

Time 2.00 pm **Public Meeting?** YES **Type of meeting** Regulatory

Venue Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Membership

Chair Cllr Alan Butt (Lab)
Vice-chair Cllr Jonathan Yardley (Con)

Labour Independent Member

Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Craig Collingswood
Cllr Roger Lawrence
Cllr Barbara McGarrity QN
Cllr Lynne Moran

Mr Mike Ager
Mr John Humphries

Quorum for this meeting is two Councillors.

Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

Contact Kirsty Tuffin
Tel/Email Tel: 01902 552873 or kirsty.tuffin@wolverhampton.gov.uk
Address Democratic Services, Civic Centre, 1st floor, St Peter's Square,
Wolverhampton WV1 1RL

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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

- 1 **Apologies for absence**
- 2 **Declaration of interests**
- 3 **Minutes of previous meetings** (Pages 5 - 10)
 [For approval]
- 4 **Matters arising**
 [To consider any matters arising from the minutes]

DECISION ITEMS

- 5 **Audit and Risk Committee - Terms of Reference** (Pages 11 - 16)
 [To review the audit and risk committee terms and conditions].
- 6 **External Audit plan** (Pages 17 - 78)
 [To note the External Audit Plan 2019-2020 from Grant Thornton].
- 7 **Certification work for City of Wolverhampton Council for the year ended 31 March 2019** (Pages 79 - 88)
 [To note the certification report from Grant Thornton].
- 8 **Strategic Risk Register Update** (Pages 89 - 96)
 [To receive the Strategic Risk Register Update].
- 9 **Internal Audit Plan 2020-2021** (Pages 97 - 120)
 [To receive the contents of the latest Internal Audit Plan 2020-2021].
- 10 **Internal Audit Update** (Pages 121 - 132)
 [To note the contents of the latest internal audit progress update].
- 11 **CIPFA Audit Committee Update** (Pages 133 - 150)
 [To note the latest CIPFA Audit Committee update].
- 12 **Payment Transparency** (Pages 151 - 154)
 [To receive an update on the Council's current position with regards to the publication of all its expenditure].
- 13 **Counter Fraud Update** (Pages 155 - 168)
 [To note the contents of the latest audit services counter fraud update].

- 14 **Exemption of the Press and Public**
[To pass the following resolution:
That in accordance with Section 100A(4) of the Local Government Act 1972 the
press and public be excluded from the meeting for the following items of business
as they involve the likely disclosure of exempt information on the grounds shown
below]

PART 2 - EXEMPT ITEMS, CLOSED TO PRESS AND PUBLIC

- 15 **Audit Investigations Update (Pages 169 - 172)**
[To note the current position regarding audit investigations].
- Information relating to any individual.
Information which is likely to reveal the identity of an individual.
Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (1, 2, 3)

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Audit and Risk Committee

Minutes - 20 January 2020

Attendance

Members of the Audit and Risk Committee

Cllr Alan Butt (Chair)
Cllr Jonathan Yardley (Vice-Chair)
Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Craig Collingswood
Cllr Roger Lawrence
Cllr Barbara McGarrity QN
Cllr Lynne Moran
Mike Ager (Independent Member)
John Humphries (Independent Member)

Employees

Ross Cook	Director of City Environment
Ian Cotterill	Audit Business partner
John Denley	Director of Public Health
Peter Farrow	Head of Audit
Claire Nye	Director of Finance
Hayley Reid	Senior Auditor
Kirsty Tuffin	Democratic Services Officer
Mark Taylor	Deputy Chief Executive
Mark Wilkes	Client Lead Auditor

External Auditors, Grant Thornton

Nicola Coombe

Part 1 – items open to the press and public

Item No. *Title*

- 1** **Apologies for absence**
There were no apologies for absence.
- 2** **Declaration of interests**
There were no declarations of interest.

3 **Minutes of previous meetings**

That the minutes be approved as a correct record with the following amendment to the last sentence on page 3:

The Chair reported that he would like to see appropriate Council Officers obtaining regular feedback on the performance of the main contractors and their sub-contractors during the life of Major Council Contracts. This may already happen via regular site meetings. These meetings give the opportunity for all parties (including sub-contractors) to report on any issues that might affect completion of the contract.

4 **Matters arising**

After clarification was sought for item 6, Councillor Jonathan Yardley advised the group that a note had been circulated by Claire Nye regarding payment for asbestos work for Civic Halls.

5 **External Audit Communication**

Nicola Coombe, External Auditor – Grant Thornton, presented the report that contributes towards the effective two-way communication between auditors and the Audit and Risk Committee. The report outlined a series of questions to help Grant Thornton oversight and understanding of management processes of the following areas:

- Fraud
- Laws and Regulations
- Going Concern
- Related Parties
- Accounting estimates

The group were advised that the responses from the Council's management to questions on these areas were outlined in the presentation attached to the report.

With reference to question 10 in the presentation, enquiries were made regarding the range and price of consultants used in the Council. It was agreed that Claire Nye would report back on the cost of consultants.

Resolved:

1. That the External Audit Communication report be noted.
2. That it be agreed that Claire Nye report back to the Audit and Risk Committee the cost of consultants used within the Council.

6 **External Audit Progress Report and Update**

Nicola Coombe, External Auditor – Grant Thornton, presented the annual progress report that provided an update on technical matters, sector issues and developments. She advised that a copy of the report had been attached in Appendix A.

The group were advised that the audit for the 2018-2019 Statement of Accounts now had certified closure following Grant Thornton issuing a report on the consistency of the Pension Fund financial statements. Grant Thornton had certified the Council's annual Housing benefit Subsidy claim in accordance with the Department for Work and Pensions procedures. Nicola Coombe advised that following last year's result from the value for money assessment on Civic Halls the risk would be included in this years Risk action plan and that the accounts would need to be audited.

Resolved:

1. That the external audit progress report and update be noted.

7

Strategic Risk Register

Hayley Reid, Senior Auditor, presented the report on an update to the key risks the Council faces and how they were being mitigated. The summary of the strategic risk register had been attached in Appendix 1 that outlined the risks as at December 2019.

The group were advised that climate change had been added to the strategic risk register moving forward. The level of risks for the following two risks had been decreased:

- Business Continuity Management
- Civic Halls

The risk of Brexit would be looked into as to whether it should be a stand-alone item on the strategic risk register. It was agreed that an update be brought to the next Audit and Risk Committee meeting on this.

Hayley Reid advised the group that following additional work to compile the Council's information asset register the target date to reduce the risk score for risk 3 – Information Governance had been delayed.

Following questions, Hayley Reid advised that an update regarding Westside would be provided at the next Audit and Risk Committee meeting. Claire Nye advised that the final contracts for Civic Halls would be underway in the next few months and had been incorporated into the financial budget.

It was agreed that the risk for Business Continuity be called in to the next Audit and Risk Committee meeting. It was agreed that the risk for waste Management services also be called in to the next Audit and Risk committee meeting for more information.

Resolved:

1. That the latest summary of the Council's strategic risk register, as at Appendix 1 be noted.
2. That the inclusion of risk 38 – Climate Change be noted.
3. That the decrease in the scores for the Risk 8 – Business Continuity Management and Risk 30 – Civic Halls be noted.
4. That the increase in the risk score for risk 29, Fire Safety – Public Buildings be noted.
5. That a change to the target date for a reduction in the score of risk 3 – Information Governance, whilst additional work is undertaken to compile the Council's information asset register be noted.
6. That changes to the risk description for risk 24 – Maximising Benefits from the Combined Authority be noted.
7. That the main sources of assurance available to the Council against its strategic risks at Appendix 2 be noted.
8. That it be agreed that an update on a Brexit stand-alone risk item be brought to the next Audit and Risk committee meeting.
9. That it be agreed that the risk for Business Continuity be called in to the next Audit and Risk Committee meeting.

10. That it be agreed that the risk for waste Management services be called in to the next Audit and Risk committee meeting for more information.

8 **Internal Audit Progress Update**

Peter Farrow, Head of Audit, presented the report on an update on the progress made against the 2019-2020 internal audit plan and provide an update on the work completed.

Peter Farrow advised that the following three areas had resulted in Limited Assurance Reports and the respective directors had been invited to the meeting in order to answer any questions Members may have:

- Fire Safety in Council Buildings
- Business Continuity Arrangements
- Fleet Services – Vehicle Spares and Stock Management

With regards to Fire Safety in Council Buildings - Mark Taylor, Deputy Chief Executive, and Neil Shore, Buildings Compliance Safety Manager, advised that a robust fire strategy had now been in place and relevant training to officers had been completed. The site responsible programme had also now been completed. Training had been intended to be rolled out to schools this year. Peter Farrow advised the group that a follow up report had since been completed and progress had been made. The % of schools not returning their Termly Fire Safety checklists would be provided at the next Audit and Risk Committee meeting.

With regards to Business Continuity Arrangements - John Denley, Director of Public Health and Wellbeing advised that following the audit review, action was underway, and Task and Finish groups had been developed to deal with any issues that may arise. A quarterly report taken to Strategic Executive Board had been prominent.

With regards to Fleet Services - Ross Cook, Director of City Environment, advised the group that the need for contracts had been advertised and there had been two options for the management of the fleet:

1. Lease out all the stock to one company
2. Go out for a framework procurement similar to one established in Wales.

The group were advised that option one could result in the process for parts taking longer. The fleet of vehicles would need to be replaced within the next five years. After questions were raised, Ross Cook advised the group that the full report and implementation of the recommendations outlined in Appendix 1 would not be completed by the initial target date of March 2020. It was agreed that Ross Cook would provide an update at a future Audit and Risk Committee meeting on the development of the recommendations agreed between services and procurement.

Resolved:

1. That the internal audit progress update be noted.
2. That the % of schools who had not returned their Termly Fire Safety checks be reported at the next Audit and Risk Committee meeting.
3. That it be agreed that Ross Cook provide an update at a future Audit and Risk Committee meeting on the development of the recommendations agreed between services and procurement.

9 **Annual Governance Statement - Action Plan Update**

Peter Farrow, Head of Audit, presented the report on the Annual Governance Statement and the mid-year - update on the action plans.

The group were advised that a watching brief would be maintained for the Procurement, Contract Management and Monitoring on any changes to legislation as a result of Brexit issue. The West Midlands Combined Authority (WMCA) dynamics could change following the forthcoming Mayoral Election and the Leader of the Council would have responsibility for a specific portfolio within the WMCA. The group were advised that Kate Martin, Director of Housing, may attend a future meeting to provide an update on her actions.

Resolved:

1. That the progress made in addressing the key improvements areas identified in the 2018-2019 Annual Governance Statement action plan.

10 **Payment Transparency**

Peter Farrow, Head of Audit, presented the report on an update on the Councils current position for the publication of all its expenditure. He advised the group that the Council publishes its own spend data every month and was available to view on the Councils internet site under Transparency and Accountability.

Resolved:

1. That the Council's current position with regards to the publication of all its expenditure be noted.

11 **Tendering Procedures for Major Capital Projects**

John Thompson, Head of Procurement, presented the report on an update for tendering procedures for major capital projects.

The group were advised that if the anticipated value of a contract would be between £10,000 and £50,000 then three quotes are requested and taken to procurement to ensure that the Council would be getting the lowest price and best value for money.

Councillor Alan Butt advised that he was keen for feedback on how contracts for major projects compliance were checked and raised concerns on how the tendering contracts and sub-contractors were managed and selected.

Resolved:

1. That the tendering procedures for major council projects be noted.
2. That the Crown Commercial Service Procurement Policy note 8/16: Standard Selection Questionnaire (SSQ) template be noted.
3. That the health and safety and equality evaluation questions be noted.

12 **Counter Fraud Update**

Mark Wilkes, Audit Business Partner, presented the report on an update on the current counter fraud activities undertaken by Audit Services. He advised that the national fraud survey had highlighted the different levels of risk of fraud for different areas and the information had help formulate the risk register. The group were advised that the Risk Register outlined the four red rating risks:

1. Housing tenancy
2. Council Tax
3. Personal budgets
4. Cyber security

Resolved:

1. That the contents of the latest Audit Services Counter Fraud Update be noted.

13 **Exclusion of the press and public**

That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below: Information relating to any individual. Information which is likely to reveal the identity of an individual. Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (1, 2, 3).

