confirm whether all items had been posted or listed under exceptions.
  - It was not possible to check whether deleted transactions (either deleted through AIM or manually deleted) had all been processed.

- At the start of the audit, Finance explained that they had already identified and were working on improving the reconciliation process. This work was delayed by the Covid-19 pandemic and was impacted by staffing changes but historic resilience issues are being addressed. Since completion of the audit fieldwork, Finance has implemented a new process for the February 2021 reconciliation, and they are confident the new process significantly reduces the risk of further unreconciled amounts arising. The new process includes categorising pensions transactions and a check of bank statement transactions line by line.

- Finance is currently reviewing income processing to address the differences between income on the bank statement and Agresso, and the resultant carried forward balancing figure (reduced from £830k in January to £209k in February and £2.8k in March 2021). Finance is also looking to identify the cause of a £41k discrepancy in the 2019-20 reconciliation. Finance intends to review cash allocation and the use of Miscellaneous Cash Receipts (MCRs) in the next Financial year. In addition, they are exploring how the reconciliation process may be further automated to reduce the risk of error and delay inherent in a largely manual process.

- It is recognised that there has been ongoing work by Finance to continue to improve the reconciliation process, and the findings above reflect the position at the time of the audit and subsequent improvements will be tested during the next audit.

Reconciliations

- This audit received a 3rd category opinion, as the controls around Service Area identification of key reconciliations, and checks they are taking place, are limited. We could find no written evidence to provide assurance that key reconciliations have taken place. This exposes the Council to potential financial and reputational risk.

- All Service Leads agreed that it would be a worthwhile exercise to identify, record and monitor key reconciliations but there were reservations about the resource implications of doing so. There was not a consensus view on where the overall responsibility should sit for ensuring that all key reconciliations are identified, recorded, and monitored. A corporate view was therefore sought on these issues with the Director’s Group and the

Corporate Leadership Team targeted to agree a way forward by December 2020. Audit have recently requested an update on how this work has been progressing.

- The main areas for improvement identified from this audit related to the lack of:
  - formal identification, recording and monitoring of key reconciliation activity.
  - a definitive list of properties for which RBWM is responsible.

- The audit noted that key financial reconciliations have been identified and Internal Audit reviews them at least bi-annually. Any omissions or failures are therefore highlighted to Senior Management through the audit reporting process.

- Since the audit took place, Finance has been monitoring progress on the action plan. The major risk item related to property is a work in progress with changes set to continue as the Legal Team comes in house to RBWM. A corporate response was required for the other major risk item, this has been progressed through the Directors' Forum and we have requested an update. For the remaining moderate risk items, 2 are reported as complete, with evidence available for review, and the remainder are a work in progress.

Category 3 Audit improved to Category 2 Opinion

3.3 For one audit previously reported in 2019/20 as being Category 3 (Data Protection and GDPR Compliance), follow up audit testing during 2020/21 confirmed that this audit has now improved to a Category 2 opinion.

Data Protection and GDPR Compliance Follow Up Review

- The principal objective of this Audit was to determine the progress in addressing the control risks identified in the 2019/20 Internal Audit report - Data Protection and GDPR compliance, issued in February 2020.

- The audit identified that there has been excellent progress in implementing the management actions and this is despite resourcing issues for a significant period of the time since the original report, officers stepping up into interim roles and temporary staff being utilised within the team.

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- Of the 15 original concerns identified, action has been taken on all with nine being fully implemented and six in progress, with no Major concerns identified.
- One of the key areas was non-completion of the e-Learning module for new starters, no corporate requirement for refresher training and no e-Learning requirement for Members. These have all been addressed and testing identified training for new starters was being completed.
- The Data Breach Log is well maintained with good detail, with just a few instances where information is required for completeness. Additionally, there were breach themes linked to Autofill function in Outlook, using e-mail strings, e-mail bcc for personal e-mail addresses and using blank templates rather than overwriting previously used, which could have been communicated more widely in a staff bulletin piece.
- Link Officers have been identified for each service and received training, and this has assisted in the progress of the key areas of Register of Processing Activities (RoPA), Information Asset Register (IAR), Information Sharing Agreements (ISAs) and historically held data. They have also raised the general awareness and supporting other areas such as embedding Data Protection Impact Assessments (DPIA).
- The arrangement with schools is now clearer with 30 of the 53 schools and academies signed up to the Data Protection traded service. There have been no significant data breaches reported from schools in 2020-21.
- It is recognised by management that there are still areas in progress and that particular key areas, e.g., RoPAs, IARs, ISAs require completion and there is assistance from temporary staff to help facilitate this.

4. INTERNAL AUDIT SERVICE PERFORMANCE AND CONTRIBUTION

4.1 Appendix A (I) details the status of audits against the 2020/21 Audit and Investigation Plan as at 31 March 2021 and those audits completed from the 2019/20 financial year. Table 1 provides a summary.

Table 1: Status of 2020/21 audits

Audit Status	Number of audits
Work in progress	3
Draft Report	6
Final Report	14
Total	23

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4.2 For the reviews completed, where an audit opinion was appropriate (i.e., Final Report stage), the following breakdown of classification is summarised in Table 2 below.

Table 2: Summary of 2020/21 Audit Opinions

Overall Audit Opinion	Summary of Audit Opinion	No of Adults (2020/21)
1	Complete and Effective.	3
2	Substantially Complete and Generally Effective.	8
3	Range of Risk Mitigation Controls is incomplete, and risks are not effectively mitigated.	3
4	There is no effective Risk Management process in place.	0

4.3 Audit reports are presented using lean terminology, using the cause, concern and countermeasure and management are given the opportunity to treat, tolerate, terminate, or transfer the concerns and associated risks. Management Action Plans have been put in place to address issues identified during audit work and audit follow up verification will confirm whether agreed countermeasures for Major and Extreme concerns have been actioned within agreed timescales.

4.4 Where concerns are classified as being major or extreme that have been tolerated by management, these are highlighted to the Audit and Governance Committee. There are no cases of Major or Extreme concerns being tolerated by management.

Grant Certification

4.5 Where a grant giving body requires an internal audit certificate before releasing payment, the team carries out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. Grants certified include: -

- Bus Service Operators Grant,
- Disabled Facilities Grant,
- Local Enterprise Partnership,
- Local Transport Capital Funding Grant,

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- Troubled Families Grant (Quarterly).
- Achieving for Children Grant Bursaries ITT Grant
- Green Homes Grant

Consultancy, Contingency and Advice

4.6 In addition to completing planned audit reviews, the team also provide consultancy, ad hoc advice, and guidance across the Council to assist colleagues with ensuring control and governance arrangements are considered in developing processes/policies etc. as summarised in Appendix A(I) to this report.

Outstanding management responses

4.7 There are no outstanding management responses to audit reports.

5. RESOURCES

5.1 The SAIS has carried several vacancies, particularly in the second half of the year. This has been partly addressed by the engagement of two temporary resources for part of the year. In addition, in order to make the best use of audit resource, we have: -

- Streamlined audit processes to increase capacity, where appropriate.
- Narrowed the focus of audit scopes to examine only key risks
- Appointed temporary cover to fill vacant audit posts.
- Used resource flexibly to refocus on specific potential control risk/fraud areas e.g., Council requirements to pay Government Grants within short timescales by undertaking pre/post check work aiming to minimise fraud entering the system or being identified.

6. FRAUD AND IRREGULARITIES

6.1 The work undertaken by the SAIS has included re-active investigations as well as developing pro-active fraud drives.

6.2 There have been no incidences of material fraud, irregularities or corruption discovered or reported during the year.

Proactive Investigations

6.3 A number of pro-active exercises have taken place in conjunction with the Revenues and Benefits Team including; Empty Property Relief, Covid-19 controls, Covid-19 Business Grant post assurance, Covid-19 fraud risk assessment and BEIS returns, preparation for the Covid-19 Restart Grants and

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NFI. There have been checks and where appropriate visits undertaken to confirm validity of Covid-19 Business grant claims. Whilst the vast majority of claims made have been correct there have been cases where further investigation has been required, however, there has only been one case that has been referred to the Department for Business, Energy, Infrastructure and Strategy which has transpired to be a national fraud case.

COVID Business Grant Fraud Pre and Post Assurance Work

- The Shared Service has been involved in the COVID Business Grant Fraud post assurance which has resulted in one case that is an attempted fraud for a company that has been identified as fraudulently claiming across the country and this has been referred to the Department for Business, Energy and Industrial Strategy (BEIS) and reported to the appropriate National Fraud bodies such as the National Anti Fraud Network and the Cabinet Office (National Fraud Initiative). Other cases were found to be either local authority error or applicant error. We liaised with the Revenues Team in terms of the process and controls set up for the payment of Covid grants at the outset.

- Each application for Small Business, Retail, Leisure and Hospitality Grants was checked by a revenues officer for verification on eligibility before payment was made. The Shared Service has worked closely with the Head of Revenues, Benefits, Library and Resident Services completing the Fraud Risk Assessment and the BEIS returns. As at 23rd July 2020, we sample tested 796 out of 1215 payments made as at 23/7/2020, of which 286 were £10k value and 510 were £25k value. Queries were raised, investigated and cleared as part of this exercise.

- The Shared Service has also worked during the year on the post assurance requirements of BEIS for the range of COVID grants made below, for which the outcomes will be reported in our next audit report to this Committee; -

    - Local Restrictions Support Grant (Closed) Addendum
    - Local Restrictions Support Grant (Sector)
    - Local Restrictions Support Grant (Closed)
    - Local Restrictions Support Grant (Open)
    - ARG (Additional Restrictions Grant)
    - Local Restrictions Support Grant (Closed) Addendum & CBLP (Closed Business Lockdown Payment)
    - Christmas Support Payment for wet-led pubs

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- In addition, the Shared Service commenced work on the pre-payment assurance work required for the Business Restart Grants and that work is continuing.

Empty Property Review

- Work has been undertaken during the first part of the year to investigate Council Tax Empty Property Relief. It should be noted that the properties identified in the Council Tax Empty Property Relief exercise as occupied that were previously shown as unoccupied feed into the New Homes Bonus Scheme formula and may result in extra income into the council through liable charges being raised for previous council tax liability.