14 **Investigations Update**

Mark Wilkes, Audit Business Partner, presented the report to provide an update on current audit investigations. With reference to appendix A, the group were advised that following the dismissal of an employee for the theft of computers, the case had been heard at Wolverhampton Crown Court on 1 November 2019. The group were advised of their sentence.

Resolved:

1. That the current position regarding audit investigations be noted.

CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	Audit and Risk Committee – Terms of Reference	
Accountable director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for decision:

The Committee is recommended to undertake a review of:

1. The terms of reference for the Committee in line with recognised best practice.

1.0 Purpose

- 1.1 The terms of reference for the Audit and Risk Committee were last reviewed and approved by the Committee in March 2019. It is recognised best practice that such terms of reference are reviewed on a regular basis to ensure they remain fit for purpose.

2.0 Background

- 2.1 There have been no changes to the terms of reference since their last review.

3.0 Progress, options, discussion, etc.

- 3.1 The terms of reference will continue to be presented to the Audit and Risk Committee on a regular basis for review, in order for the Committee to determine their continued suitability.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report. [GE/04032020/C]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report. [Legal [TS/04032020/D]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no climate change and environmental implications arising from the recommendations in this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Health and wellbeing implications

10.1 There are no health and wellbeing implications arising from this report.

11.0 Schedule of background papers

11.1 None.

Audit and Risk Committee - Terms of Reference

Statement of purpose

Our Audit and Risk Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit and Risk Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

To monitor the effective development and operation of risk management in the Council.

To monitor progress in addressing risk-related issues reported to the committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve the risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit

To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

To receive detailed training in respect of the process associated with the preparation, sign off, audit and publication of the Council's annual statement of accounts.

To monitor the on-going progress towards publication of the Council's annual statement of accounts, ensuring the statutory deadlines are achieved.

To obtain explanations for all significant variances between planned and actual expenditure to the extent that it impacts on the annual statement of accounts.

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full Council on a regular basis on the committee's performance in relation to the terms of reference, and the effectiveness of the committee in meeting its purpose.

To publish an annual report on the work of the Committee.

CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	External Audit Plan	
Cabinet member with lead responsibility	Councillor Louise Miles Cabinet member for Resources	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Emma Bland	Finance Business Partner
	Tel	01902 553928
	Email	Emma.Bland2@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Committee is asked to note:

1. The Audit Plan 2019-2020 from the Council's external auditors, Grant Thornton.
2. An e-mail from the PSAA to s151 Officers setting out changes in the audit market.
3. The review undertaken by the PSAA on future audit procurements.

1.0 Purpose

- 1.1 To update members of the committee on the Audit Plan from the Council's external auditors, Grant Thornton, for the year ended 31 March 2020.

2.0 Background

2.1 Audit Plan

As outlined in Appendix 1, the audit plan sets out the planned scope and timing of the audit, as required by the International Standard on Auditing (UK and Ireland) 260. The document attached is to help the Audit and Risk Committee understand the consequences of the external audit work, discuss issues of risk and materiality and identify any areas where additional procedures may be requested.

2.2 E-mail from PSAA

Attached in Appendix 2 is an e-mail from PSAA. The e-mail sets out the changes in the audit market and the need for additional fees. It also explains PSAAs approach to the 2020-2021 fee consultation and that this will be revisited once there is clarity on the 2019-2020 fees and the revised National Audit Office (NAO) code. The e-mail provides useful context for the discussions taking place on audit fees.

2.3 Review by PSAA

Attached in Appendix 3 is a review undertaken by PSAA on any future audit procurement. (It is available on the PSAA website). Importantly the document considers the sustainability of audit supply alongside improvements in audit quality and the associated fee implications. The research concludes that 'almost all of the approved firms have reservations about remaining in the market'. The report goes on to cite that these reservations have arisen as 'fees have not risen to compensate for the higher risks that the firms perceive they face' and secondly because 'the timing of local audits is problematic [given the 31 July deadline]'.

3.0 Financial implications

- 3.1 The following fees are outlined in the audit plan attached. There is a specific budget for these fees within Corporate Financial Management.

Audit fees	2018-2019 £000	2019-2020 £000
Council Audit	158	170
Subsidiary audits:		
- Wolverhampton Homes Limited	28	28
- City of Wolverhampton Housing Company Limited	20	20
- Yoo Recruit Limited	14	14
Total	220	232

Independence & non-audit services	2018-2019 £000	2019-2020 £000
Total	23	23

[EB/13032020/N]

4.0 Legal implications

4.1 The legal implications are set out in the audit plan and are in compliance with the Councils' Constitution and all relevant legislation.

[TS/12032020/F]

5.0 Equalities implications

5.1 There are no equality implications arising from this report

6.0 Climate Change and Environmental implications

6.1 There are no climate change and environmental implications arising from this report.

7.0 Human resources implications

7.1 There are no human resource implications arising from this report.

8.0 Corporate landlord implications

8.1 There are no implications for the council's property portfolio arising from this report.

9.0 Health and Wellbeing implications

9.1 There are no health and wellbeing implications arising from this report.

10.0 Appendices

10.1 Appendix 1: Audit Plan

10.2 Appendix 2: E-mail from the PSAA to s151 Officers

10.3 Appendix 3: PSAA Review

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External Audit Plan

Year ending 31 March 2020

City of Wolverhampton Council
23 March 2020

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Your key Grant Thornton team members are:

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Appendix

A. Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of City of Wolverhampton Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of City of Wolverhampton Council. We draw your attention to both of these documents on the [PSAA website](#). We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance(the Audit and Risk committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts

The Authority is required to prepare group financial statements that consolidate the financial information of Wolverhampton Housing Company Limited (trading as WV Living) and Wolverhampton Homes Limited.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of the pension fund net pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £13.1m (PY £16.04m) for the group and £13m (PY £16m) for the Authority, which equates to 1.5% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.65m (PY £0.8m).

1. Introduction & headlines (continued)

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Civic Halls
- Financial Resilience
- Strategic Asset Management

Audit logistics

We will undertake a split interim visit, which will take place throughout January to March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £170,210 (PY: £158,360) for the Authority, subject to the Authority meeting our requirements set out on page 15.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Medium Term Financial Strategy notes that the Council is faced with finding further budget reduction and income generation proposals in the region of £20 million.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Authority until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

IFRS 16 – Leases

IFRS 16 is a new accounting standard, which applies to the public sector from 1 April 2020. It replaces four previous standards and interpretations as it sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. It requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

- While this standard does not apply to the public sector until 1 April 2020, there is a requirement to disclose in the 2019/20 financial statements, the impact of any accounting standards in issue, but not yet adopted. We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and if considered necessary test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.
- While we have not identified this as a significant risk, it nevertheless is a new accounting requirement, and therefore is necessitating a large amount of work by the Council's finance team, which will then need to be subject to audit.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
City of Wolverhampton Council	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> See pages 8 to 10 where the identified risks pertaining to the Authority are detailed 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Wolverhampton Homes Limited	Yes	Audit of one or more classes of transactions, account balances of disclosure relating to significant risks of the group	<ul style="list-style-type: none"> See pages 8 to 10 where the identified risks pertaining to the Group are detailed 	Specific scope procedures to be performed by component auditor, Grant Thornton UK LLP, (through a separate audit team to the group auditors)
City of Wolverhampton Housing Company Limited	To be confirmed	Audit of one or more classes of transactions, account balances of disclosure relating to significant risks of the group	<ul style="list-style-type: none"> See pages 8 to 10 where the identified risks pertaining to the Group are detailed 	Specific scope procedures to be performed by the group audit team

The Council has another subsidiary, Yoo Recruit Limited, which historically has not been consolidated on the grounds of materiality. The Council is in the process of assessing its group boundary for the current year and therefore the components listed above are those we anticipate to be consolidated within the group financial statements as at the time of writing.

Although the City of Wolverhampton Housing Company Limited, is not considered to be individually significant (based on historic financial performance), we anticipate the level of transactions through this company to increase for the year ending 31 March 2020. To that end we are therefore planning to perform specific scope procedures. We note however that pending the receipt of the Council's assessment of its group boundary, this assessment is subject to change.

Should the Council's assessment change we will update our audit scope and risk assessment accordingly and report the changes to the Audit and Risk Committee as those charged with governance.

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including City of Wolverhampton, mean that all forms of fraud are seen as unacceptable. 	Therefore we do not consider this to be a significant risk for City of Wolverhampton Council.
Management over-ride of controls	Authority	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We do not consider that there is likely to be material risk of fraud or error in the group financial statements arising from an error in the components. This is because the group materiality is proposed to be £13.1m and, given the total expenditure of the components the risk of material error due to management override is considered to be remote.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

4. Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Authority	<p>The Authority revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out, with follow up discussions where appropriate • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

4. Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We also consider that this risk applies to the group financial statements as Wolverhampton Homes Limited are also a member of the Local Government Pension Scheme and therefore include a net defined liability on its balance sheet, which includes significant estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Group and Authority	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on this area as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

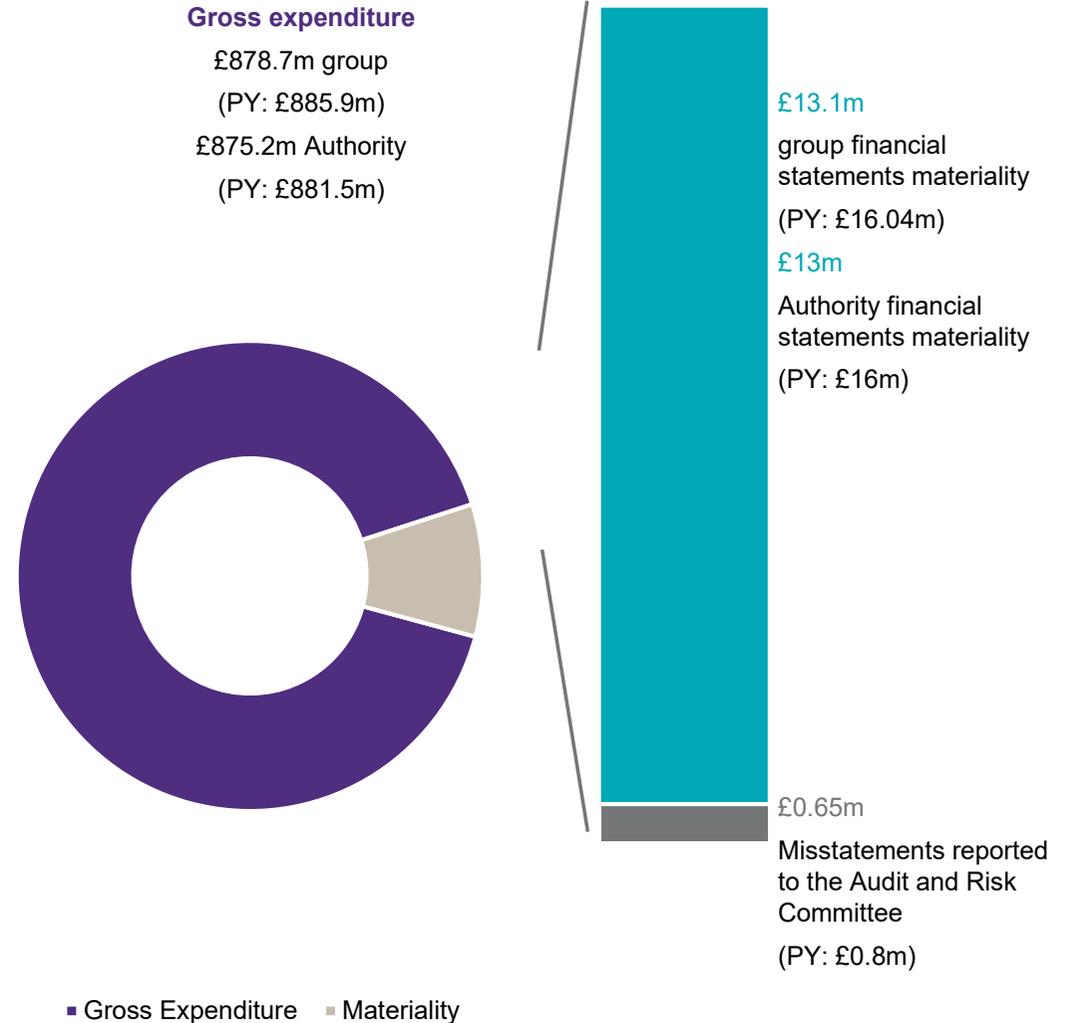
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.1m (PY £16.04m) for the group and £13m (PY £16m) for the Authority, which equates to 1.5% of your forecast year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £40k for senior officers' remuneration.

We consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.65m (PY £0.8m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

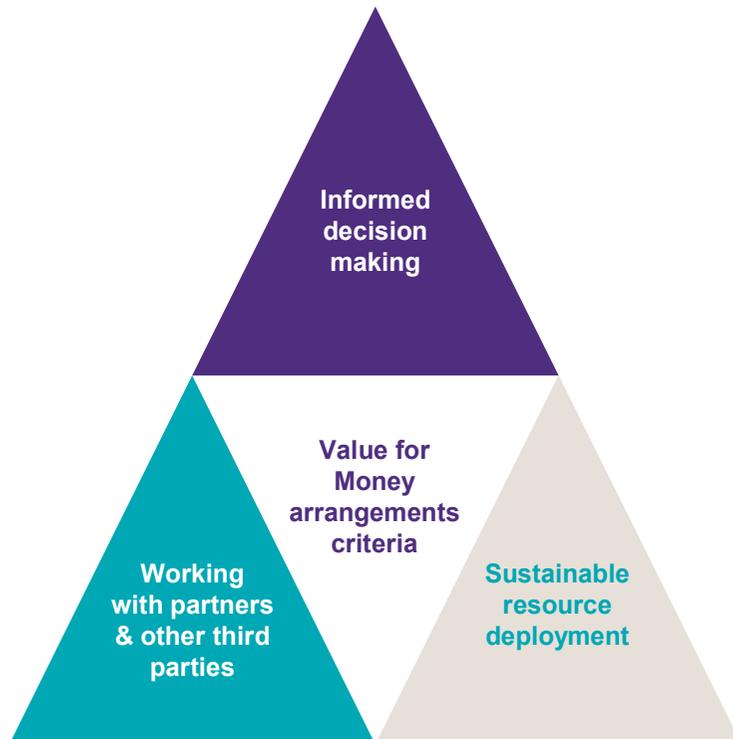
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



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Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Civic Halls Refurbishment

We noted in our 2018/19 VFM conclusion that this has been a difficult and complex project for the Council. We reported that while it has sought suitable advice at all stages of the project, it has also been unfortunate in that some of the advice it was given by its advisors and contractors appears to have been inadequate.

We also noted that the timeline and decision making had been driven by the Council's desire to maintain the Civic Halls as a cultural centre for Wolverhampton and to secure the wider economic benefit for the City. We saw that it had enabled the Council to secure significant grant funding for the project and has kept the venue open for the use of the public. It also avoided any additional costs from cancelling planned events.

We considered, notwithstanding the above comments, that there were a number of areas in relation to costing, viability and project management, where the Council's management arrangements have not proven to be adequate, which contributed to significant delay and increased cost to the Council.

On this basis we concluded that the management arrangement for the Civic Halls were not adequate and that therefore a qualified "except for" value for money conclusion was given.

Given the conclusion reached in the prior year, it is therefore considered appropriate to follow this risk up for the 2019/20 to assess the Council's progress.

Our response:

- We will review progress being made in relation to this Civic Halls refurbishment, both from a project management and budgetary point of view, and also assess how the lessons learned are being applied to other capital projects.

8. Value for Money arrangements



Financial resilience

The Council has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy approved by Full Council in March 2019 identified that the budget for 2019/20 was in balance without the use of general reserves and the section 151 Officer has indicated that the 2019/20 budget estimates are robust.

However, in common with other authorities, pressures on demand led services, particularly in Children's Social Care, continue to put impact finances and as such a projected overspend of £1.6 million for 2019-2020 was reported to Cabinet on 17 December 2019.

In order to address this remaining projected overspend, in-depth reviews were carried out with Directors in conjunction with the Director of Finance to identify further efficiencies. Furthermore, the authority had anticipated that there will be an underspend against the auto-enrolment pot which has been held for the auto-enrolment of employees into the pension scheme. In order to support the 2020/2021 budget strategy, the authority reported to Cabinet (Resources) Panel in March 2020, that it proposed to transfer this underspend into a new specific reserve. As a result of this, the projected overspend has reduced and the Authority is now projecting a breakeven position for 2019-2020.

Full Council in March 2020 approved the 2020/2021 Final Budget and Medium Term Financial Strategy 2020/2021 to 2023/2024. This identified a balanced budget for 2020/2021, without the use of general reserves. The Council is faced with finding further budget reductions and income generation proposals in the region of £20 million over the medium term to 2023/2024 in order to address the budget deficit.

The Council therefore needs to maintain focus on delivering its budget in 2019/20 and delivering savings for 2020/21 and thereafter if it is to remain financially resilient and is able to address the projected future budget deficits.

Our response:

- We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.



Strategic Asset Management

We reported last year that while we thought arrangements were adequate, the speed of implementation of the Council's Strategic Asset Management Plan was slow. As this remains high on the Council's agenda we will revisit progress against this for 2019/20 through discussion with officers and review of relevant documents.

Our response:

- We will review the work carried out since prior year to assess whether the actions have been undertaken and are effective.

9. Audit logistics & team



Mark Stocks, Engagement Lead

As your engagement lead, Mark will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Authority and take overall responsibility for delivering a high quality audit, which meets the highest professional standards while adding value.



Nicola Coombe, Audit Manager

As the engagement manager, Nic is responsible for overseeing the delivery of our service and managing the audit process. She will work with officers and our on-site team to ensure the smooth planning and delivery of the audit. She will oversee the on-site team and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Matthew Berrisford, Assistant Manager

Matthew will lead the on-site audit team and is responsible for the performance of the audit fieldwork and day-to-day liaison with the finance team. He will ensure that your audit is delivered effectively, efficiently and supportively, keeping the finance team abreast of any issues arising as and when they occur.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Revised fee 2019/20
Council audit	£189,428	£158,360	£170,210
Total audit fees (excluding VAT)	£189,428	£158,360	£170,210

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	145,860	
Raising the bar	5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	For major audits, of which the Council is one – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation	4,350	We have therefore engaged our own audit expert – (Wilks, head & Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
PPE Valuation – work of experts	5,000	We have engaged our own audit expert – (Wilks, head & Eve) to support us in our audit of PPE. We estimate that the fee payable to the auditor's expert is in the region of £5,000.
IFRS 16 - Leases	2,500	IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset and corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	170,210	

Group Fees

For the purposes of completeness we set out the audit fees charged in respect of the Authority and its subsidiaries

Audit Fees

	Proposed fee	2018/19
Council Audit	170,210	158,360
Audit of subsidiary company Wolverhampton Homes Limited	27,675	27,675
Audit of subsidiary company City of Wolverhampton Housing Company Limited	20,000	20,000
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality)	13,500	13,500

- The audit of these companies have yet to take place in respect of the year ending 31 March 2020 and as the audit plans have not yet been issued, the fees are yet to be confirmed for this year. The fees noted in the proposed column are therefore last year's rolled forward but are subject to change.

10. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing capital receipts grant 2018-19	2,750	Self-Interest (because this is a recurring fee)	The level of these recurring fees taken on their own is not considered a significant threat to independence when compared to the total fee for the audit of £170,210 and in particular relative to Grant Thornton UK LLP's turnover overall.
Grant certification of Housing Benefit Subsidy Claim 2019-20	16,000	Self-Interest (because this is a recurring fee)	Further, they are fixed fees and there is no contingent element to them. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return 2019-20	4,500	Self-Interest (because this is a recurring fee)	(NB, the fees listed are the prior year fees, as the proposed fees for the current year are yet to be agreed.)
Non-audit related:			
None	-	-	-

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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Dear S151 officer,

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

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

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

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

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

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

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

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

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

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

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

Appendix 1

PSAA's approach to fees

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

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

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

Each of these arrangements is discussed in more detail below.

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

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

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

ii). Pooling firms' costs

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

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

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

iii). Charging for additional audit work

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

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

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

iv). Amendments to scale fees

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

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



TouchstoneRenard
Management Consultants



Future Procurement and Market Supply Options Review

Final Report

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Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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Covering statement

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

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1. EXECUTIVE SUMMARY

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

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

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

Key issues

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

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

Firms that are not currently approved to operate in this market

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

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

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

Firms that are approved to operate in this market

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

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

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

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

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

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

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

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

Options available to PSAA

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

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

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

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

Options for attracting new entrants to the market include:

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

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

2. **PURPOSE AND SCOPE**

2.1 Overview

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

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

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

This exercise does not include:

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

2.2 Specific issues to be addressed

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

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

PSAA also cited the following 'options for consideration':

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

2.3 Other issues

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

3. WORK DONE AND METHODOLOGY

3.1 Interviews

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

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

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

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

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

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

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

3.2 Analysing responses

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

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

4. BACKGROUND

4.1 The market and PSAA's role

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

Abolition of the Audit Commission

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

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

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

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

Establishment of PSAA

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

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

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

The current appointing period

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

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

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

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

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

Code of Audit Practice

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

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

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

Regulation

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

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

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

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

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

Registration and licensing

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

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

Continuing change in the external audit and local audit sectors

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

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

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

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

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

4.2 Supply of auditors

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

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

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

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

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

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

4.3 Audit fees

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

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

4.4 Performance in the 2018/19 round of audits

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

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

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

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

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

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

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

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

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

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

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

What works well

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

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

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

What works less well

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

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

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

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

5.3 Number of lots and lot sizes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 The degree of emphasis on social value / apprenticeships

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

5.8 Timing issues

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

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

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

5.9 The Code of Audit Practice

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

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

5.10 CIPFA's Code of Practice for local authority accounting

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

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

5.11 The quality monitoring regime

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

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

5.12 Other issues – fees

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

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

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

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

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

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

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

Their comments included:

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

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

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

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

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

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

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

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

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

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

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

5.15 Is local auditing an attractive career option?

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

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

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

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

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

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

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

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

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

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

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

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

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

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

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

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

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

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

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

6.3 Awareness of the local audit environment

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

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

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

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

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

6.5 How important would the following factors be?

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

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

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

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

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

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

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

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

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

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

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

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

Other factors

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

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

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

Lot sizes, locations, values and composition of lots

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

The duration of the contract

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

The balance between price and quality used to evaluate the tenders

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

Whether lots include audits subject to FRC review

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

The legal right of electors to object

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

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

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

Positive comments included:

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

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

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

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

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

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

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

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

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

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

7. ISSUES AND OPTIONS

7.1 Introduction

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

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

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

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



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

7.3 The CBS report revisited

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

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

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

7.4 Opening up the market to new entrants

Issues

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

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

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

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

Options for PSAA

Options include:

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

In May 2019 the Cabinet Office made the following statement:

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

7.5 Supply side resources

Issues

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

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

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

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

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

Options for PSAA

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

7.6 Timing of audits

Issues

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

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

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

Options for PSAA

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

7.7 Fees and quality

Issues

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

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

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

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

Options for PSAA

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

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

7.8 Number of lots and lot sizes

Number of lots

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

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

Size of lots

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

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

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

Options for PSAA

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

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

7.9 Composition and location of lots

Allocation of audits

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

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

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

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

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

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

Locations

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

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

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

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

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

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

Specialist lots

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

Options for PSAA

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

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

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

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

7.10 Contract duration

Issues

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

Options for PSAA

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

7.11 Contract structure

Issues

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

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

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

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

Options for PSAA

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

7.12 Joint audit options

Issues

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

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

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

Options for PSAA

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

7.13 Collaborative response with other audit agencies

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

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

SAAA

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

NAO

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

Scotland, Wales and Northern Ireland

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

The obstacles to achieving closer co-operation include:

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

Options for PSAA

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

7.14 Creating a not-for-profit supplier

Issues

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

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

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

Options for PSAA

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

GLOSSARY

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

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<p>CITY OF WOLVERHAMPTON COUNCIL</p>	<p>Audit and Risk Committee 23 March 2020</p>
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Report title Certification work for City of Wolverhampton Council for the year ended 31 March 2019

Cabinet member with lead responsibility Councillor Louise Miles
Cabinet member for Resources

Accountable director Claire Nye, Director of Finance

Originating service Strategic Finance

Accountable employee Emma Bland Finance Business Partner
Tel 01902 553928
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Report to be/has been considered by Not applicable

Recommendation for noting:

The Committee is asked to note:

1. The Certification Report from Grant Thornton.

1.0 Purpose

- 1.1 To update the Audit and Risk Committee on the outcome of certification work undertaken by Grant Thornton on the Housing Benefit Assurance Process, the Teachers' Pension Return and Pooling of Housing Capital Receipts.