- The number of letters sent out for the empty property review was 880 with 694 received back of which 344 of these, reporting changes in circumstances which contribute to the above.

National Fraud Initiative Data Matching

6.4 The bi-annual upload of data for the National Fraud Initiative has taken place and the data matches returned will be reviewed as part of the 2021/22 financial year.

Reactive Investigations

6.5 In terms of Reactive investigations during the year, work continues with Housing Benefit and Council Tax Reduction Scheme referrals.

6.6 Work was in progress at 31 March in respect of a Fact-Finding Investigation in the area of Direct Payments. SAIS are liaising with the Optalis Continuing Healthcare specialists to report on joint findings to assist management decisions in this area. This is expected to be concluded during May 2021.

Other Investigations Activity

6.7 Work has been undertaken during the year in respect of the following areas of investigations activity.

Anti Fraud and Anti Corruption Policies Refresh

- A refresh of the Council's six Anti Fraud and Anti Corruption Policies has been undertaken and these were approved by this Committee in February 2021. A series of Officer and Member awareness training sessions will be

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programmed for the 2021/22 financial year by, for example, E Learning or focused specific fraud training.

Regulation of Investigatory Powers Act – IPCO Inspection April 2020

- An Investigatory Powers Commissioners Office (IPCO) Regulation of Investigatory Powers Act (RIPA) desktop inspection took place in March/April 2020 during the COVID-19 pandemic. A report by the IPCO inspector was received in May 2020, which summarised that the Inspector was impressed with the level of 'RIPA awareness' shown and that they had been assured from the work they had undertaken, and the interviews conducted that the integrity of the Council's processes and governance procedures will be maintained to ensure that high standards of compliance with the Act and relevant codes of practice are achieved.

- No investigations have been undertaken during 2020/21 that has required Regulation of Investigatory Powers Act surveillance approval to be requested.

7. CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)

7.1 The PSIAS, as revised in April 2017, define the service and professional standards for public sector internal audit services. The standards apply to the Internal Audit function in all parts of the public sector in the UK and are mandatory. Within the PSIAS there is a requirement for an independent external review of the internal audit function once every five years.

7.2 The external inspection of the Internal Audit Service against the PSIAS took place in 2018 and assessed the service as 'generally' conforming to the standards (the top category of opinion). The action plan and progress against it has been previously reported to the former Audit and Performance Review Panel. The responsibility for Member overview of audit activity moved to the Audit and Governance Committee for 2019/20. A further subsequent self-assessment had taken place and work continues to address the action points identified to assist the service in continuous improvement.

7.3 In addition, Internal Audit completes an annual self-assessment of its compliance with the requirements of the PSIAS and the relevant CIPFA's Local Government Application Note (LGAN). The purpose of the self-assessment is firstly to provide assurance to the Audit Committee and management that Internal Audit is compliant with the PSIAS and that consequently they can rely on the work of Internal Audit, and secondly, to further enhance delivery of the internal audit function through the identification of opportunities for development.

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7.4 Overall, the 2020/21 self-assessment has concluded that Internal Audit continues to be “generally compliant” with the PSIAS/LGAN requirements with a small number of actions to be addressed from the external assessment.

7.5 The Audit Charter and Audit Protocol were updated and approved at this Committee (4 February 2020). This covered the potential impairment of the Head of Internal Audit’s (HoIA) independence and objectivity from directly managing services the SAIS may review, plus how and where the SAIS will report the results of these audits. A number of actions are still required to demonstrate full compliance with the Standards. A summary of the areas is set out below: -.

- SAIS to commission external ICT audit specialists to carry out an ICT Audit Needs Assessment for the primary clients and to use this to inform the Audit Plan.

- Review the Audit Manual to ensure it is up to date and fit for purpose. Include statements within this on: -
    - Distribution and use of the content of Internal Audit reports to each report.
    - The process for releasing Audit reports to 3rd parties.
    - The evaluation processes if the Head of Internal Audit believes management is accepting a level of risk that is unnecessarily high. Work is in progress to update the Audit Manual generally and to address the above points from the PSIAS; this will be presented to this Committee for approval (Autumn 2021).

- The SAIS should routinely obtain copies of the Penetration Testing (PSN) reviews and consider the work done in the reviews to contribute to the HoIA annual opinion.

8. CONTEXT AND COMPLIANCE

8.1 Internal audit 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, internal control, and governance processes. (Source: Public Sector Internal Audit Standards and Local Government Application Note: Chartered Institute of Public Finance and Accountancy in collaboration with the Chartered Institute of Internal Auditors).

8.2 Internal Audit is a statutory requirement for local authorities. There are two key pieces of relevant legislation:

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- Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- The Accounts and Audit Regulations 2015 (Amendment) (England) states that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

8.3 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Managing Director, the S151 Officer, Directors and the Chair of the Audit and Governance Committee.

8.4 The HoIA confirms that any restrictions on the scope of internal audit work and reasons are as outlined in the headline summary section of this report.

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2020/21 Royal Borough of Windsor and Maidenhead Internal Audit Plan Status

(as at 31 March 2021)

Key Financial Systems

Audit title	Directorate	Status	Final audit report opinion
Cash & Bank Reconciliation	Resources	FINAL	3
Creditors	Resources	FINAL	1
General Ledger	Resources	FINAL	1
Payroll	Resources	DRAFT	
Payroll (Achieving for Children)	Resources	DRAFT	
Pensions Payroll and Administration	Resources	DRAFT	
Treasury Management	Resources	DRAFT	

Governance Building Blocks

Audit title	Directorate	Status	Final audit report opinion
Risk management	Resources	FINAL	2
Performance Management	Resources	FINAL	2
Procurement (Covid-19 Expenditure)	Resources	WIP	

Key Strategic and Operational Risks

Audit title	Directorate	Status	Final audit report opinion
Data Protection and GDPR Compliance (Follow Up)	Cross cutting	FINAL	2
AfC – Buildings & Facilities Management	Children's Services – Achieving for Children	DRAFT	
AfC – Information Governance	Children's Services – Achieving for Children	DRAFT	
AfC – Leaving Care	Children's Services – Achieving for Children	WIP	

Servicing the Business

Audit title	Directorate	Status	Final audit report opinion
Grants including Bus Service Operators Grant, Disabled Facilities Grant, Local Enterprise Partnership, Local Transport Capital Funding Grant, Troubled Families Grant; ITT Bursaries Grant			C
Monitoring Follow Ups (Extreme & Major Concerns)	Cross cutting	n/a	n/a
Consultancy : COVID-19 Controls review	Resources	WIP	
AfC – Leaving Care	Children's Services – Achieving for Children	WIP	

2019/20 Audits completed in 2020/21

Key Financial Systems

Audit title	Directorate	Status	Final audit report opinion
Benefits/Council Tax Reduction Scheme	Resources	FINAL	2
Cash and Banking Arrangements	Resources	FINAL	2
Debtors	Resources	FINAL	3
General Ledger	Resources	FINAL	1
Reconciliations	Resources	FINAL	3

Key Strategic and Operational Risks

Audit title	Directorate	Status	Final audit report opinion
Commissioned Services - Highways	Adults, Health and Commissioning	FINAL	2

Auditor Judgement

Audit title	Directorate	Status	Final audit report opinion
Cheapside School	Children's Services	FINAL	2

Appendix A(I)

Servicing the Business

Audit title	Directorate	Status	Final audit report opinion
PSIAS Annual Self-Assessment	Cross cutting	n/a	n/a

Audit Opinion Definitions

1 Complete and Effective
2 Substantially Complete and Generally Effective
3 Range of Risk Mitigation Controls is incomplete, and risks are not effectively mitigated
4 There is no effective Risk Management process in place

Legend

C - Certification
E - Exempt

Report Title:	RBWM Risk Management Report
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Hilton, Cabinet Member for Finance and Ascot
Meeting and Date:	Audit and Governance Committee 17 May 2021
Responsible Officer(s):	Adele Taylor, Director of Resources and Section 151 Officer Andrew Vallance, Head of Finance and Deputy Section 151 Officer
Wards affected:	All

www.rbwm.gov.uk
Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report sets out how satisfactory risk management is in place for RBWM as part of its governance arrangements.
2. It includes:
    - the key strategic risks and how they are monitored and managed.
    - RBWM's "approach to management of risk 1 April 2021 – 31 March 2022" which describes the application of risk management techniques in the council's operational and decision making processes.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit and Governance Committee notes the report.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	**Comments**
To note this report. **This is the recommended option.**	The Council is required to publish an annual governance statement in which a central requirement is to demonstrate how it manages risk.
Not note this report. This is not recommended.	Without a risk management framework the council may be exposed to the impact of unnecessary levels of risk or insufficient awareness of risks.

2.1 Risk management is a governance process open to scrutiny from councillors and the public at RBWM's Audit and Governance Committee meetings.

2.2 Making sound use of risk management processes supports good strategy setting, operational performance and effective service delivery to residents.

2.3 The purpose of risk analysis is to help all decision-makers get a better understanding of a realistic array of possibilities, what drives the associated uncertainty and hence where efforts can be best concentrated to manage this uncertainty.

2.4 The corporate risk register records the risks relating to RBWM's strategic and operational objectives. The risk registers are appropriate at the point in time at which they are produced and require consideration to be given to a broad range of potential risks and outcomes Anything that could inhibit the way in which such risks are expressed would weaken the quality of decision making when determining the most appropriate response to a risk.

2.5 Risks potentially carrying the most damaging impacts on our measurement scale are classified as key risks. However, the inclusion of risks within any level of risk register does not mean there is an immediate problem but instead it signifies that officers are aware of potential risks and have devised strategies for the implementation of any relevant mitigating controls.

2.6 Appendix A contains a current summary of the key risks. These risks were last presented to Members at the meeting of the Audit and Governance Committee on 9th November 2020. Since that report three key risks have been removed:

2.6.1 **Council Tax billing not accurate/on time -** Officers are satisfied that sufficient controls are now in place and operating correctly after problems in this area in the past.

2.6.2 **Delayed hospital transfers** - With the pandemic, there has been a move away from punitive approaches to delayed discharges. All the controls are in place for integrated and collaborative discharge arrangements.

2.6.3 **Brexit implications** - The impacts here will be economic so these will be captured in the various risk assessments specific to service activity (where this is a significant factor).