2.0 Background

- 2.1 Grant Thornton undertake work to certify the Council's Housing Benefit Subsidy Claim on behalf of the Department for Work and Pensions. The attached report provides Audit and Risk Committee with the outcome of this work showing that in both the initial samples and testing of brought forward issues from 2017-18, there were no subsidy errors. One underpayment of £73.32 was reported in relation to non-HRA rent rebates. However, as underpayments do not affect subsidy, and no further errors were identified from testing the whole population of such cases, it has not been classified as an error for subsidy purposes.
- 2.2 Grant Thornton undertake work to certify the Council's EOYC (end of year certificate) to Teachers Pensions, which sets out Teachers' Pensions contributions split between employer and teacher across the various tiers. The attached report provides Audit and Risk Committee with the outcome of this work, but in summary no fails were identified from the 20 tests undertaken.
- 2.3 Grant Thornton undertake work to certify the Council's 2018-2019 pooling return, showing the breakdown of the various elements of the housing capital receipts. From the twenty-three tests undertaken, two exceptions were identified. The attached report provides Audit and Risk Committee with details, but in summary these exceptions were an overstatement of £30.81 and a transposition error of £9. Neither error was amended by the Council on the grounds of materiality.

3.0 Financial Implications

- 3.1 The fee for the certification of the 2018-2019 Housing Benefit Subsidy Claim is £16,000.
- 3.2 The fee for the certification of 2018-2019 Pooling of Housing Capital Receipts is £2,750.
- 3.3 The fee for the certification of the Teachers' Pension Return is £4,500.
[EB/12032020/H]

4.0 Legal implications

- 4.1 The Council appointed Grant Thornton as its Reporting Accountant to undertake procedures, set out by the HBAP Module 1 framework, Teachers Pensions and MHCLG, to certify the Housing Benefit Subsidy claims, Teachers Pension Return and Housing Capital Receipts Pooling Return respectively.
[Legal Code: TS/12032020/D]

5.0 Equalities implications

5.1 There are no equality implications arising from this report.

6.0 Climate Change and Environmental implications

6.1 There are no climate change and environmental implications arising from this report.

7.0 Human resources implications

7.1 There are no human resource implications arising from this report.

8.0 Corporate landlord implications

8.1 There are no implications for the Council's property portfolio arising from this report.

9.0 Health and Wellbeing Implications

9.1 There are no health and wellbeing implications arising from this report.

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Certification Report

City of Wolverhampton Council
Year ending 31 March 2019

28 March 2020



Introduction



Mark Stocks
Engagement Lead

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This paper provides the Audit and Risk Committee with details of the outcome of the certification work that we have undertaken at City of Wolverhampton Council in respect of the year ending 31 March 2019.



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Certification work undertaken

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Housing Benefit Assurance Process

3

Value of the claim (total subsidy claimed): £87,843,639

Teachers Pension Return

5

Value of the claim (total contributions): £9,575,774.67

Pooling of Housing Capital Receipts

5

Value of the claim (total housing capital receipts subject to pooling): £2,633,840.38

Housing Benefit Assurance Process (HBAP): Housing Benefit Certification 2018/19

Background

The HBAP Module 1 framework sets out the Department for Work and Pensions' (DWP) requirements for the reporting accountant to provide a report of factual findings on the completion of the housing benefit subsidy assurance process. This work must be delivered to the DWP no later than 30 November.

City of Wolverhampton Council – 2018/19

We identified two issues from our certification work and, as a result of the errors identified, the claim was qualified, and we reported our findings to the DWP in our Reporting Accountant's Report dated 21 November 2019.

Year	Value	Amended?	Amendment	Qualified?
2017-18	£102,547,965	Yes	£3,318	Yes
2018-19	£87,843,639	No	N/A	Yes

The Council completes the workbooks for us to review and re-perform work on cases on a sample basis. The quality of evidence within the workbooks was generally good and officers work proactively with us to address and resolve queries on an ongoing basis.

Due to the nature of the welfare system this is inherently a complex and multifaceted area. However, we note that the number of issues raised in our qualification letter was a reduction on the prior year.

Issues identified this year

As last year a Reporting Accountant's report was produced, with all content and errors agreed with the Authority prior to submission. We are happy to provide a copy of this letter separately should members wish, but in summary, findings were as follows:

Initial Testing

Non HRA Rent Rebate

- No fails identified

HRA Rent Rebate

- No fails identified

Rent allowance

- No fails identified

“CAKE” (cumulative audit knowledge and experience) testing

In line with the requirements of HBAP modules we undertook CAKE testing based upon the preceding Qualification Letter. This involved the authority completing testing of the sub populations in relation to 2 different error types:

- earned income within rent allowances
- rent liabilities within non HRA rent rebates

We re-performed a sample of the Authority's testing and confirmed that the tests we carried out concurred with the Authority's results. This testing returned no errors, and on this basis, these matters are considered closed. These will not be rolled forward to feature as CAKE testing in respect of the 2019/20 subsidy claim.

Fee

The fee proposal for certification of the housing benefit subsidy claim is based on an anticipated level of work and is adjusted accordingly through a variation based on the actual output. A fee was proposed and agreed of £16,000, and as the level of work anticipated is in line with the output, no variation is proposed.

Going forward

We will continue to support the Council in improving the HBAP process which stems from pragmatic and effective forward planning and to that end have begun discussions with officers in preparation for the 2019/20 claim.

Other certification work undertaken

Pooling of Housing Capital Receipts

Background

The Ministry of Housing, Communities and Local Government (MHCLG) administers the pooling of housing capital receipts scheme.

Use of receipts arising from the disposal of housing assets (i.e. generally assets held under Part II of the Housing Act 1985 and for which account is made in the Housing Revenue Account (HRA)) is governed by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) ("the regulations"). The regulations require that, in short:

- a. receipts arising from Right to Buy (and similar) sales may be retained to cover the cost of transacting the sales and to cover some of the debt on the properties sold, but a proportion of the remainder must be surrendered to central Government;
- b. receipts arising from all other disposals may be retained in full provided they are spent on affordable housing, regeneration or the paying down of housing debt (each of which is defined in the regulations).

The 2018/2019 pooling return is an annual return generated by local authorities showing the breakdown of the various elements of the housing capital receipts.

The Council appointed Grant Thornton UK LLP as its Reporting Accountant to undertake agreed upon procedures, as set out by MHCLG. On conclusion of our work we are required to submit the Council's final pooling return, supported by four debt supportable workbooks (one for each quarter) along with our signed Reporting accountant's report directly to MHCLG by 7 February 2020.

2018/19 findings

From the 23 tests undertaken two exceptions were identified. There is no materiality threshold applied to certification and therefore we are required to report any and all differences arising from our testing.

Test 4 required us to agree receipts to the local authority's records of receipts from mortgages awarded. We identified an overstatement in quarter 3 of £30.81 between the return and the authority's supporting records. The Council agreed that this was a calculation error.

Test 6 required us to agree elements of the pooling relief to the Council's Debt Supportable Workbook. We identified a transposition error of £9, which was agreed by the Council.

Our Reporting Accountant's report was submitted on 5 February ahead of the deadline.

Pooling of Housing Capital Receipts (continued)

Fee

A fee was agreed for this work of £2,750. This is disclosed to you separately in our Audit Plan along with the reasons as to why we consider ourselves to be independent in relation to this non-audit service.

Teachers Pension Return

Background

The Council is required to submit an EOYC (end of year certificate) to Teachers Pensions which sets out Teachers' Pensions contributions split between employer and teacher across the various tiers.

The EOYC is an annual return completed by employers showing the level of teachers' pension contributions that should have been deducted and paid to Teachers' Pensions within the financial year i.e. the totals for the payroll and employer adjustments such as deductions at the incorrect tier which they identify during the financial year. The EOYC should cover all teachers who should be contributing to the TPS and for whom the employer is responsible.

The Council appointed Grant Thornton UK LLP as its Reporting Accountant to undertake agreed upon procedures, as set out by Teachers Pensions. On conclusion of our work we are required to submit the Council's final EOYC along with our signed Reporting accountant's report directly to Teachers Pensions by the deadline of 29 November.

2018/19 findings

From the 20 tests we are required to undertake, we identified no exceptions.

Our Reporting Accountant's report was submitted on 10 October ahead of the deadline.

Fee

A fee was agreed for this work of £4,500. This is disclosed to you separately in our Audit Plan along with the reasons as to why we consider ourselves to be independent in relation to this non-audit service.

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	Strategic Risk Register Update	
Accountable director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 550417
	Email	Peter.Farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Committee is asked to note:

1. Updates regarding the Council's strategic risk register, as detailed in this report.
2. The inclusion of risk 39 – Brexit Implications.
3. An update regarding risk 32 – Waste Management Services.
4. A summary of the progress made in relation to risk 8 - Business Continuity Management.
5. Further details on risk 38 – Climate Change.
6. Information regarding departmental risks registers, as requested at the Audit and Risk Committee meeting on 21 January 2020.
7. The Committee will also receive a verbal update on the current position with regards to the Council's response to the risks associated with coronavirus.

1.0 Purpose

- 1.1 To keep members of the Audit and Risk Committee aware of the key risks the Council faces and how it can gain assurance that these risks are being mitigated.

2.0 Background

- 2.1 The Council is no different to any organisation and will always face risks in achieving its objectives. Sound risk management can be seen as the clear identification and management of such risks to an acceptable level.
- 2.2 The strategic risk register was last presented to the Committee in January 2020 and included an update on the progress made on the mitigation of these risks. As a result of the short period since this update, there have only been a small number of changes to the register, these changes have been summarised within this report which contains details of the key risks and their underlying direction of travel.
- 2.3 The strategic risk register does not include all the risks that the Council faces. It represents the most significant risks that could potentially impact on the achievement of the corporate priorities. Other risks are captured within directorate, programme, project or partnership risk registers in line with the Council's corporate risk management framework.

2.4 The key risks at the time of this report and their underlying direction of travel is as follows:

At the time this report was prepared, the risks and issues associated with coronavirus were changing on a daily basis. Therefore, rather than attempt to catch these here, the Director of Public Health or his representative will attend the meeting and provide a verbal update to the Committee.

Medium Term Financial Strategy Medium Term Financially	16	↔
Business Continuity Management	12	↓
City Centre Regeneration	12	↔
Emergency Planning	12	↔
Skills for Work and Inclusive Growth	10	↔
Safeguarding	10	↔
Civic Halls	12	↓
Cyber Security	12	↔
Compliance with National Building Safety Programme	10	↔
Fire Safety – Public Buildings	12	↑
Parent Company Assurance TMOs	12	↔
Information Governance	8	↔
Maximising Benefits from the Combined Authority	6	↔
Payment Card Industry Data Security Standard	4	↔
Health and Safety	8	↔
Waste Management Services	4	↔
Governance of Major Capital Projects and Programmes	8	↔
Climate Change	6	↔
Brexit Implications	TBC	

3.0 Progress, options, discussion

3.1 Risk 39 - Brexit Implications

3.1.1 As discussed at the Committee meeting on 20 January 2020, the 'Implications of Brexit' element has now been removed from risk 8 – Business Continuity Management and a

new risk, risk 39 – Brexit Implications has been included in the register and rated as amber. Further details regarding this risk, including a full risk description and details of the risk scoring (impact and likelihood) will be reported to the next meeting of the Committee.

3.1.2 The Council are working with market and industry specialists to identify the potential impacts of Brexit across a range of areas including the economy, the workforce and the supply chain. Continual monitoring of the ongoing situation to prepare for potential impacts across the Council and within the City of Wolverhampton is ongoing, regular updates with regards to the work being undertaken will be provided to the Strategic Executive Board (SEB).

3.2 Risk 32 - Waste Management Services

3.2.1 At the meeting on 20 January 2020, the Committee requested further information on risk 32 – Waste Management Services. The Head of Business Services is attending the meeting to discuss this risk in more detail. The Waste Management Services risk was first identified by SEB for inclusion on the register in July 2018 and was rated as 8 Amber, the risk has subsequently been reduced to 4 Amber.

3.2.2 The Council's Waste Strategy 2018 – 2028 was approved by Cabinet on 6 June 2018 in order to ensure the timely provision of facilities and services that maximise sustainable benefits for the community and support regeneration and growth to the City.

3.2.3 Waste services were transferred from the contractor back to the Council on 1 September 2018 and the Council's phased move to alternate week collections for general waste commenced during October 2018, with the introduction of a subscription service for garden waste in February 2019.

3.2.4 The Council is in the process of completing a restructure of Waste Services, this includes the transfer of over 170 staff onto City of Wolverhampton Council terms and conditions with effect of 1 April 2020. This restructure has been completed with no disruption to services. Comprehensive contingency plans had been established in case of disruption and can be utilised when needed, for example if the service is affected by the Coronavirus.

3.2.5 Major developments for the 2020 – 2021 financial year include a pilot this summer of opening the City's Household Waste Recycling Centres for seven days a week. The flexibility to pilot significant services changes such as this would have been significantly limited had the services not have been transferred in house.

3.2.6 Another major development in 2020-21 will be the roll out of a new contract framework for waste disposal and recyclates. This work will require all 23 separate contractors to sign up to the End Destination of Recycling Charter and supports the Council's wider Climate Change aspirations. However, due to market uncertainty in the waste industry caused by proposed legislative change and global macro-economic factors it is

recommended that the risks associated with Waste Services Transformation continue to be monitored at a corporate level.

3.3 Risk 8 - Business Continuity Management

- 3.3.1 At the last meeting on 20 January 2020, the Committee requested risk 8 - Business Continuity Management to be called in for the March 2020 meeting, the Director for Public Health and the Resilience Manager will be attending the meeting to discuss details of the risk, specifically progress made in relation to the Business Continuity Arrangements Audit Report, issued in October 2019 and to provide details of the CWC Business Continuity SharePoint site which has recently been developed.
- 3.3.2 With regards to the audit report an action tracker has been established to monitor progress in respect of the agreed actions within the report and regular updates are provided to the Resilience Board. The Business Continuity Management Policy has been reviewed and was approved by the Resilience Board on 26 February 2020, all Managers have been asked to complete outstanding Business Continuity to Plans.
- 3.3.3 Business Continuity Training is being developed for managers and will be available on SharePoint. The training will include an assessment to monitor its effectiveness and gain feedback in order to identify improvements.
- 3.3.4 A Business Continuity system has now been developed and rolled out to users. Like the training the system is based on SharePoint and therefore is accessible via an internet connection. Each service area has their own area which provides access to training materials, videos and details of a three-step Business Continuity Process.
- 3.3.5 The Team have been working alongside colleagues in Public Health to ensure that the Council are prepared for any impacts from the Coronavirus. All business continuity plans account for loss of staff and identify the minimum number of staff that each service needs to operate critical functions. Further work is ongoing in conjunction with Human Resources to develop a skills audit for all staff in order to assist the re-deployment of individuals if required.

3.4 Risk 38 - Climate Change

- 3.4.1 As previously reported, Risk 38 – Climate Change was included on the strategic risk register on 20 January 2020, the risk has been rated as 6 – Amber. The Council's Climate Change Strategy and Action Plan was due approved by Cabinet on 18 March 2020 and is available on Modern.Gov. The action plan sets out the Council's vision for tackling the Climate Crisis.

3.5 Departmental Risk Registers

- 3.5.1 In response to a query raised at the Committee Meeting on 20 January 2020 a departmental risk register is maintained for Childrens Services, the risk register contains risks in relation to Childrens Services and Education and includes placement sufficiency,

sustainability of key programmes, demand management and maintaining the Ofsted judgement. The risk register is monitored by the Childrens Leadership Team on a quarterly basis and risks are escalated to and de-escalated from the Strategic Risk Register as and when required.

4.0 Financial implications

4.1 There are no financial implications associated with the recommendations in this report as Councillors are only requested to note the strategic risk register summary. Financial implications may arise from the implementation of strategies employed to mitigate individual corporate risks, but these will be evaluated and reported separately if required. [GE/09032020/M]

5.0 Legal implications

5.1 Although there may be some legal implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct legal implications arising from this report. [TS/11032020/S]

6.0 Equalities implications

6.1 Although there may be equalities implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct equalities implications arising from this report.

7.0 Climate change and Environmental implications

7.1 Although there may be some environmental implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct climate change and environmental implications arising from this report.

8.0 Human resources implications

8.1 Although there may be some human resource implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct human resource implications arising from this report.

9.0 Health and Wellbeing implications

9.1 There are no health and wellbeing implications arising from the recommendations in this report.

10.0 Corporate landlord implications

10.1 There are no corporate landlord implications arising from the recommendations made in this report.

11.0 Schedule of background papers

11.1 None.

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	Internal Audit Plan 2020-2021	
Accountable director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	Peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	SEB	10 March 2020

Recommendation for decision:

The Committee is recommended to:

1. Review and approve the risk based internal audit plan for 2020-2021.

1.0 Purpose

- 1.1 The purpose of internal audit is to provide the Council with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives.
- 1.2 The purpose of this document is to provide the Council with a risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Council which are assessed as generating the greatest risk to the achievement of its objectives.

2.0 Background

- 2.1 Internal audit is a statutory requirement for all Local Authorities. The audit service provided to the Council is in accordance with the Local Government Act (1972), the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards.

3.0 Progress

- 3.1 Progress against the delivery of the internal audit plan will be reported back to the Audit and Risk Committee on a quarterly basis.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report. The audit plan detailed will be implemented using current budgeted internal audit resources. [GE/11032020/L]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report. (TS/11032020/R)

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no climate change and environmental implications arising from the recommendations in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Health and Wellbeing implications

9.1 There are no health and wellbeing implications arising from this report.

10.0 Corporate landlord implications

10.1 There are no corporate landlord implications arising from the recommendations in this report.

11.0 Schedule of background papers

11.1 None.

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City of Wolverhampton Council

2020 - 2021 Internal Audit Plan



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A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the Council's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.
- Key Financial Systems - work undertaken in close liaison with the external auditors, in order to help inform and support the work they are required to undertake.
- Areas where we use auditor's knowledge, management requests and past experience etc.



Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.



Step 3 – Three year cycle

List the likely medium and high assurance need themes and/or areas for the next three years. High need themed areas will be reviewed annually, medium need usually once in a three-year cycle, while a watching brief will remain on the low needs.



Step 4 - Next Years Plan

List the themes and where appropriate the types of work that will be undertaken in 2020-2021 in the internal audit plan.

A glossary of terms

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Governance

The arrangements in place to ensure that the Council fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Council's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Council and the reporting of financial management
- the performance management of the Council and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

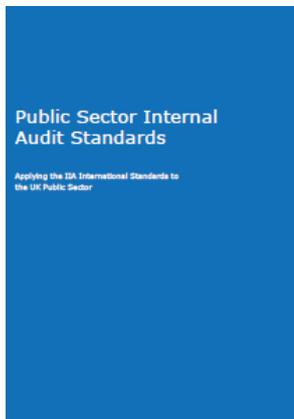
Audit and Risk Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Council's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards



The internal audit team have adopted and comply with the standards as laid out in the Public Sector Internal Audit Standards.

Introduction

- The purpose of internal audit is to provide the Chief Executive, Section 151 Officer and Audit and Risk Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within the Council.
- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Council has an Internal Audit Charter which is reviewed and approved annually by the Audit and Risk Committee and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the Council. This document sits alongside the charter and helps determine how the internal audit service will be developed.
- The purpose of this document is to provide the Council with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Council which are assessed as generating the greatest risk to the achievement of its objectives.

Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Chief Executive, Section 151 Officer and the Audit and Risk Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

Assessing the effectiveness of the system of control

- In order to be adequate and effective, management should:
 - Establish and monitor the achievement of the Council's objectives and facilitate policy and decision making.
 - Identify, assess and manage the risks to achieving the Council's objectives.
 - Ensure the economical, effective and efficient use of resources.
 - Ensure compliance with established policies, procedures, laws and regulations.
 - Safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
 - Ensure the integrity and reliability of information, accounts and data.
- These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk management and governance will cover the control environment and risk assessment

elements, at a high level. The programme of work developed as the outcome of the assessment of assurance need exercise will cover the system level control activities.

- The plan contained within this report is our assessment of the audit work required in order to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the Council and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Council's objectives.
- Activities that contribute significantly to the Council's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the Council over the reliability of its system of control in an effective and efficient manner.
- We have undertaken our assessment using the following process:
 - We identified the core objectives of the Council and, where available, the specific key risks associated with the achievement of those objectives
 - We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
 - We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained.
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2020-2021 financial year and is detailed at the end of this document.

The assessment of assurance needs - identifying the Council's priorities and the associated risks

At the time this audit plan was prepared, the following were the Council's six strategic outcomes:

- Children and young people get the best possible start in life
- Well skilled people working in an inclusive economy
- More good jobs and investment in our city
- Better homes for all
- Strong, resilient and healthy communities
- A vibrant, green city we can all be proud of

All of this will be supported by the '**Our Council**' programme. This is the internal change programme which will help drive organisational improvement and development. It provides the foundation on which the Council will deliver its services, in partnership with its communities and stakeholders, to achieve the city's ambitious Vision 2030. The 'Our Council' programme aligns internal activity and the operating model to the strategic outcomes, by delivering:

**Our Assets**

We will rationalise our buildings, vehicles and equipment to provide better use for ourselves, our communities and our partners. Our assets will be used to unlock investment in the city, by providing space for new homes and developments that bring wider economic benefits.

**Our Data**

We will use data and insight to lead policy development and decision making. Data will be open and available, enabling people to engage with us more freely and to ensure decision making is closely aligned with communities' needs. We use data confidentially to be effective and efficient.

**Our Technology**

We will embrace digital technology throughout our organisation to enhance customer access and will continue to improve the efficiency and joined-up nature of our services. Our communities and partners will be able to self-serve and access information when they want it, how they want it.

**Our Money**

We will have a sustainable, agile organisation able to work with partners and communities to unlock the potential of our city. We will operate as efficiently as possible whilst embedding a commercial culture throughout the organisation to meet our financial challenge.

**Our People**

We will continue to develop a highly talented and empowered workforce with the skills, drive and innovation to meet ever changing demands, and to work collaboratively and confidently to tackle our city's priorities.

The Council has identified the following strategic risks as potentially impacting upon its ability to achieve its strategic outcomes:

- Medium Term Financial Strategy
- Safeguarding
- Business Continuity Management
- City Centre Regeneration
- Emergency Planning
- Skills for Work and Inclusive Growth
- Cyber Security
- Compliance with the requirements of the National Building Safety Programme, Grenfell Inquiry Report and MHCLG Building Regulation Guidance Advice Notice(s)
- Fire Safety – Public Buildings
- Civic Halls
- Parent Company assurance of Tenancy Management Organisations
- Information Governance
- Maximising Benefits from the Combined Authority
- Payment Card Industry Data Security Standard
- Health and Safety
- Waste Management Services
- Governance of Major Capital Projects and Programmes
- Climate Change

Identifying the “audit universe”

- In order to undertake the assessment of assurance need, it is first necessary to define the audit universe for the Council. The audit universe describes all the systems, functions, operations and activities undertaken by the Council. Given that the key risk to the Council is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Council, as identified above, and the management objectives. These auditable areas include the control processes put in place to address the key risks.
- In addition to this, there are also common systems and functions which are generic to all areas, along with a number of mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

Assessing the risk of auditable areas within the assurance framework

- Risk is defined as “The threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies.”
Source: Economist Intelligence Unit - Executive Briefing.
- There are a number of key factors for assessing the degree of assurance need within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:
 - Materiality
 - Business impact
 - Audit experience
 - Risk
 - Potential for fraud
- In this model, the assignment of the relative values are translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

Developing an internal audit plan

- The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the Council's own risk analysis/assessment. The plan has been designed so as to, wherever possible, cover the key risks identified by such risk analysis.
- In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.
- It is recognised that a good internal audit plan should achieve a balance between setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. Traditionally Audit Services produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, and this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is a particular issue within the local authority environment at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for this year we are again keeping the audit plan more open than previously, and, where appropriate, the new plan reflects themes and types of work rather than individual audits. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.
- Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.
- The assessment of assurance need's purpose is to:
 - determine priorities and establish the most cost-effective means of achieving audit objectives;
 - assist in the direction and control of all audit work.