2.7 Members are regularly notified of the key risks where named as the risk owner usually as part of Cabinet Member briefings. Officer risk owners are tasked with ensuring that any comments by Members are reflected in the assessment.

2.8 Risk reports are reviewed and debated by senior management. This gives the opportunity for challenge and discussion. If any risks are of such low impact that there is no good reason to continue including them in these discussions, then they are removed from the key risk register. Similarly, this is a timely moment to incorporate new risks into this governance structure.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
Lead officers and Members are engaged in quarterly risk reviews of the risk register - the nature of the threat and the progress on mitigations.	Risks are left without officer or Member attention.	Quarterly reviews.	Risks are reviewed more frequently than quarterly.	None.	Ongoing by quarterly review.
Officers and Members make strategic, operational and investment decisions around projects with the risks in mind.	Risks are left without officer or Member attention.	Monthly reviews.	Risks are reviewed more frequently than monthly.	None.	Ongoing until conclusion as part of project management.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 There are no direct financial implications arising from this report. Risk owners need to consider any resource implications when devising their mitigation strategies.

5. LEGAL IMPLICATIONS

5.1 There are potential legal implications should a risk occur to the council is not prepared for. The purpose of risk management is to provide awareness of these so that management can make a risk based judgement.

5.2 The council must comply with Regulation 6 (2) of the Accounts and Audit Regulations 2015 by publishing an Annual Governance Statement which demonstrates how it manages risk.

6. RISK MANAGEMENT

Table 3: Impact of risk and mitigation

Risks	Uncontrolled risk	Controls	Controlled risk
The council fails to make good use of risk management processes. Management and Members have insufficient awareness of those risks which carry the potential to severely damage the organisation and affect residents. Risk register ref: IRM0003	HIGH	• Risks are reviewed by risk owners, the senior management team and members. • The Audit and Governance Committee provides a mechanism for examination of the process.	LOW

7. POTENTIAL IMPACTS

7.1 Equalities. None directly although some individual risks may contain obligations that need to be considered.

7.2 Climate change/sustainability. None directly although some individual risks may contain associated obligations.

7.3 Data Protection/GDPR. None directly although some individual risks may contain obligations.

8. CONSULTATION

8.1 This issue was last presented to the Audit and Governance Committee on 9th November 2020. Consultations take place with the former Corporate Overview and Scrutiny Panel, directors' forum, heads of service, directorate management teams and the shared audit and investigation service.

9. APPENDICES

9.1 This report is supported by three appendices:

- A – heat map showing assessment of current key risk impact/likelihoods
- B – detail supporting the key strategic risk element of appendix A.
- C - approach to management of risk 1 April 21 – 31 March 22. This document has three appendices:

- 1 – impact/likelihood scoring criteria.
- 2 – risk classifications.
- 3 – risk appetite definitions.

10. BACKGROUND DOCUMENTS

10.1 This report is not supported by any background documents.

11. CONSULTATION (MANDATORY)

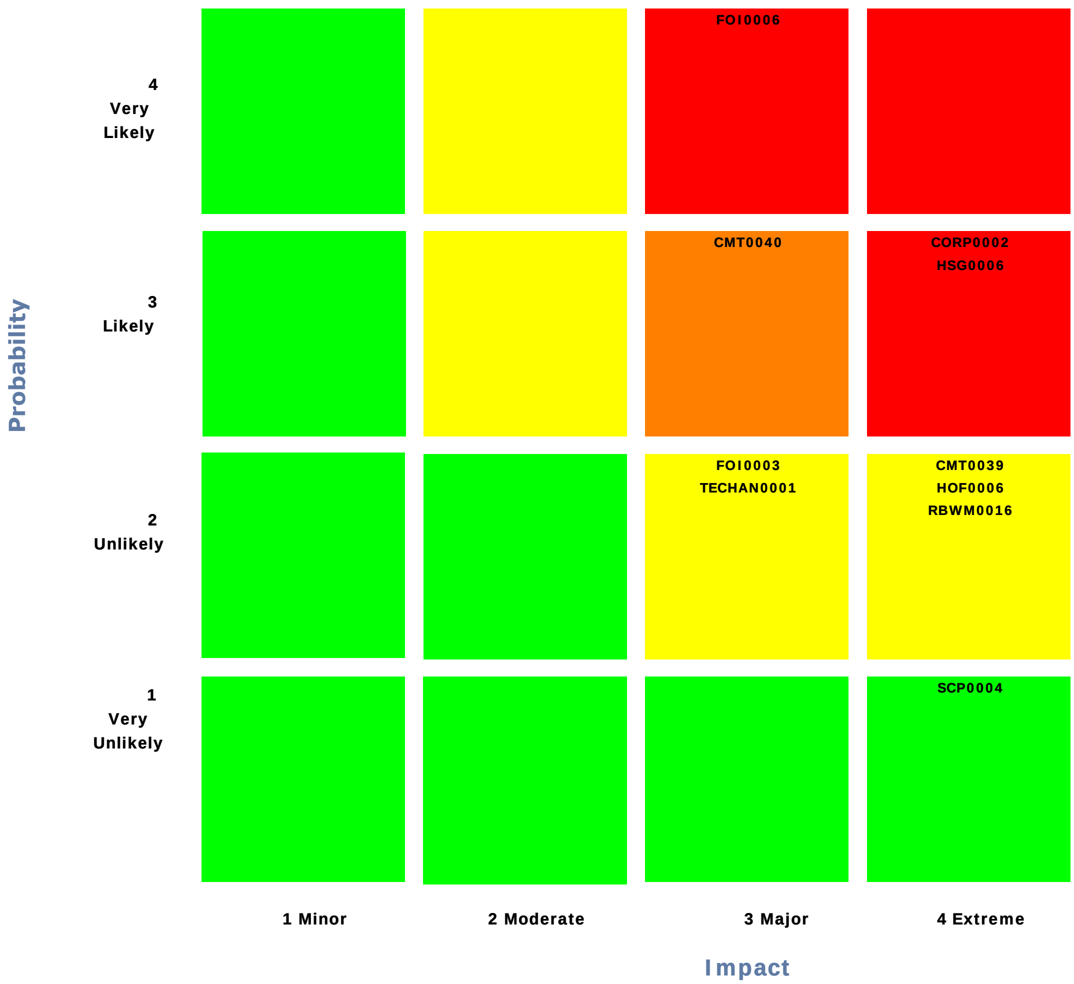
Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Cabinet Member for Finance and Ascot	05/5/21	06/05/21
Duncan Sharkey	Chief Executive	05/5/21	06/05/01
Adele Taylor	Director of Resources/S151 Officer	23/4/21	04/05/21
Andrew Durrant	Director of Place	05/5/21	
Kevin McDaniel	Director of Children's Services	05/5/21	
Hilary Hall	Director of Adults, Health and Commissioning	05/5/21	06/05/21
Andrew Vallance	Head of Finance	23/4/21	
Elaine Browne	Head of Law	05/5/21	
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	05/5/21	05/05/21
Nikki Craig	Head of HR Corporate Projects and IT	05/5/21	05/05/21
Louisa Dean	Communications	05/5/21	
Karen Shepherd	Head of Governance	05/5/21	

REPORT HISTORY

Decision type:	Urgency item?	To follow item?
For information	No	No

Report Author: Steve Mappley, insurance and risk manager 01628 796202

Appendix A - current key strategic risks



Detailed Risk Information

Current Risk Rating	Risk Ref	Summary	Assigned To	Review Date
12	CORP0002	1. There is a risk that we do not get the capital receipts we are anticipating to fund the various schemes we are using borrowing to initially progress. 2. Changes in the economy, particularly influenced by Covid-19, could affect the benefits that can be realised e.g. a loss of consumer confidence and rising build costs would affect the financial viability of schemes and could result in stalled development. 3. Ensuring effective join up of sites and infrastructure delivery. Projects could be stalled, if land receipts are to be maintained, and economic recovery anticipated.	RBWM Property Co. Ltd	22/05/2021

Detailed Risk Information

Current Risk Rating	Risk Ref	Summary	Assigned To	Review Date
12	FOI0006	Statutory breach arising from non-compliance with the Data Protection Act 2018 and the UK General Data Protection Regulation 2016 leads to reputation damage e.g. naming and shaming and fines potentially up to €20m (that level of fine is unlikely to be applied to a local authority although low 6 figure fines from the ICO in that regard have occurred) as well as legal action costs following judicial remedies. Where data is received from the EU/EEA and no adequacy status is granted by the European Commission by mid-2021, the UK will need to rely on standard contractual clauses or binding corporate rules in order to continue processing personal data received from the EU/EEA. This is the reason behind the current "high" rating assessment.. Where adequacy status is granted to the UK, all data processing with the EU/EEA will continue as it did before EU withdrawal. Despite a trade deal being agreed, adequacy status is not a given. Non-compliance can only be identified if a breach actually occurs. The type of information breach is key - only if significant harm is likely to arise from the breach are fines expected to be punitive. Regulators can also issue enforcement action in the form of temporary or permanent bans on processing. Confidence level in accuracy of current risk assessment: medium.	Karen Shepherd	07/05/2021
12	HSG0006	1. Lack of early planning in children's services potentially leads to children and young people with high needs who will need to transition to adult services not being identified and their costs are not built into future planning/Medium Term Financial Strategy. 2. Lack of a sufficient accommodation and supported employment offer locally leads to young people being placed out of borough in expensive placements leading to higher costs and loss of contact with their local communities. The potential cost of transitions in 21-22 is £1.14M based on current placements in children's services and the likely cohort of young people who may transition.	Hilary Hall and Kevin McDaniel	27/10/2021
9	CMT0040	Insufficient local community resilience which could lead to residents being without the necessary assistance and increased financial impact on RBWM should a critical event occur. Underdeveloped and untested business continuity planning may reduce the ability of the council to provide critical functions in the event of emergency situation.. Covid has tested all sorts of BCP, and we have responded well to this pandemic emergency challenge..	David Scott	01/05/2021
8	CMT0039	The UK is facing threats and not just from groups inspired by al Qaida e.g, far right extremists, disenfranchised groups. There is the risk of security and community problems putting residents and visitors at risk of personal injury arising from the actions and behaviour of such groups, particularly in the area around Windsor. This is due to the high volume of visitors, the military and ceremonial links to the town centre and castle as well as being under the flight path. Clause 26 of the Counter Terrorism and Security Act requires LAs to establish panels (in RBWM's case, the Channel Panel) to assess the extent to which identified individuals are 'vulnerable to being drawn into terrorism'.	David Scott	01/05/2021

Detailed Risk Information

Current Risk Rating	Risk Ref	Summary	Assigned To	Review Date
8	HOF0006	Historically, the council's financial strategy has not been effective in dealing with pressures. The CIPFA action plan along with a robust MTFS and improved budget management (as detailed in the last two budgets) have stabilised matters. Addressing the impact of several years of low CTax bills is a concern. It is expected the council should soon be in a position to boost its reserves. Confidence level: highly dependent on progress on the COVID-19 pandemic. Timescale: as at spring 2021, our aim is that within 2-3 years the impact of our mitigations will result in sufficient resilience.	Andrew Vallance	27/07/2021
8	RBWM0016	The novel coronavirus (COVID 19) outbreak was declared a Public Health Emergency of International Concern in January 2020 and a pandemic in March 2020. It presents a significant challenge for the country and local authorities. There is not a single area of local government that is not affected by the COVID 19 pandemic so a separate risk register details the works being done in this area. Note the current risk rating and appetite metrics will vary depending on the area of impact. Thus the values depicted here should be read with that in mind. The council's response to the COVID emergency is testament to the robustness of the Council's emergency planning.	CLT	
6	FOI0003	(a) Serious external security breaches, (b) data loss or damage to data caused by inadequate information security leads to delays and errors in business processes.	Nikki Craig	30/05/2021
6	TECHAN0001	If there is an IT infrastructure failure i.e. data storage infrastructure, systems access or total loss of council data centre then this could affect the ability of RBWM to function normally. Details are within the IT risk register of which this is a summary. Causes: External cyber threats e.g. distributed denial of service (DDOS) attacks. Loss/damage/denial of access to primary, secondary or hosted data centres. Accidental or deliberate loss of data or physical/logical failure to disk drive. Lapse of accreditation to Public Services Network. Physical or virtual server corruption or failure. This could lead to: - increased costs of downtime in the event of insufficient back up - expensive emergency service to rectify at short notice.	Nikki Craig	23/07/2021
4	SCP0004	Council owned companies or major contractors delivering statutory and discretionary services on behalf of the council fail and/or go out of business as a result of increased demand or poor performance. Leads to: - Statutory services for children and adults not delivered. - Resident facing community services, such as highways or waste collection, not delivered. - Reputational damage to the council. - Potential risks to public health. - Vulnerable adults and children may be left more at risk. - Problems in maintaining the streetscene to a safe level leading to highways injuries/claims against the statutory highway authority.	Hilary Hall	12/06/2021

THE ROYAL BOROUGH OF WINDSOR AND MAIDENHEAD

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
FOI0006 Data protection Statutory breach arising from non-compliance with the Data Protection Act 2018 and the UK General Data Protection Regulation 2016 leads to reputation damage e.g. naming and shaming and fines potentially up to €20m (that level of fine is unlikely to be applied to a local authority although low 6 figure fines from the ICO in that regard have occurred) as well as legal action costs following judicial remedies. Where data is received from the EU/EEA and no adequacy status is granted by the European Commission by mid-2021, the UK will need to rely on standard contractual clauses or binding corporate rules in order to continue processing personal data received from the EU/EEA. This is the reason behind the current "high" rating assessment. Where adequacy status is granted to the UK, all data processing with the EU/EEA will continue as it did before EU withdrawal. Despite a trade deal being agreed, adequacy status is not a given. Non-compliance can only be identified if a breach actually occurs. The type of information breach is key - only if significant harm is likely to arise from the breach are fines expected to be punitive. Regulators can also issue enforcement action in the form of temporary or permanent bans on processing. Confidence level in accuracy of current risk assessment: medium. DPA requirements are: 1. Process fairly and lawfully. 2. Use only for the purposes it was originally obtained. 3. Ensure it is adequate, relevant and not excessive for the purposes for which it's processed. 4. Ensure it's accurate and up to date. 5. Retain only for the time period required to meet the organisation's reasonable requirements. 6. Process in accordance with rights of data subjects. 7. Adopt appropriate technical and organisational measures against unauthorised or unlawful processing and against accidental loss, damage or destruction of data. Where the UK sends data to a non-EEA country, UK GDPR rules apply and standard contractual clauses should be used. The UK GDPR takes effect from 1 January 2021. This is, in essence, the UK version of the existing EU GDPR which continues to apply to the rest of the European Union and has been modified to reflect the UK-specific context.	1. Update and keep maintained the corporate register of processing activities as per article 30 of GDPR. 2. Services are responsible for ensuring their own policies align to the UK Data Protection Act 2018 and the UK GDPR. 3. Reviewed information assets. Continuing development of the information asset register and updating entries by info asset owners 4. Officers required to undertake annual GDPR online training. 5. SIRO and DPO attended a one day SIRO training course 05/02/2020. 6. Online form to enable staff to easily and quickly report data security breaches. 7. Security induction and annual training procedure embedded in HR procedures and the appraisal process. 8. All RBWM-issued mobile devices are controlled by our mobile device management solution, Microsoft InTune. 9. Review all partnership agreements and determine the information sharing arrangements, updating as necessary. 10. Optalis and AfC data sharing and handling arrangements in place and part of contract management with major partners. 11. DPO and SIRO meet monthly to discuss any breaches and where necessary identify issues to be raised at CLT (by the SIRO).	12 High 6 - Medium Low	1. Service areas arrange to update processor/controller contracts with SCCs/BCRs before 6/21 should EU not grant adequacy status. 2. Services to ensure they have complete registers of their held data at Iron Mountain guided by applicable retention schedule. 3. Establish with SIRO how the file categorisation at Iron Mountain can be improved so that data is not held unnecessarily. 4. Members: low uptake for online GDPR training. Now mandatory with reminders sent and completion list maintained by group leaders. 5. Further develop service's privacy notices to ensure uniformity.	Reviewed by Suzanne Martin 07/01/21. Amended DPA requirements to reflect leaving the EU.	Cllr Rayner Karen Shepherd

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
	12. Services are responsible for complying with applicable statutory retention timescales in their information asset registers. 13. GDPR - data protection risk overview reviewed monthly by DPO and SIRO. The contents are aligned to GDPR Articles and RAG rated. 14. Reporting of any partner org data breaches is a regular reporting item to the monthly operational commissioning board meetings. 15. Appointed a data protection officer (DPO) plus deputy to support. Updated DP Policy to include DPO as a mandatory role.				
HSG0006 **Inadequate strategic planning between children's services, adults and health.** 1. Lack of early planning in children's services potentially leads to children and young people with high needs who will need to transition to adult services not being identified and their costs are not built into future planning/Medium Term Financial Strategy. 2. Lack of a sufficient accommodation and supported employment offer locally leads to young people being placed out of borough in expensive placements leading to higher costs and loss of contact with their local communities. The potential cost of transitions in 2020-21 is £1.14M based on current placements in children's services and the likely cohort of children who may transition. The Children and Health Care Act 2014 contains requirement for education, health and care plans for 16-25 year olds. Inadequate cost effective placements along with the council being able to manage the expectations of children and young people, families, users of self directed support and personal budgets may compound this. There is likely to be a cohort of children who won't receive a comparable service in adulthood because their needs aren't eligible for any adult care service.	1. Transitions action plan and strategy in line with NDTi recommendations agreed. 2. Plan and manage transitions by good operational working between adults and children's services. 3. Implementation of robust management controls in Optalis to manage funding packages and spend through weekly panel. 4. Increase collaborative working in East Berks. Supportive care pathway tiers defined primarily on customer risk and need. 5. Children's services to plan for the young people transferring so high cost issues are known a number of years ahead of t/f date. 6. Allocated transitions worker based in CTPLD (arises from IMR transitions case action plan) and adult social worker in CYPDS.	12 High 6 - Medium Low	1. Transitions transformation prog. implemented from Sept 20 for local officer of accommodation & supported employment (Apr 22). 2. Transitions transformation programme implemented from September 2020 to improve joint processes (implement September 2021) 3. Transitions transformation programme implemented from September 2020 to improve planning and joint working (implement Sept 21).	Reviewed at management team 27/04/21. Minor changes to o/s delivery dates.	Cllr Carroll Hilary Hall and Kevin McDaniel

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
CORP0002 Maidenhead regeneration programme fails to deliver expected benefits. 1. There is a risk that we do not get the capital receipts we are anticipating to fund the various schemes we are using borrowing to initially progress. 2. Changes in the economy, particularly influenced by Covid-19, could affect the benefits that can be realised e.g. a loss of consumer confidence and rising build costs would affect the financial viability of schemes and could result in stalled development. 3. Ensuring effective join up of sites and infrastructure delivery. Projects could be stalled, if land receipts are to be maintained, and economic recovery anticipated.	1. Summary details of the Prop Co's risk register go into a half yearly update to cabinet on their performance. 2. Prop co's risk register is specific to all risk associated with regeneration and capital development programme projects. 3. Risk of build cost inflation/market value decreases is born by the JV Development Partner and fixed at Pre-Construction stage. 4. Prop co risk register reviewed quarterly by its board and shared with RBWM 's risk manager.	12 High 8 - Medium	None	Reviewed 22/02/21 by BR. No changes.	Cllr Johnson RBWM Property Company Ltd
CMT0040 Fail to protect residents should an emergency incident occur Insufficient local community resilience which could lead to residents being without the necessary assistance and increased financial impact on RBWM should a critical event occur. Underdeveloped and untested business continuity planning may reduce the ability of the council to provide critical functions in the event of emergency situation. COVID has tested all sorts of BCP, and we have responded well to this pandemic emergency challenge. There is also the impact on RBWM from failures in our links with external networks and supply chains e.g. impact of local or global political unrest, any failure in the integrity for gas/electric/other utilities on which the council relies esp. re: vulnerable people.	1. Improve pool of EP silver or gold leaders. 2. The last review at CLT of BCP was 23 September 2020 3. Inter authority agreement in relation to JEPU in place (RBWM, WBDC and BFBC) to provide resilience with experts in the field. 4. Waste suppliers have confirmed their processes and arrangements in the event of severe weather. 5. Ensure sufficient resilience for IT systems/backups in emergencies for the 24/7 control room or EOC. 6. Residential care homes have temporary alternative accommodation plans for vulnerable adults for use in emergency situations. 7. The need for contractors to have BCPs in place is part of the commissioning and contracting process (but no testing process).	9 Medium/High 6 - Medium Low	1. Progress an action plan for improving resilience by way of developing training plans on a regular routine way based on risk. 2. Service BCPs continuing development. Original timeline disrupted by the pandemic but this proved helpful to stress test the BCPs. 3. Develop an action plan to get our emergency response back into business as usual. 4. An effective means of testing plans is being put in place including, where possible, our key contractors. 5. Training package to upskill those responsible in services to undertake the work, including CLT, commencing 20/21. 6. Develop and support community-based EP's in conjunction with parish councils working in propriety order with communities.	Reviewed by DVS 12/10/20 and controls updated.	Cllr Cannon David Scott