- This exercise builds on and supersedes previous internal audit plans.
- Included within the plan, in addition to audit days for field assignments are:
 - a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
 - a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
 - an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Audit Committee etc.

Considerations required of the Audit and Risk Committee and the Council's Senior Management Team

- Are the objectives and key risks identified consistent with those recognised by the Council?
- Does the plan include all the themes which would be expected to be subject to internal audit?
- Are the risk scores applied to the plan reasonable and reflect the Council?
- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?
- Does the plan cover the key risks as they are recognised?

How the internal audit service will be delivered

Staffing

The audit team follow the Council's core behaviours. They are recruited, trained and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by relevant professional standards. These arrangements are set out in the division's standards manual and require that all working papers and reports are subject to thorough review by professionally qualified accountancy staff.

Resources required

It is estimated that approximately 1,400 internal audit days (including fraud, assurance and contingency work) will be required to deliver the audit plan.

Audit Service's External Clients

 <p>West Midlands Combined Authority</p>	<p>The City of Wolverhampton Council's Audit Services also provides the internal audit service to a number of other associated public sector based organisations in the West Midlands. Separate internal audit plans are produced for each of these and Audit Services reports back to each of their respective Audit Committees or equivalent.</p>
 <p>West Midlands Pension Fund</p>	
 <p>WV LIVING building homes you will love</p>	
 <p>WOLVERHAMPTON HOMES</p>	

The internal audit plan 2020-2021

The following reviews and associated services will be delivered across the Council:

Auditable Area	Purpose
Assurance mapping	An ongoing mapping exercise between the controls identified as mitigating risk from the strategic risk register, to the sources of assurance that these controls are operating. This will play a key part in informing the Annual Governance Statement.
National fraud initiative	In accordance with Cabinet Office requirements we will lead on the Council's NFI data matching exercise.
Fraud investigations	The carrying out of investigations into areas of suspected or reported fraudulent activity across the Council.
Counter fraud activities	A series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity including where appropriate maintenance of the Council's fraud risk register, hosting raising fraud awareness seminars and running fraud surgeries and e-learning.
Value for money reviews	During the year discussions will be held with senior management regarding the identification of potential value for money areas, where Audit Services could be of assistance in performing value for money advice and or/reviews.
Payment transparency	An ongoing review of compliance with the government's data transparency publishing requirements.
Recommendation follow up	A regular and ongoing follow up of key internal audit recommendations made across the Council in 2019 - 2020.
Development and advice	Reviewing system developments on key controls and providing advice relating to systems which are not necessarily covered by audits originally scheduled for 2020-2021.
Contingency	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Management	Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings.
Audit and Risk Committee	Preparation and presentation of papers for the Audit and Risk Committee and providing advice and training to committee members as and when required.

Corporate (Executive)		
Assurance Framework	A review of the monthly returns that will underpin the Assurance Framework process that was implemented in 2019-2020. This will entail reviewing a sample of returns to ensure there is sufficient evidence trails in place.	Medium

Finance		
Key Financial Systems	A review of the high-level financial system controls and other key processes, these include: Accounts Payable, Accounts Receivable, Payroll, Budgetary Control, General Ledger, Fixed Assets, Treasury Management, Local Taxes, Housing Rents, and Housing Benefits.	High
Procurement Non-Compliance Monitoring	A high-level review of the monitoring arrangements, and action taken, where procurement non-compliance is identified.	Medium
New Payment Kiosks	A review of the implementation of the Council's new replacement payment kiosks. The review will focus on the reconciliation and banking processes.	Medium

Governance		
Key governance areas	There is a newly appointed Director of Governance and a contingency has been assigned to this area in order to give the director time to identify areas where audit assurance may be required.	Medium

Human Resources		
Annual Leave Recording	A corporate review of annual leave. This is to include the process for part time employees, the booking of mandatory unpaid leave and the correct calculation of leave balances for leavers.	Medium
Management of Attendance	A compliance review in respect of the management of attendance process. As a result of the HR Improvement Programme there are proposed changes around the reporting and recording of sickness.	Medium
Disclosure of Bureau Services Checks	This is a corporate review of the DBS checks for employees of the Council. This will include the undertaking of checks as part of the recruitment process and the renewal of checks that are due to expire.	High
Diversity Monitoring	This audit is to review the current diversity monitoring processes and procedures adopted by HR.	Medium
Business Improvement		
Projects and Programmes	An on-going review of the management of the Council's programmes and projects to ensure they are complying with the approved methodology.	Medium
Business Improvement Programmes	To provide on-going advice and support to newly established service improvement programmes initiated throughout the year.	Medium

Strategy		
Performance Framework Reporting (Data Integrity)	A review of the integrity of data used for reporting outcomes under the Council's proposed performance framework.	Medium
Recovery of IT Assets for Agency Staff	A review of the systems and procedures in place for recovering CWC assets from agency staff. This will be done in conjunction with ICTS and service areas across the Council.	Medium
ICT - Disaster Recovery	A high-level review of the Council's current ICT disaster recovery arrangements.	High
Cyber Security	A review of the controls the Council has in place to reduce the risk of cyber security attacks.	High

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Children Services		
Section 17 Payments*	A review of new systems and processes in place to administer these payments. <small>*Section 17(6) of the Children Act states that the local authority may exercise its duty to safeguard and promote the welfare of children in need by providing 'assistance in kind to be given or in exceptional circumstances in cash'.</small>	Medium
Out of City Placements	A review of the payment arrangements for children in outer city care placements.	Medium
Commissioning/Procurement Planning - Contracts	This is a review of the commissioning and procurement arrangements in Children's Services to ensure they are compliant with the Council's Contract Procedure Rules.	Medium
Recruitment and Retention – Performance Management	This is a review of the new performance management framework. The review will the arrangements are in place for monitoring/evidencing performance and also include the requirement to complete the new social worker qualification.	Medium
Troubled Families – Grant Certifications	The will involves verifying and certifying the quarterly grant claims.	Medium

Adult Services		
Commissioning / Procurement Planning Contracts	Review of commissioning arrangements to ensure that forward planning takes place and procurement rules are complied with.	Medium
Continuing Health Care	Review of current arrangements to ensure that key risks are effectively controlled and managed.	Medium
Education		
School Audits	A review of the governance and financial procedures in place at a sample of nursery, primary, secondary, special schools, and pupil referral units to ensure coverage of all local authority maintained schools over a predetermined cycle.	Medium
School census procedures	A review of the process for inputting and collation of school census information.	Medium
ConnectEd	A follow up review of ConnectED's management and financial arrangements where the Council acts as the company's supervising authority.	Medium
Early Years grant arrangements	A review of the arrangements in place to claim and distribute the grant.	Medium
Data Integrity review	A follow up review of the last Data Integrity review.	Medium
Public Health		
Key areas within Public Health, likely to include business continuity arrangements.	With a number of Public Health related risks accelerating at the time this plan was prepared, discussions will be held with the Director of Public Health during the year in order to focus the audit resource into the key risk areas.	High

Regeneration		
Regeneration Programme and Project Management Framework	A high-level review of programme level governance, risk management, monitoring and reporting arrangements, and application of key programme level controls (including use of Council systems) to ensure the effective delivery of programmes and projects by the Regeneration Directorate.	High
Westside	An interim review of governance, project management, risk management and control systems (including use of Council systems) being developed in preparation for project delivery stage.	High
Queens Street Gateway	A review of governance, project management, risk management and control systems (including use of Council systems) in operation including compliance with any external funding arrangements as applicable.	Medium
Adult Education External Funding Arrangements (WMCA)	A review of the Council's monitoring and compliance arrangements regarding WMCA Adult Education Budget external funding (including terms and conditions and claims process), and achievement of key deliverables.	High
Black Country AIM (Advice Investment and Markets) Programme and Black Country Impact Project - European Regional Development Fund	A review of governance, risk, performance and operational management arrangements for the ERDF funded AIM Programme to ensure compliance with funding requirements and delivery of key outcomes and outputs as part of contributing to the achievement of the Council's strategic objectives.	High
Black Country Impact Project – European Social Fund	A review of governance, risk and operational management arrangements, including partnership engagement, for the ESF funded Impact Project to ensure compliance with funding requirements and delivery of key outcomes and outputs.	High
Industrial Sites Delivery Programme	A review of the governance, programme and risk management arrangements for delivery of the strategic aims and objectives of the Industrial Sites Delivery Programme.	High

Environment		
Future Generations: Our Climate Commitments	A high-level review of the proposed governance, monitoring and reporting arrangements developed to support delivery of the Commitment and associated Carbon Neutral target by 2028.	High
Westside Link (Connected Places) Project Phase 1	A review of the governance, project management, risk management and control systems in operation for the Westside Link (Connected Places) Project.	High
City East Gateway Phase 1 and 2	A review of the governance, project management, risk management and control systems in operation for the City East Gateway Project.	High
Wedding Offer (Registrars)	A review of the operational and management arrangements established to support effective delivery of the Registrars' Wedding Offer including development of future business opportunities as part of a holistic Council wide offer.	Medium
ERDF Smart Infrastructure (LED Street Lighting Replacement)	A review of the project management arrangements and compliance with ERDF funding requirements in operation.	High
Waste Disposal and Recycling Contract Management	In-year audit coverage of a specific contract will be determined through review of contracts awarded in 2020-2021.	High
Time Recording and Management Arrangements (including overtime)	A review of time recording and management processes in operation within Environmental Services (including overtime) to ensure they are effective and efficient and supports service delivery.	Medium

City Assets and Housing		
Housing Capital Programme	A review of governance, programme/project management, risk management, control systems and resource/succession planning in operation for the strategic and operational delivery of the Housing Capital Programme.	Medium
HMO Licencing Review	A review of the HMO Licencing procedures for the administration and issuing of licences.	Medium

Programme and Project Assurance

In addition to the traditional internal audit plan, Audit Services also provide an ongoing assurance role by having an independent role on a number of programmes, projects boards and working groups, including:

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Programme and Project related assurance work	
<ul style="list-style-type: none"> Information Governance 	<ul style="list-style-type: none"> Transforming Adult Social Care Programme
<ul style="list-style-type: none"> Pay Strategy 	<ul style="list-style-type: none"> Children's Transformation Programme
<ul style="list-style-type: none"> Project Assurance Group 	<ul style="list-style-type: none"> Platform for Care Programme
<ul style="list-style-type: none"> WV Active Improvement Programme 	<ul style="list-style-type: none"> Civic Halls Programme
<ul style="list-style-type: none"> Delivering Independent Travel Programme 	<ul style="list-style-type: none"> Business World Development Project
<ul style="list-style-type: none"> Schools Fire Safety Working Group 	<ul style="list-style-type: none"> Transport Asset Group
<ul style="list-style-type: none"> City Learning Quarter Programme 	<ul style="list-style-type: none"> Infrastructure for Growth Board
<ul style="list-style-type: none"> Business Support Programme 	

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	Internal Audit Update	
Accountable director	Claire Nye, Director of Finance	
Originating Service	Audit	
Accountable employee	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Committee is asked to note:

1. The contents of the latest internal audit update.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the progress made against the 2019 - 2020 internal audit plan and to provide information on recent work that has been completed.

2.0 Background

- 2.1 The internal audit update report contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform, the overall opinion in our annual internal audit report issued at the year end. It also updates the Committee on various other activities associated with the internal audit service.

3.0 Progress

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report. [GE/11032020/V]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report. [TS/11032020/Q]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Health and Wellbeing implications

- 9.1 There are no health and wellbeing implications arising from the recommendations in this report.

10.0 Corporate landlord implications

10.1 There are no corporate landlord implications arising from the recommendations in this report.

11.0 Schedule of background papers

11.1 None.

Internal Audit Update Report 2019-2020

[NOT PROTECTIVELY MARKED]



1 Introduction

The purpose of this report is to bring the Audit and Risk Committee up to date with the progress made against the delivery of the 2019 - 2020 internal audit plan.