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
	8. The new generator at Tinkers Lane is extended to provide wider back up to support greater emergency use of the depot.				
HOF0006 Effectiveness of the council's financial strategy Historically, the council's financial strategy has not been effective in dealing with pressures. The CIPFA action plan along with a robust MTFS and improved budget management (as detailed in the last two budgets) have stabilised matters. Addressing the impact of several years of low CTax bills is a concern. It is expected the council should soon be in a position to boost its reserves. Confidence level: highly dependent on progress on the COVID-19 pandemic. Timescale: as at spring 2021, our aim is that within 2-3 years the impact of our mitigations will result in sufficient resilience. Detail: - COVID pressures; - service pressures cannot be controlled or mitigated; - reduction in income due to recession - fees/charges/interest/severe income disparity across the borough; - savings plans not achieved; - cost of demand led services rises significantly beyond expectation; - reduced resilience for services meeting strategic challenges (for instance, demographic pressures; - increased number of child referrals and child specific placements.	1. Robust MTFS in place. Next update due June 2021. 2. Director of resources' annual assessment of the need to retain reserves based on the key risk register financial exposures. 3. Budget manager bi-monthly forecasts proving effective and reported to cabinet alongside the finance adjusted forecast figure. 4. Finance management has a closely monitored corporate savings tracker noted monthly at CLT and reported bi monthly to Cabinet. 5. Implement and monitor the action plan on the outstanding issues arising from the CIPFA report, reported to corporate O&S panel. 6. Increased focus on monitoring debt recovery programme.	8 Medium 4 - Low	1. Continue to make improvements to budget build and review scope for business partner arrangements.	Reviewed by AV 27/04/21. Reworded threat detail and revised/updated mitigations to reflect work on MTFS.	Cllr Hilton Andrew Vallance

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
RBWM0016 Covid 19 response The novel coronavirus (COVID 19) outbreak was declared a Public Health Emergency of International Concern in January 2020 and a pandemic in March 2020. It presents a significant challenge for the country and local authorities. There is not a single area of local government that is not affected by the COVID 19 pandemic so a separate risk register details the works being done in this area. Note, the current risk rating and appetite metrics will vary depending on the area of impact. Thus the values depicted here should be read with that in mind. The council's response to the COVID emergency is testament to the robustness of the Council's emergency planning.	1. RBWM Outbreak Control Plan.	8 Medium 4 - Low	1. There is an extensive risk register in support of the controls and detailed threats (contents deemed a Part 2 reporting matter).		CLT
CMT0039 Security The UK is facing threats and not just from groups inspired by al Qaida e.g, far right extremists, disenfranchised groups. There is the risk of security and community problems putting residents and visitors at risk of personal injury arising from the actions and behaviour of such groups, particularly in the area around Windsor. This is due to the high volume of visitors, the military and ceremonial links to the town centre and castle as well as being under the flight path. Clause 26 of the Counter Terrorism and Security Act requires LAs to establish panels (in RBWM's case, the Channel Panel) to assess the extent to which identified individuals are 'vulnerable to being drawn into terrorism'. The council is at the heart of building a safe, secure and cohesive community. It has responsibilities as community representative and as local leader to help ensure public safety, to help people feel confident and get along well together, to protect the vulnerable and to limit harmful behaviours If police/security services share an honest risk assessment with the council, it may have negative impacts for the locality. Conversely, if a candid assessment is not provided, then the council may fail to see the need for any particular action. A key part of the government's counter-terrorism strategy is called Prevent. It is a programme aimed at stopping more people getting drawn towards violent extremism.	1. Permanent, integrated hostile vehicle mitigation measures in Windsor to ensure the safety of residents, phase 1a complete. 2. Counter Terrorism Local Profile used to help inform and shape our local understanding of threat levels/risks and thus plans. 3. Evacuation plan for Windsor in place. 4. Community safety partnership strategy and action plan in place, updated annually. 5. Channel Panel and Prevent Delivery Board meet regularly and membership has been updated. 6. Update reports from DVS to the CLT on Channel arrangements and Prevent provided annually to the CLT. 7. Close partnership working with police and military to share intelligence and ensure risks are reduced.	8 Medium 8 - Medium	None	Reviewed by DVS 12/10/20. Controls updated incl. new national Guidance for how Channel operates being published in Nov 20	Cllr Cannon David Scott

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
	8. TOR for Channel Panel, (administered and chaired by DVS) who assess risk and decide on support packages, refreshed in 18/19. 9. RBWM works closely with the One Borough group to build and maintain public inter-faith confidence in preventing all extremism.				
SCP0004 Failure of service provision Council owned companies or major contractors delivering statutory and discretionary services on behalf of the council fail and/or go out of business as a result of increased demand or poor performance. Leads to: - Statutory services for children and adults not delivered. - Resident facing community services, such as highways or waste collection, not delivered. - Reputational damage to the council. - Potential risks to public health. - Vulnerable adults and children may be left more at risk. - Problems in maintaining the streetscene to a safe level leading to highways injuries/claims against the statutory highway authority.	1. Robust governance arrangements at Member and officer levels in place and operating. 2. Escalations, including financial penalties and "step in" procedures, in place for all contracts with clear triggers identified. 3. Make HMMP risk based as per 2018 Code of Practice to show our rationale in case of legal challenge. Complete but not published. 4. Identified contract managers in place. 5. Road categorisation project woven into HMMP. 6. Change control mechanisms in place across all contracts. 7. Tight contract monitoring - quarterly and monthly contract meetings. 8. Exit clauses/strategies negotiated and in place across all contracts. 9. Clear vision and business plans for all companies, aligned to the Council Plan. 10. Performance dashboard of key service and financial indicators - reviewed monthly and quarterly.	4 Low 4 - Low	None	Reviewed by HH 12/02/21 - no changes.	Cllr Coppinger Cllr Carroll Cllr Stimson Cllr Clark and Cllr Cannon Hilary Hall

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
TECHAN0001 **IT Infrastructure failure** If there is an IT infrastructure failure i.e. data storage infrastructure, systems access or total loss of council data centre then this could affect the ability of RBWM to function normally. Details are within the IT risk register of which this is a summary. Causes: External cyber threats e.g. distributed denial of service (DDOS) attacks. Loss/damage/denial of access to primary, secondary or hosted data centres. Accidental or deliberate loss of data or physical/logical failure to disk drive. Lapse of accreditation to Public Services Network. Physical or virtual server corruption or failure. This could lead to: - increased costs of downtime in the event of insufficient back up - expensive emergency service to rectify at short notice.	1. Multiple data centres provides increased resilience. 2. £900k investment in modern workplace project phase 1. Completed March 2020. 3. Line of business systems hosted either on local servers or on remote cloud-hosted servers. 4. Council networks are protected by multiple security layers using firewall and other control technologies. 5. Physical Infrastructure controls - access controls, remote access capability, environmental monitoring, generator and UPS. 6. DDOS protection in place. 7. Phase 2 of modern workplace project concluded 8. Disk drives are configured to use RAID technology. 9. Council external website is hosted internally in the Cloud (Louisa Dean is control owner). 10. Switch replacement and diversely routed networks. External network links supplied and supported by tier one UK network suppliers	6 Medium/Low 4 - Low	1. Business Continuity/Disaster Recovery. All services' IT usage is understood. Next steps in hands of the BCP shared service.	Reviewed by NC at resources DMT 21/04/21. Only BCP remains as an o/s control.	Cllr Rayner Nikki Craig

Risk Ref Headline Details	Implemented or Ongoing Controls	Current Rating & Risk Appetite Target	Controls not Fully Developed	Changes made at Last Review	Lead Member & Assigned to
FOI0003 IT security breach (a) Serious external security breaches, (b) data loss or damage to data caused by inadequate information security leads to delays and errors in business processes.	1. Security awareness of officers and external service providers who use our IT. 2. Secure remote working with computers, encrypted area for sensitive laptop data. 3. Develop, publish and communicate information security policies. 4. Audit use of all Council laptops and obtain management authorisation for their use. 5. DPO/SIRO to check and take action when inappropriate external transmissions of data are reported. 6. Mandatory annual security induction and training procedure embedded in HR procedures and the appraisal process. 7. All security breaches are investigated. Intel shared with organisational development team to weave into future learning. 8. Disposal of confidential waste papers. Specific bins are in place to ensure such waste is locked and secure at all times. 9. Exchange of data and information with other organisations. Policies, procedures and declarations available to increase security. 10. HR complete ICT change form when an employee leaves - triggers responses by system owners to close off access. 11. Implement a robust exit strategy with accountabilities when staff leave the organisation or return surplus IT equipment..	6 Medium/Low 8 - Medium	None	Reviewed by Nikki Craig, Simon Arthur and Rebecca Stafford 18/01/21. Updated incomplete mitigations.	Cllr Rayner Nikki Craig

160

Royal Borough Windsor and Maidenhead

Approach to Management of Risk

1 April 2021 – 31 March 2022

Date: 1 April 2021

“Building a borough for everyone – where residents and businesses grow, with opportunities for all”

Our vision is underpinned by six priorities:

Healthy, skilled and independent residents

Growing economy, affordable housing

Safe and vibrant communities

Attractive and well-connected borough

An excellent customer experience

Well-managed resources delivering value for money

Contents

1. INTRODUCTION

1.1 This document sets out the working definitions of risks and issues and how RBWM approaches risk management.

Definition

1.2 Risk is defined as "the chance of something happening which may have an impact on the achievement of an organisation's objectives".

1.3 Risk management is defined as “the culture, processes and structure that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives".

1.4 An issue is defined as an event that is happening right now or has already happened. There is the possibility for a risk to turn into an issue when it is realised.

1.5 The difference between a risk and an issue is one of timing. The risk event is a future event so the task is to assess its probability, its proximity and estimate the impact that would be caused if it did occur. An issue event has already happened so there is no need to assess its probability - what must be considered is the impact and whatever reaction is required to deal with it.

Risk

1.6 RBWM’s approach to risk management stems from the Alarm[1]/Airmic[2]/IRM[3] enterprise risk management approach also adopted by FERMA[4].

1.7 Risk is a normal part of business. The understanding and management of risks is an integral part of the RBWM corporate governance framework.

1.8 RBWM employees will adopt a consistent and systematic approach to managing risk. The management of risk is a responsibility of all senior managers in the council. It is important that the identification of risks is timely to support effective service delivery.

1.9 RBWM manages specific project work through a stand-alone system where the risk assessment methodology is scaled to the project under consideration.

1.10 Risks relating to health and safety are addressed through a separate policy[5].

1.8 How successful RBWM is in dealing with the risks it faces can have a major impact on the achievement of the council’s strategic priorities. When management of risk goes well it often remains unnoticed. When it fails the consequences can be significant and high profile, for example, inefficient use of or wasted resources,

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[1] Alarm is the primary voice for public sector risk management in the UK.
[2] Airmic promotes the interests of insurance buyers and those involved in enterprise risk management.
[3] The IRM (Institute of Risk Management) provides risk management related education.
[4] The Federation of European Risk Management Association.
[5] https://rbwm.sharepoint.com/sites/intranet/our-council/health-and-safety

financial loss, service disruption, adverse publicity, litigation or failure to meet objectives. Hence the need for effective risk management.

2. THE COUNCIL'S 2021/22 RISK MANAGEMENT POLICY

2.1 This policy is fundamental to the council being less risk averse i.e. accepting greater levels of risk. Successful organisations are not afraid to take risks; unsuccessful organisations take risks without understanding them.

2.2 The objective of risk management is not to eliminate all possible risks - that is not possible – but to recognise risks and deal with them appropriately. Underpinning the implementation of the council's risk management strategy are the following principles:

- The **informed acceptance** of risk is essential to good business strategy.
- Risk management is an effective means to enhance and **protect the council**.
- **Common definition and understanding** of risks is necessary in order to better manage those risks and make more consistent and informed business decisions.
- Management of risk is an **anticipatory, proactive** process.
- All risks are to be **identified, assessed, measured, monitored** and reported on in accordance with this strategy.
- Officers will **ensure cabinet members are aware** of all key risks in a timely way.

2.3 Consequently, staff will need to understand the nature of the risks in their areas and systematically identify, analyse, assess, treat, monitor and review those risks.

2.4 Risk management encompasses both external and internal influences.

External influences

2.5 Risk management is an important element of corporate governance. The council must demonstrate that it complies with regulations[6] in relation to the publication of an annual governance statement[7]. One of its core principles is a requirement for RBWM to demonstrate how it manages risk and ensure that it has a system of controls that mitigate those risks that may affect the achievement of its objectives.

2.6 CIPFA[8] in their 2018 publication "audit committees – practical guidance for local authorities and police" emphasise that a core function of the audit committee is to review the effectiveness of the risk management arrangements. This role is fulfilled by the remit of RBWM's Audit and Governance Committee.

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[6] Regulation 6 of the Accounts and Audit Regulations 2015. The council's financial management arrangements similarly conform to the governance requirements set out in CIPFA's 'the role of the chief financial officer' (2016).

[7] The latest governance statement covering 18/19 was signed off in November 2019.

[8] "Chartered Institute of Public Finance and Accountancy". The only UK professional accounting body that specialises in the public sector.

Internal influences

2.7 The council's risk register draws together all the potential consequences of failing to deliver service and strategic objectives. It identifies the relative importance of these potential problems and assigns responsibilities for attempting to reduce the likelihood and/or impact to the preferred risk appetite if they do occur.

2.8 The terms of reference of the Audit and Governance Committee[9] are specific to their responsibilities for ensuring that the key risks are properly assessed and managed and for their approving the annual risk management strategy.

2.9 Including specific risk management commentaries as part of reports to members and corporate leadership team ensures that any risks inherent in a decision or situation are more noticeable and hence subject to improved scrutiny. The report template requires writers to reference any relevant risks from the corporate risk register.

2.10 Risk management therefore requires:

- A consistent management framework on how best to manage risk.
- Risk being everyone's business. All staff must be competent in and accountable for managing risk within their area of responsibility.
- Relevant legislative requirements and political, social, environmental and economic environments to be considered in managing risk.
- Good quality information.

3. RISK MANAGEMENT FRAMEWORK AIMS AND OBJECTIVES 2021/22

3.1 The risk management framework aims to achieve an environment in 2021/22 where risk management becomes an integral part of strategy, management processes and the general culture.

3.2 It will achieve this through implementing the following objectives:

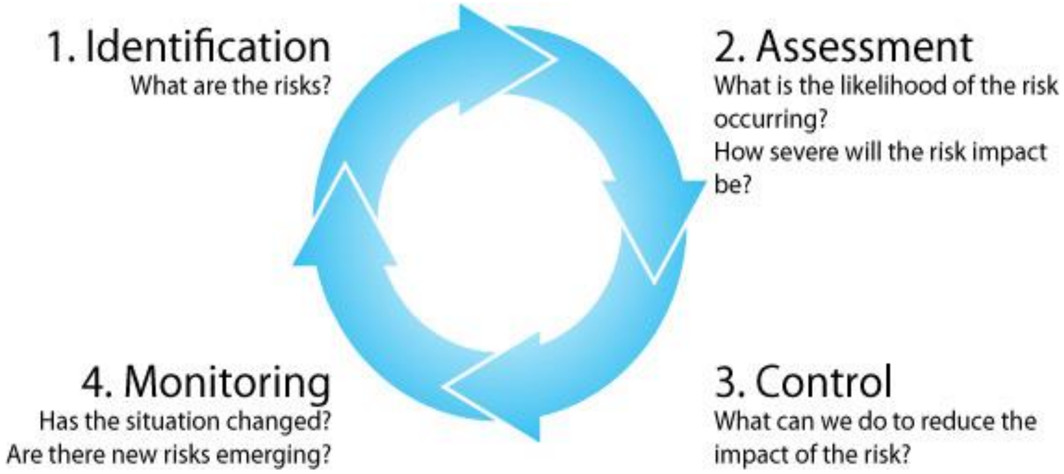
- Assessment of the challenges faced by the council, through improved decision-making and targeted risk mitigation and control.
- Implementing transparent and responsible risk management processes, which align with accepted best practice.
- Minimising risk to customers who use council owned/operated assets.
- Providing a sound basis for the corporate risk financing strategy.
- Detailing the justification of the level of balances held as reserves in each year's budget report.
- Providing suitable training to officers and elected members.

[9] B11 in the RBWM Constitution.

4. RISK MANAGEMENT PROCESS

4.1 The approach to risk management in RBWM follows a four-stage process, see diagram 1. Each service area is assessed, by the relevant manager, against the process and a judgement drawn on the level of risk.

Diagram 1: Four stage process



Stage 1: Identify those circumstances – risks – that might prevent service/team/decision objectives being reached.

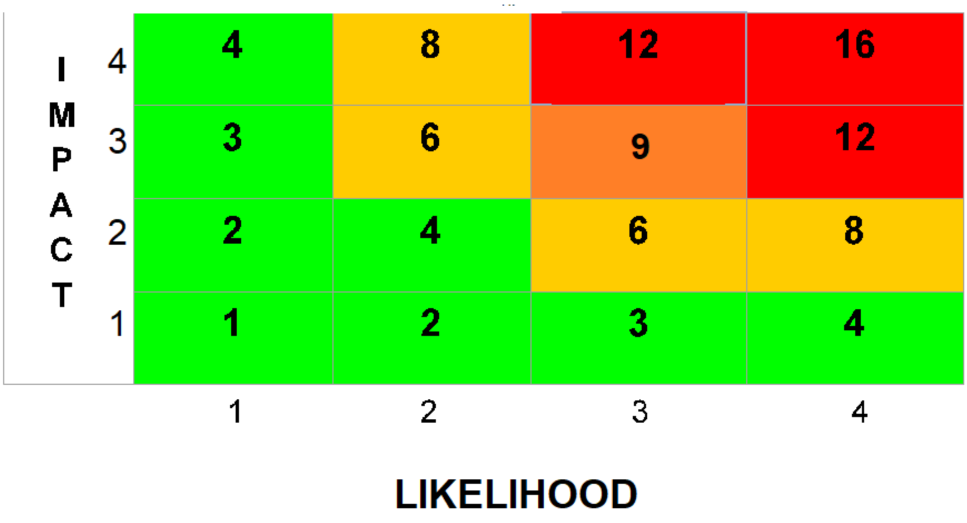
Stage 2: Evaluate the likelihood and impact to identify how significant each risk is:

- Impacts and likelihoods are scored on a four-point scale. At the lower end 1 represents a minor impact and/or “very unlikely” and 4 represents an extreme risk and/or “very likely”.
- Protocols exist to guide officers in making these judgements. A note detailing the criteria is attached (appendix 1).
- Multiplying these likelihood and impact scores together gives a result assessed as either “high risk” (value 12 - 16), “high/medium risk” (value = 9), “medium risk” (value 6 - 8) or “low risk” (value 1 - 4) depicted by the heat map, diagram 2 on the following page.
- Key risks are those identified as high risks with consideration also given to those where the implications of failure carry the most damaging consequences i.e. a risk with an inherent impact of 4.

4.2 In terms of assessing each risk the assessment is detailed in three situations:
- Inherent – the risk without any controls whatsoever.
- Current – how the risk stands at the present time.
- Controlled – how the risk looks once all mitigations are implemented.