The Audit and Risk Committee has a responsibility to review the effectiveness of the system of internal controls and also to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform, our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

22 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2019/20 (@ Q3)	2018/19	2017/18
Substantial	6	18	17
Satisfactory	12	23	21
Limited	4	6	9

2 Summary of audit reviews completed

The following audit reviews were completed by the end of the third quarter of the current year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Fixed Assets	High	-	1	-	1	1	Satisfactory
Wolves @ Work	Medium	-	1	1	2	2	Substantial
Senior Officer Remuneration	High	-	-	-	-	-	N/A
Long Knowle Primary School	Medium	-	7	10	17	17	Satisfactory
St. Patrick's Primary School	Medium	-	6	5	11	11	Satisfactory
Warstones Primary School	Medium	-	8	6	14	14	Satisfactory
Fire Safety in Council Buildings	Medium	2	5	2	9	9	Limited
Use of cash within Children's Services	Medium	-	2	6	8	8	Satisfactory
Mental Health – Section 117 Aftercare	Medium	-	7	3	10	10	Satisfactory
Fleet Services – Vehicle Spares & Stock Management	Medium	1	1	4	6	6	Limited
Carbon Reduction Credits Submission Verification	Medium	-	1	-	1	1	Satisfactory
Human Resources – I.T Systems	Medium	-	-	-	-	-	N/A
Business Continuity Arrangements	N/A	-	9	-	9	9	Limited
WMPF – Contribution Statements	High	-	-	1	1	1	Substantial
ICT – Management of I.T. Assets	Medium	-	5	2	7	7	Satisfactory
Quarter 1 – Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification
Quarter 2 – Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2018-2019 Transport Grant Certification	Medium	-	-	-	-	-	Grant Certification
Reported this quarter for the first time:							
Kings Secondary School	Medium	-	6	4	10	10	Satisfactory
St. Matthias Secondary School	Medium	-	7	7	14	14	Satisfactory
Green Park Special School	Medium	-	-	1	1	1	Substantial
Little Village Nurseries (two visits)	Medium	-	4	1	5	5	Substantial
Bilston CE Primary School	Medium	-	1	2	3	3	Substantial
St Andrews Primary School	Medium	-	2	1	3	3	Substantial
Employee Driver Checks	Medium	2	4	1	7	7	Limited
GDPR Update	Medium	-	3	4	7	7	Satisfactory
Equipment Stores	Medium	-	8	10	18	18	Satisfactory
Quarter 3 - Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification

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Key:

AAN Assessment of assurance need.

3 On-going assurance where reports are not issued

It is a requirement of the Internal Audit Charter that Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement. Therefore, should any reviews be conducted on the below, then they will be lead by another member of the audit team.

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Project/Programme	Was this in the original plan?	Audit Service's Role
Equal Pay	Yes	A member of the audit team is embedded in the project to provide advice on project governance and management of risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.
Information Governance	Yes	A member of the team sits on the Council's Information Governance Board in the capacity of providing advice and support.
Commercial Business Improvement Programme (formerly Digital Transformation Programme)	Yes	A member of the team takes part in the programme in a project assurance capacity. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.
Pay Strategy	Yes	A member of the team sits on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.
Project Assurance Group	Yes	A member of the team is involved in this group. The purpose of the group is to ensure that all of the Council's projects and programmes, recorded through the Verto system, are reviewed and scrutinised.
WV Active Improvement Programme	Yes	A member of the team is represented on the programme board. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.

Project/Programme	Was this in the original plan?	Audit Service's Role
Delivering Independent Travel Programme	Yes	A member of the team sits on the Programme Board as Independent Programme Lead. During the lifecycle of the programme on-going advice is provided on the governance, risk management and, programme and project management arrangements.
Schools Fire Safety Working Group	Yes	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is to rectify the specification of fire doors in newly built PFI schools.
Business Support Programme	Yes	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is the centralisation of administration within the Council.
City Learning Quarter Programme	Yes	Audit Services have been invited to provide an assurance role for the programme. This is a major capital investment project which has a reputational risk to the Council.
Agresso Board	Yes	A member of the team sits on this Board to oversee the on-going development of the Council's enterprise resource planning (ERP) solution.
Children's Transformation Board	Yes	A member of the team attends the Board and provides support and assurance on project management arrangements and specific audit issues.
Transform Adult Social Care Programme	New	A member of the team has been attending the Board from September 2019 to provide support and assurance on project management arrangements and specific audit issues.
Transport Asset Group	New	A member of the team is involved in this group. The purpose of the group is to ensure that business cases submitted by business areas for vehicles and equipment replacement are reviewed and assessed prior to approval, as well as addressing future Council Fleet requirements and climate targets for a cleaner environment and reduction in carbon emissions, and future use of electric / hybrid vehicles.
HR Improvement Programme	New	The purpose of this programme is to review current Human Resource systems, processes and procedures to drive out efficient service improvements. A member of the team sits on the Board to provide support and assurance around changes proposed in order to ensure risks are managed and controls are not compromised.

Project/Programme	Was this in the original plan?	Audit Service's Role
Civic Halls Operational Board	New	A member of the team is a representative on this group. The purpose of the board is to oversee the operational delivery of the Civic Halls full refurbishment.
Infrastructure for Growth Board	New	The purpose of this group is to oversee the strategy of regeneration projects across the city to ensure there is a co-ordinated joined up approach. A member of the team is present on this board to provide support and assurance around governance.

4 *Counter Fraud Activities*

The Audit Service's team investigate all allegations of suspected fraudulent activity, during the year. Details of these have will be presented to the Audit and Risk Committee in a separate report, along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.

5 *Audit reviews underway*

There were a number of other reviews underway at the time this report was produced and these will be reported upon in later update reports.

6 *Any key issues arising from our work completed*

Employee Driver Checks

It is a legal requirement that employees are insured for business use insurance cover if they use their own vehicles for work purposes. Under the Health & Safety Executive's (HSE) guidance, employers are required to undertake periodic checks of employee's driving details (including business insurance cover) if they are either driving Council owned, or their own, vehicle to carry out Council duties. Currently employees are required to record their driving details on the Council's Business World system and managers are required to complete fields to evidence they have verified the employee's details (including business insurance cover).

As part of our review a data matching exercise was performed between the number of employees who had claimed mileage since 1 April 2018 and those who had recorded their details on Business World. This exercise identified approximately only 25% had recorded their details on the system. Therefore, there is a risk that a considerable number of employees may be using their own vehicles for work purposes, without the appropriate level of insurance cover.

In addition to the above completion rates the following issues were also identified and included in our report:

- The requirement to record employee driving details on Business World was last communicated just over three years ago and there is no evidence of this being covered in any recent corporate induction programme;
- Employee driving details were not being fully entered against their record on Business World;
- Managers do not appear to be checking that their employees have entered their driving details on Business World prior to authorising mileage claims and where they are, such information is not being validated.
- The current completion rates for recording employee driving details suggests the current process is not working properly and should be reviewed to ensure it remains fit for purpose; and
- A small number of cases were identified where the employee declared they did not have business use on their car insurance. However, the respective managers allowed the employee to continue using their vehicle for Council duties.

Following the recommendations made in our report the Council's Driving at Work Policy is now being reviewed, before been re-launched, and the importance of ensuring the appropriate level of checks are being undertaken is being reiterated across the Council.

7 Follow-up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee. During the current quarter the following follow-up reviews were completed:

- Rainbow Nurseries
- Fire Safety in Council Buildings

Both reviews confirmed progress had been made in implementing the recommendations in the original report and no significant issues were identified.

8 Changes to the Audit Plan during the year

At the start of the year the Internal Audit Plan was agreed with directors and approved by the Audit and Risk Committee. Subsequent changes to the audit plan have been reported through the Audit and Risk Committee. Following the recent departure of the Director of Housing it has been agreed that the two audits under the Housing Plan will be deferred and included in the 2020 – 2021 audit plan. This should not impact upon the ability to provide an end of year opinion on the overall adequacy and effectiveness of the Council's risk, governance and internal control framework.

CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	CIPFA Audit Committee Update	
Accountable director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Committee is asked to note:

1. The contents of the latest CIPFA Audit Committee Update – The CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA’s Survey on Audit Committees and a Briefing on new guidance and resources.

1.0 Purpose

- 1.1 The Chartered Institute for Public Finance and Accountancy (CIPFA) issue regular briefings for audit committee members in public sector bodies. Their aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

2.0 Background

- 2.1 The latest edition of these briefings covers the CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees and a Briefing on new guidance and resources.

3.0 Progress

- 3.1 Further CIPFA updates will be brought before the Audit and Risk Committee, as and when they are published.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report.
[GE/04032020/W]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendation in this report.
[TS/03032020/S]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendation in this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no climate change and environmental implications arising from the recommendation in this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendation in this report.

9.0 Health and Wellbeing implications

- 9.1 There are no health and wellbeing implications arising from the recommendation in this report.

10.0 Corporate landlord implications

10.1 There are no corporate landlord implications arising from the recommendation in this report

11.0 Schedule of background papers

11.1 CIPFA Audit Committee Update

This document contains some information which is copyrighted and cannot be made readily available. However, to comply with the spirit of the Freedom of Information Act, should you require details of the report it may be possible to give you access to certain information. If you wish to do that, please contact the accountable employee as detailed above.

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CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 30

CIPFA Financial Management Code

Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees

Briefing on new guidance and resources

February 2020

Introduction

Dear audit committee member,

This is the 30th issue of Audit Committee Update, providing briefings on areas of interest to audit committee members. It is in fact ten years since the first issue of Audit Committee Update in January 2010! We have covered a lot of topics in that time and we will soon be releasing a compendium edition of some of these articles.

This issue includes details of the new CIPFA Financial Management Code which aims to support and embed robust financial management and understanding of financial sustainability in the local government sector. In this issue, we set out how the Code can be used in the work of the audit committee. We are also highlighting aspects of CIPFA's response to the Redmond Review - the study commissioned by the government to review the local audit framework. In particular, it considers the role of the audit committee in responding to audit recommendations.

The remainder of this issue focuses on keeping you up to date with our regular briefings covering recent legislation, reports and guidance.

I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

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Receive our briefings directly

This briefing will be sent to contacts of organisations that subscribe to the CIPFA Better Governance Forum, with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register. To receive mailings from the Better Governance Forum you will need to opt-in. See My Preferences under 'My CIPFA' on the website one you have logged in.

Previous issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Issue 12 – the content in this issue has been replaced by more recent issues.	
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
Issues 14 and 15 – the content in these issues has been replaced by more recent issues.	
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
CIPFA Survey on Audit Committees 2016	Issue 20
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

Issues from 2018	
The Audit Committee Role in Risk Management	Issue 24
Developing an Effective Annual Governance Statement	Issue 25
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
Issues from 2019	
Focus on Local Audit National Audit Office Report: Local Authority Governance	Issue 27
The Audit Committee Role in Counter Fraud	Issue 28
CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29

Workshops and training for Audit Committee members in 2020 from CIPFA

Developing the knowledge and skills of the audit committee

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including internal audit, risk management, assurance planning and improving the effectiveness of the committee.

16 September London

17 September York

29 September Manchester

Police audit committee member development day

These events are suitable for members of the joint audit committees supporting police and crime commissioners and chief constables. These events are run in conjunction with CIPFA's Police Network.

13 May London

14 May York

Development day for local government audit committees

The workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role.

Dates in November/December to be confirmed

CIPFA events information and dates are available on the website: www.cipfa.org/Events.

In-house training and facilitation

In-house audit committee training and tailored guidance tailored is available. We can also support an evaluation of the committee and facilitate improvement.

Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee

- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact customerservices@cipfa.org or diana.melville@cipfa.org.

The CIPFA Financial Management Code

The CIPFA Financial Management Code was published in October 2019 following a public consultation. It applies to all parts of local government, including local authorities, police and fire and rescue organisations. The aim of the Code is to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time, this is a Code which sets out the standards of financial management for local authorities. It builds upon existing standards and guidance to provide a comprehensive picture of financial management in the authority.

The Code is of interest to audit committee members in a number of different ways:

- It sets out expectations of good public financial management. Supporting strong public financial management is one of the purposes of the audit committee.
- The Code supports the establishment of wider governance arrangements, in particular the role of leadership and accountability. The audit committee will consider these when reviewing the adequacy of governance and the Annual Governance Statement.
- Having effective assurance arrangements in place is a necessary part of financial management. This includes an effective audit committee and also the contribution of internal audit and oversight of external audit arrangements.

This briefing will set out the core principles of the Code and describe the steps that local government bodies are likely to be taking over the next year to ensure that they comply with the principles. It will also identify the opportunities for the audit committee to play its part in adopting the Code.