4.3 The critical part is identifying and understanding the risks to enable informed decisions to be made.

Diagram 2: Risk assessment heat map



Stage 3: Treat the risks in order of priority. Mitigation measures address whether the likelihood and/or impact can be reduced or the consequences changed. Contingencies can be devised to respond should the risk occur. Key risks will be evaluated by risk owners i.e. directors, senior leadership team and cabinet members.

Stage 4: This is a monitoring and review process. The quarterly reporting process demands from reviews that each risk indicates consequences, SMART mitigations and the risk owner[10]. This process adds scrutiny to ensure:

- The correct risks are being identified.
- Treatment measures identified are legitimate.
- Correct individuals are assigned as risk owners.
- Systematic scanning for novel and unexpected threats as well as dealing with identified risks is, as far as possible, considered a core part of management responsibilities.
- There are challenges to what we “know” to ensure that our particular belief system is based upon the most up to date knowledge.
- Early warning systems exist so information can filter up quickly and easily.

4.4 Each risk is classified into one of a comprehensive set of eleven categories (appendix 2). These can be used to:

- Aggregate risks from various parts of the organisation for management purposes.
- Help with the identification of mutating risk. A mutating risk is an existing risk which starts connecting with other threats or factors to generate new outcomes.

[10] An individual officer, who is closely involved with the risk, can monitor the risk and has sufficient authority to initiate action if the risk becomes more serious.

5. RISK APPETITE

5.1 Due to its diverse range of services the council does not have a single risk tolerance and appetite for risk. Risk appetite is the phrase used to describe where RBWM considers itself to be on the spectrum ranging from willingness to take or accept risks through to an unwillingness or aversion to taking risks.

5.2 Considering and setting risk appetite enables the council to increase its rewards by optimising its risk taking and accepting calculated risks within an appropriate level of authority. A clearly defined risk appetite takes much of the guesswork out of putting limits on new business. Equally, it reduces the likelihood of unpleasant surprises. Risk appetite enhances the content of the risk registers by considering:

- Capacity – the actual physical resources available and physical capability of the organisation. The council's capacity must have limits; therefore, its capacity is finite and breaching those limits will cause RBWM problems it cannot deal with.
- Tolerance – the factors that the council can determine, can change and is prepared to bear. Risks falling within tolerances for quality and range of services can be accepted. Tolerance changes more frequently than capacity and should therefore be stress tested more often.

5.3 There are an overarching series of qualitative and quantitative risk appetite statements (appendix 3) which no unit or service area can exceed, based on the capacity and tolerance levels of the council.

6. CONFIDENCE LEVEL

6.1 A metric is ascribed to the level of conviction the risk assessor has in the assessment score. By showing a confidence level the risk assessor can mitigate the problem that the decision makers, members etc. may be expecting precise numerical calculations because (unless told otherwise by the risk assessor) the assessments get interpreted as completely accurate depictions of the risk.

6.2 Low confidence level (score between 0-25%)

- Assessment is based on purely subjective opinion, is qualitative and not especially well documented because we don't have the data.
- No scientific consensus exists on estimating approach.
- Scores are, on balance, quite arbitrary and could be off by more than one measure (high vs high/medium vs medium vs. medium/low v low). It is no more probable that the reported score is correct than a lower or higher score is correct.

6.3 Medium Confidence Level (26% - 60%)

- Assessment is based on similar conditions observed previously and/or qualitative analysis. Qualitative analysis is based on unverified models and/or data.
- Expert opinion might fall in here but should be treated with caution if that's all there is. Some documentation exists.

- Literature relying on this estimating approach exists. We are confident that, if scores above are wrong, they are, on balance, only off by one ordinal.

6.4 High Confidence Level >60%

- Assessment is based on testing, modelling or simulation, use of prototype or experiments.
- Qualitative analysis is based on verified models. Quantitative assessment is based on an historical basis and/or data. Impact estimate is quantitative and well documented.
- Scientific consensus exists on estimating approach. It is highly probable that the reported score is correct (this could, for example, mean within one standard deviation).

7. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

7.1 **Chief Executive**

The Chief Executive takes overall responsibility for RBWM risk management performance and ensures that:

- decision-making is in line with RBWM policy and procedures for risk management;
- adequate resources are made available for the management of risk;
- there is an understanding of the risks facing RBWM.

7.2 **Cabinet members**

- take reasonable steps to consider the risks involved in their decisions;
- understand the key risks falling within their portfolio.

7.3 **Audit and Governance Committee**

- consider and approve the risk management strategy annually and communicate it to other elected members;
- receive an annual report on risk management and monitor the effective development and operation of corporate governance;
- receive six monthly reports on the effective management of risks facing RBWM;
- oversee a comprehensive, inclusive and risk management approach to the annual governance statement process.

7.4 **Head of Finance**

- ensures that a risk management policy and strategy is developed and reviewed annually to reflect the changing nature of the council;

- champions the process of risk management as good management practice and a valuable management tool.

7.5 **Executive Directors and the Corporate Leadership Team**

- challenges the contents of the corporate risk register to ensure that it reflects any significant new risks emerging and that monitoring systems are suitably robust;
- support and promote risk management throughout RBWM;
- ensure that, where appropriate, key decision reports include a section demonstrating that arrangements are in place to manage identified risks;
- ensure that risk is managed effectively in each service area within the agreed strategy;
- identify any service specific issues relating to risk management which have not been explicitly addressed in the strategy;
- disseminate the detail of the strategy and allocate responsibilities for implementation to service managers and staff;
- understand the risks facing the council.

7.6 **Insurance and Risk Management Team**

- develop the strategy and oversee its implementation across the council;
- share experience and good practice on risk and risk management;
- develop and recommend the strategy to the audit and governance committee, head of finance and the senior leadership team;
- provide a clear and concise system for reporting risks to elected members.

7.7 **Internal Audit**

- take the content of the key risk registers into account when setting the internal audit programme;
- undertake audits to assess the effectiveness of the risk mitigation measures;
- feedback audit opinions on a predetermined scale so they can be included in the risk register.

7.8 **Heads of Service/Managers**

- take primary responsibility for identifying and managing significant strategic and operational risks arising from their service activities;
- recommend the necessary training for employees on risk management;
- maintain a risk register for their service area and ensure that all employees are aware of the risk assessments appropriate to their activity;
- be responsible for production and testing of business continuity plans.

7.9 **All staff**

- identify emerging or changing risks in their job and feed this back to their line manager.

8. CORPORATE RISK FINANCING STRATEGY

8.1 RBWM uses its risk financing arrangements to protect it from the financial implications of unexpected accidental events. This helps in providing continuous services in the event of serious losses.

8.1 The level of cover bought will depend on the council's appetite for risk, based on its ability to self-fund claims and the strength of its risk management.

8.2 RBWM is exempt from most requirements regarding compulsory insurance[11]. Nevertheless, most public sector organisations purchase external insurance. Without this, we will fund all such exposures from our own resources.

8.3 If RBWM were to insure without taking substantial excesses against most of the risks that it faces then this would incur significant annual premiums.

8.4 Having strong risk management arrangements across RBWM allows us to retain some risks either by deciding to self-insure these risks in their entirety or by purchasing insurance for losses that arise over a certain value.

8.5 **Objectives**

- Provide financial protection to the council's assets, services and employees.
- Maintain appropriate balance between external cover and internal risk retention.
- Ensure the internal insurance fund is maintained at an appropriate level.
- Ensure resilient claims handling arrangements and insurance fraud detection.
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

8.6 **Achieved by**

- Using claims modelling and other risk assessments to determine exposures.
- Monitoring changes in legislation, civil justice protocols and case law.
- Maintaining claims handling protocols in line with statutory requirements.
- Undertaking periodic actuarial fund reviews.

8.7 **Procurement of insurance**

- All insurance procurement complies with the relevant EU procurement rules.
- Hard copies of policies are retained indefinitely with more recent policy documentation stored soft copy.

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[11] Under the Local Government Act 1972 the only insurable aspect of the council's operations it is obliged to make specific financial provision for is against the risk of financial fraud by staff.

9. APPENDICES

1. Impact and likelihood assessment scoring.
2. Risk classifications.
3. Qualitative and quantitative risk appetite statements.

Appendix 1: Impact scoring

Factor	Score	Effect on level of service	Effect on quality of service	Embarrassment/reputation	Failure to provide statutory duties/meet legal obligations	Financial loss
Extreme	4	Massive loss of service, including several important areas of service and /or protracted period; service disruption 5+ days	Quality of service deteriorates by over 80% from accepted (ideally defined by PI's) operating parameters.	Adverse and persistent national media coverage; adverse central government response, involving (threat of) removal of delegated powers; officer(s) and/or members forced to resign	Litigation/ claims/fines from departmental £250k + corporate £500k +	Costing over £500,000 Up to 75% of budget
Major	3	Complete loss of an important service area for a short period; major effect to services in one or more areas for a period of weeks; service disruption 3-5 days	Quality of service deteriorates by between 25% to 60% from accepted (ideally defined by PI's) operating parameters.	Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community; adverse local publicity of a major and persistent nature; statutory prosecution of a serious nature.	Litigation/ claims/fines from departmental £50k to £125k corporate £100k to £250k	Costing between £50,000 and £500,000 Up to 50% of budget
Moderate	2	Moderate effect to an important service area for a short period; adverse effect to services in one or more areas for a period of weeks; service disruption 2-3 days	Quality of service deteriorates by between 10% to 25% from accepted (ideally defined by PI's) operating parameters.	Adverse local publicity /local public opinion aware; statutory prosecution of a non-serious nature	Litigation/ claims/fines from departmental £25k to £50k Corporate £50k to £100k	Costing between £5,000 and £50,000 Up to 25% of budget
Minor	1	Brief disruption of important service area; significant effect to non-crucial service area; service disruption 1 day	Quality of service deteriorates up to 10% away from accepted operating parameters.	Contained within section/unit or directorate; complaint from individual/small group, of arguable merit	Litigation/ claims/fines from departmental £12k to £25k corporate £25k to £50k	Costing less than £5,000 Up to 10% of budget

Appendix 1: Likelihood scoring

FACTOR	SCORE	THREATS - DESCRIPTION	INDICATORS
Very likely	4	More than 75% chance of occurrence.	Regular occurrence. Circumstances frequently encountered - daily/weekly/monthly.
Likely	3	40% - 75% chance of occurrence.	Likely to happen at some point within the next 1-2 years. Circumstances occasionally encountered (a few times a year).
Unlikely	2	10% - 40% chance of occurrence.	Only likely to happen 3 or more years.
Very unlikely	1	Less than 10% chance of occurrence.	Has happened rarely or never before.

Likelihood score combined with impact score

Very likely	low	medium	high	high
Likely	low	medium	medium/high	high
Unlikely	low	low	medium	medium
Very unlikely	low	low	low	low
	Minor	Moderate	Major	Extreme

Appendix 2 – risk classifications

1 Business processes

Design, operation and application activities.

2 Assets

Infrastructure including hard assets e.g., roads, buildings, vehicles, along with other physical responsibilities such as trees, open spaces. Excludes IT.

3 Communications

The approach to and culture of communication, consultation, transparency and information-sharing, both within and outside the council.

4 Political and operating contexts

Perceived or potential conflicts between private and public interests, members and officers, national and local government or contractors and the council.

5 Financial management

The structures and processes that ensure sound management of financial resources and compliance with financial management policies and standards.

6 Governance, strategic direction and organisational transformation

Management skills and capacity, the approach to leadership and decision-making. The approach to significant structural or behavioural change.

7 Human resources management

Staff/management turnover; employment/work culture; recruitment, retention and staffing processes and practices; succession planning and talent management; employee development, training and capacity.

8 Information technology

Capacity and sustainability of information technology and both the infrastructure and utilisation of technological applications.

9 Knowledge and information management

Collection and management of knowledge, including intellectual property, operational information, records and data.

10 Legal

Management of RBWM's legislative, advisory and litigation activities, including the development and renewal of, and compliance with, laws, regulations and policies.

11 Demographic and social factors

The direct needs of residents, visitors and the general public.

Appendix 3 – Qualitative and quantitative risk appetite statements.

Risk definitions

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Avoidance of risk and uncertainty is a key organisational objective.	Preference is for ultra safe business delivery options that have a low level of inherent risk and only have a potential for limited reward.	Preference is for safe delivery options that have a low degree of inherent risk and likely to only have limited potential for reward in most circumstances.	Willing to consider all potential delivery options and choose the one most likely to result in successful delivery while also providing an acceptable level of reward.	Eager to be innovative and to choose options offering potentially higher business rewards despite greater inherent risks.

Authorisation definitions

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Insignificant consequences requiring line manager (or even staff) approval	Moderate consequences requiring HOS approval	Medium consequences acceptable by director.	Potential major consequence acceptable only with chief officer authorisation.	Potential catastrophic consequences unacceptable without highest possible level approval

Monitoring arrangement

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Accept	Low level monitoring	High level monitoring	Remedial action and/or senior monitoring	Urgent remedial action or senior monitoring

Risk appetite statements 1 – 3 are quantitative assessments, 4 – 8 are qualitative assessments each acknowledging a willingness and capacity to take on risk.

1. Maximum tolerance for losses

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Costing <£10K. It is likely to cost about this much to manage an occurrence of this risk. Little stakeholder concern and can usually be managed in the directorate concerned with normal reporting to head of finance. Little impact on service delivery in other areas due to the financial impact of this occurrence.	Costing £10K - £50K. It is likely to cost about this much to manage an occurrence of this risk. Pockets of some stakeholder concern and can usually be managed in the directorate concerned with normal reporting to head of finance. Little impact on service delivery in other areas due to the financial impact of this occurrence.	Costing £50K - £250K. It has often cost around this sum to manage this risk in similar projects or programmes. Moderate stakeholder concern. Some impact to service delivery in other areas due to the financial impact of this occurrence.	Costing £250K - £500K. The exposure is demonstrably around this sum in order to manage an occurrence of this risk. Reasonably high interest by stakeholders in the level of loss. Notable impact to service delivery in other areas due to the financial impact of this occurrence. The head of finance is to be alerted when a risk reaches this impact.	Costing >£500K, <£5M. The exposure is demonstrably around this sum in order to manage an occurrence of this risk. Very significant interest by stakeholders in the level of loss. Major impact on service delivery in other areas due to financial impact of this occurrence. The head of finance is to be alerted when a risk reaches this impact.

2. Headroom after impact on capital funding strategy

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
£10M upwards	Between £5M - £10M	Between £2M - £5M	Between £1M and £2M	<£1M, >500K

3. Minimum cash balance

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
At least £5M	Between £2.5M and £5M	Between £1M and £2.5M	Between £500K and £1M	No lower than £500K

4. Regulatory risk

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
In the event any statute is breached, it carries little damaging financial or reputational impact i.e. fines <£10K concerning a localised technical matter. Avoid anything that could be challenged, even unsuccessfully.	Relatively low profile statutory requirement may not be delivered adequately Fines >£10K up to £25K if council found in breach of relevant Act Want to be very sure we'd win any challenge.	Well established statutory requirement may not be delivered adequately Fines £25K - £50K if council found in breach of relevant Act Limited tolerance for sticking our neck out. We want to be reasonably sure we would win any challenge.	Important statutory requirement may not be delivered with potentially serious implications. Fines £50K - £250K if council found in breach of relevant Act Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Fundamental statutory requirement may not be delivered satisfactorily with potentially very serious implications. Fines over £250K if council found in breach of relevant Act. Chances of losing are high and consequences serious. However, a win would be seen as a great coup.

5. Reputation risk

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
A low level of interest in a particular council activity. A sideline in specialist press. Localised criticism. Managed situation with director/head of service briefed.	Front page news in local press. No particular national interest beyond sidelines. Managed situation with managing director/leader briefed.	Some national publicity or media criticism for no more than two/three days. Sustained criticism over 1-2 months amongst local press/public and/or specialist press. Could take up to a month to restore credibility.	Some national publicity or media criticism lasting no more than a week. Sustained criticism over 3-4 months amongst local press/public and/or specialist press. Could take up to three months to restore credibility. Reputation tarnished in longer term. Senior officers criticised for actions undertaken by the council.	Widespread criticism originating from all quarters of the press / the general public. It will take more than 6 months to restore credibility amongst stakeholders. Reputation is massively damaged and confidence lost towards senior officers and elected members.

6. Council services

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Has low level impact on the council's ability to deliver key services. May affect an aspect of performance management but overall target likely to remain unaffected. 1 day disruption.	Moderate impact on the delivery of any key service. Recoverable but will be delays of up to 2-3 days in returning to normal.	Has a medium level impact on the council's ability to deliver key services. Recoverable but will be delays of up to a week in returning to normal.	Impacts one key element of the council's strategic plan. Takes over a week but less than a fortnight to recover and return to pre-risk occurrence state.	Has a high level impact on the ability of the council to deliver more than one key element of the council's strategic plan. Over a fortnight to return to normal.

7. Operational risks in the execution of business plans

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
The uncontrolled impact would be no more than moderate at operating unit level. It would be controllable to a lower assessment status and not affect the wider council	The uncontrolled and/or controlled impact would be no more than moderate at operating unit level. It would be controllable and not affect the wider council. Small delays to major project.	Would have a major uncontrolled impact at the directorate level that may possibly lead to a wider council impact. Key milestones to major project or initiative slip.	Would have a major uncontrolled impact at the directorate level and with clear reasons that would likely lead to a wider council impact. Key milestones to major project or initiative slip.	Significant council wide impact. Major failing in the delivery of a key project or initiative. Would meet criteria for key operational risk.

8. Risk related decision making, especially in relation to new business opportunities

low appetite	low/medium appetite	medium appetite	medium/high appetite	high appetite
Many such opportunities undertaken at local levels. Clear precedents exist with apparent transparent benefits. Little or no change to council's existing business structure.	Reasonably common area of business but without a vast number of competitors e.g. <10. Council required to make minor adjustments to address new ways of working. Tolerance for risk taking limited to those events where there is	New area of business with a small number of precedents. Moderate adjustments to address new ways of working. Some moderate staffing level changes.	Only one or two examples of similar work undertaken in the local authority environment. Significant modifications to address new ways of working. Considerable changes to staffing levels/methods.	Completely new business area never assumed by any public sector organisation. Benefits cannot be based on previous experience because there isn't any. Appetite to take decisions that are likely to bring scrutiny of the council but where potential benefits are huge.

Minimal tolerance for any decisions which could lead to scrutiny of the council	no chance of any significant repercussions for the council		Appetite to take decisions with the potential to expose the council to additional scrutiny.	Desire to break the mould and challenge current practices.

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WORK PROGRAMME – AUDIT AND GOVERNANCE COMMITTEE

DIRECTORS	• Duncan Sharkey (Managing Director) • Adele Taylor (Director of Resources) • Emma Duncan (Monitoring Officer and Deputy Director of Law and Strategy)
LINK OFFICERS & HEADS OF SERVICES	• Catherine Hickman (Lead Specialist Audit and Investigation) • Steve Mappley (Insurance and Risk Manager) • Ruth Watkins (Chief Accountant) • Andrew Vallance (Head of Finance) • Karen Shepherd (Head of Governance)

MEETING: 29th JULY 2021

ITEM	RESPONSIBLE OFFICER
Draft Annual Governance Statement	**Emma Duncan,** *Deputy Director of Law and Strategy*
Work Programme	Panel clerk

MEETING: 23rd SEPTEMBER 2021

ITEM	RESPONSIBLE OFFICER
Work Programme	Panel clerk

MEETING: 21st OCTOBER 2021

ITEM	RESPONSIBLE OFFICER
Key Risk Report	**Steve Mappley,** *Insurance and Risk Manager*
Work Programme	Panel clerk

MEETING: 17th FEBRUARY 2021

ITEM	RESPONSIBLE OFFICER
2022/23 Audit and Investigation Plan	**Catherine Hickman,** *Lead Specialist Audit and Investigation*

Work Programme	Panel clerk

MEETING: 19th MAY 2021

ITEM	RESPONSIBLE OFFICER
2021/22 Annual Audit and Investigation Report	**Catherine Hickman,** *Lead Specialist Audit and Investigation*
Work Programme	Panel clerk

ITEMS SUGGESTED BUT NOT YET PROGRAMMED

ITEM	RESPONSIBLE OFFICER
Annual Statement of Accounts	**Andrew Vallance,** *Head of Finance*