Principles of the Code

The Code has six principles of good financial management practice:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to **professional standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The principles are further supported by a series of standards but the Code does not seek to prescribe the detailed financial management processes that local authorities should adopt. Authorities should take into account their financial profile and areas of risk when designing their financial management arrangements.

A crucial aspect of the Code is that financial management should be the collective responsibility of each authority's organisational leadership team. It is in this aspect that there is a clear link to the governance framework for local government: *Delivering Good Governance in Local Government, Framework*.

Applying the Code in Practice

During the course of 2020/21 steps should be taken to implement the Code, assessing whether current arrangements are in alignment with the principles. Many of the standards in the Code reflect existing guidance and requirements so, in theory, they should already be in place. Other aspects reflect recognised good practice that many authorities will have adopted already, however this will not be universal. Throughout the year there will be opportunities to review and reflect on financial management practice and strengthen arrangements where necessary. CIPFA has described the financial year 2020/21 as a 'shadow' year for the Code. By 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code.

The role of the Audit Committee

The Code provides an opportunity for the evaluation of current financial management arrangements and the audit committee should review the outcome of the assessment. This might take the form of a report or presentation to the committee and an action plan for any significant areas requiring improvement. Support from the committee will be helpful for the successful implementation of that action plan.

The committee also has a role to play in ensuring that the assurance arrangements are working robustly. This includes the role of the committee in supporting good governance arrangements and internal audit. It also means that the effectiveness of the audit committee is also an important dimension. If the audit committee is weak and ineffective then it will not be providing effective assurance as required by the Code.

The Code references the CIPFA position statement and guidance publication, [Audit Committees Practical Guidance for Local Authorities and Police](#) so committees should use the improvement tools within that as a basis for their own self-assessment.

The following questions will help the audit committee to understand how the Code is being used and the results of an evaluation.

Key questions to ask:	
1	Is an evaluation against the Code being planned and who will be responsible for this?
2	Will internal audit be contributing to the review or will they be including the Code within their planned audit work?
3	Are there any findings from the review that should be considered for inclusion in the Annual Governance Statement action plan?
4	To what extent do we comply with the Code?
5	What are the results of the assessment of financial sustainability?

Diana Melville

Governance Advisor

Responding to the Redmond Review, CIPFA's response relating to audit committees

The review chaired by Sir Tony Redmond was established in July 2019 and charged with reviewing the implementation of the Local Audit and Accountability Act, as well as related issues concerning the value of audit reports and the transparency of local government financial reporting. It followed reports from the National Audit Office (NAO) [on Local Authority Governance](#) and [Local Auditor Reporting](#) and the [Public Accounts Committee \(PAC\)](#).

The issues raised by the NAO and PAC reports included concerns about the resilience and effectiveness of the local audit market. These concerns have taken on a higher profile over the last few months with a large number of authorities experiencing delays with the audit of their financial statements. The reports also raised concerns about the adequacy of response from some local authorities when auditors raised issues or made recommendations or issued a qualified value for money conclusion. In particular there was concern that audit committees were not robust and influential enough.

CIPFA has made a comprehensive response to the Redmond Review and this can be viewed on the [CIPFA website](#). This article will focus on just one aspect of the review and CIPFA's response - the effectiveness of an authority's response to audit recommendations and the part played by the audit committee.

Questions asked by the Redmond Review Consultation

Chapter 7 of the consultation issued by the Redmond Review was concerned with *The Framework for Responding to Audit Findings*. Specific questions included:

- To whom should external auditors present audit reports and findings?
- What is the membership of the audit committee?
- How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates?
- Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports?

The consultation document also noted the absence of statutory guidance on audit committees. Guidance is of course available from CIPFA - the [Position Statement](#) can be downloaded from the website and a more detailed publication is also available, titled *Audit Committees Practical Guidance for Local Authorities and Police*. These do not have statutory backing however.

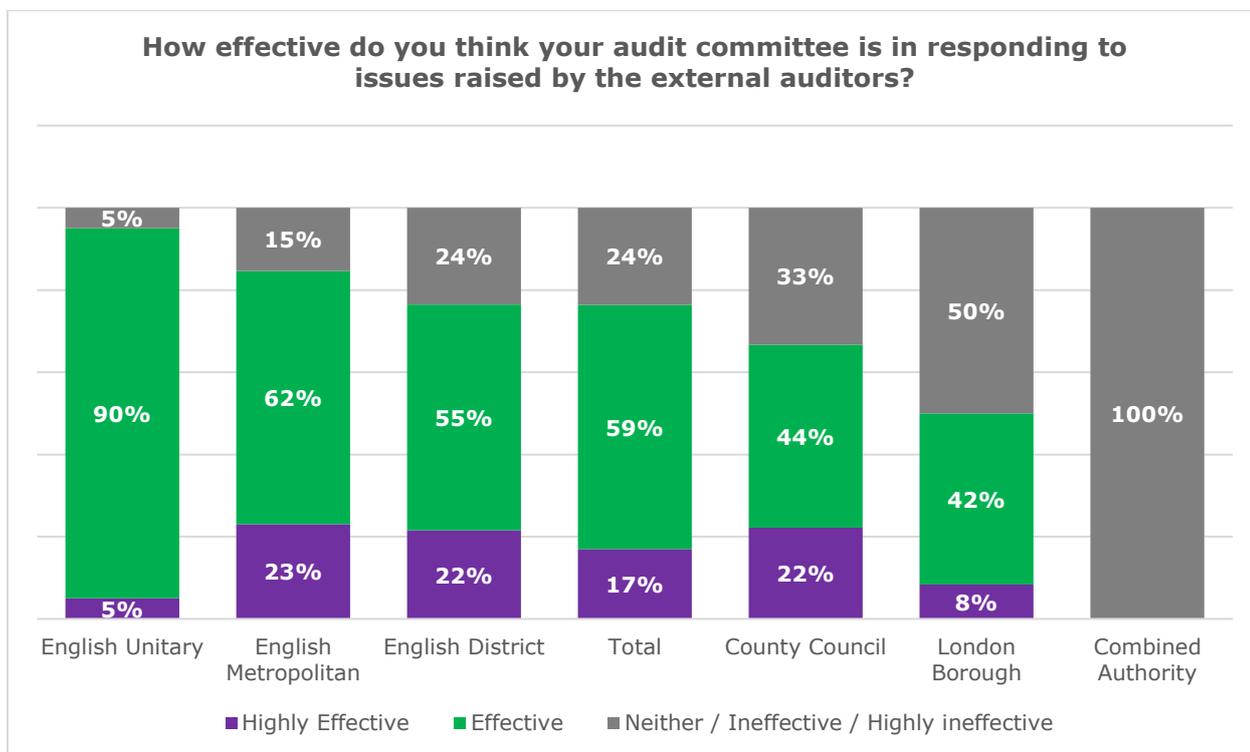
CIPFA's Survey on Audit Committees

In responding to the consultation CIPFA was keen that it explored views on areas for improvement with its stakeholders. Accordingly, CIPFA issued a survey to heads of internal audit in English councils. The survey asked questions about the effectiveness of that council's audit committee in responding to audit recommendations, reporting to full council and options for change. Key results of the survey were included in the CIPFA response, with a separate appendix of results broken down by council type. This can be downloaded from the [CIPFA website](#).

Key results

The survey confirmed the results from CIPFA's earlier surveys that audit committees in local authorities are larger than in other parts of the public sector. The mean size was 8.5 and the maximum size was 17 members. 67% of the committees did not have a co-opted independent member on the committee.

We asked heads of internal audit how effective they thought their audit committee was in responding to issues raised by the external auditors. 17% thought their committee was highly effective and a further 59% saying they were effective. The breakdown of results by council type can be seen in the bar chart below.



The results show that there is room for improvement across many councils, which is in line with the earlier conclusions from the NAO report.

We also asked if the audit committee reported on its activities to full council. Only 72% did so. In addition, for 31% of those who did report to full council, the report took the form of providing the minutes of the meeting. This is likely to mean that the conclusion of the local audit and any recommendations would not have a high profile amongst the wider council membership. CIPFA considers that there is scope to improve reporting and accountability from the audit committee to full council.

CIPFA's recommendations

CIPFA considers that improvements could be made to audit committees in local authorities, enabling them to respond more effectively to audit recommendations. These include:

- Making the establishment of an audit committee a statutory requirement. This was supported by 94% of respondents to CIPFA's survey.
- Statutory guidance should be produced to support audit committees and be principles based (ideally based on CIPFA's Position Statement). The guidance should include the following:
 - recommendations on an effective structure, including the size of the committee
 - support for the non-political nature of the committee
 - recommendations for the inclusion of co-opted independent members and an option for the chair to be a co-opted independent. 68% of respondents to the survey agreed that all local government audit committees should have a mix of councillors and co-opted independent members
 - include appropriate recommendations on the reporting requirements of the committee to support accountability to decision makers
 - specifications on core functions and responsibilities

CIPFA also highlighted issues experienced by police audit committees, which are made up of co-opted independent members acting as an advisory committee to support both the Police and Crime Commissioner and Chief Constable. The key areas were the ability to recruit and retain knowledgeable and experienced independent members and the need for guidance to support the working relationships between the committee members and senior staff or PCC or chief constable to ensure that the audit committee is able to add value.

Next steps

The Redmond Review is expected to report in the summer. If changes to the role, structure or responsibilities of audit committees are proposed then the Secretary of State will have to consider whether to accept them. Any proposals could be the subject of further consultation, so any changes will not happen overnight. CIPFA is of the view that where the impact and effectiveness of audit committees can be improved then remedial steps should be taken sooner rather than later.

The following key questions should be used to consider what could be done to make improvements.

Key questions to ask:	
1	Does the audit committee follow the guidance in the CIPFA Position Statement? Do all audit committee members have access to it and the supporting guidance publication?
2	Has a self-assessment, or other review, of the committee been undertaken in the last 12 months? Improvement tools are available in the CIPFA guidance publication to assist this.
3	Can any changes be made to make the structure of the committee as effective as possible? For example reducing the size of the committee, particularly if there are more than eight members or adding co-opted independent members.
4	Can we improve the reporting on the work of the audit committee to full council, particularly in respect of local auditors’ conclusions and recommendations?
5	Is the committee receiving enough support in the form of training and guidance? Have knowledge and skills been assessed to identify where training is needed most?

CIPFA resources

The CIPFA Position Statement and briefings from our surveys of audit committees can be downloaded from the CIPFA website. Please visit www.cipfa.org/services/support-for-audit-committees to access this material.

The publication [Audit Committees, Practical Guidance for Local Authorities and Police](#) is available as a digital version. Many authorities do have this publication already and should be able to make it available to audit committee members at no additional cost.

Support for audit committees from CIPFA is also available with open events, in-house training or facilitation and advisory reviews.

Diana Melville
Governance Advisor

Recent developments you may need to know about

Legislation, regulations and consultations

New Code of Audit Practice

Following consultation, the NAO has laid a new [Code of Audit Practice](#) before Parliament. It is expected to come into effect for April 2020. The Code must be followed by all local auditors in England. The Wales Audit Office and Audit Scotland have their own codes.

The most significant change is to the auditors' work on value for money arrangements. Instead of issuing a conclusion on whether arrangements are adequate or not, auditors will present a commentary and make recommendations where they consider improvements should be made. It is hoped that this will provide more value to audit clients. The Code encourages timely reporting of any issues rather than waiting until the conclusion of an audit. Again, this is to be welcomed.

Although the code comes into force in April it will apply to audits of the financial year 2020/21. This means that audit reporting for 2019/20 will continue in accordance with the current code. Audit committees will first see the effects of the new code when their local auditor presents their plan for the 2020/21 audit.

The NAO issue guidance notes to auditors to supplement the code. They are planning to consult on new guidance during 2020.

Auditors' work on value for money arrangements

The NAO have issued an updated auditor guidance note, [Auditors' Work on Value for Money \(VFM\) Arrangements](#) to support the audit of 2019/20. The auditor is responsible for providing an opinion on the VFM arrangements and the guidance sets out the overall criterion:

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

The more detailed criteria are: informed decision making, sustainable resource deployment and working with partners and other third parties.

When the local auditor reports findings to the audit committee they will not provide a specific conclusion against each aspect; only whether the overall criterion has been met or not. Where the auditor considers there may be significant risks to VFM they will need to consider whether any additional work is required before reaching their conclusion.

Reports, recommendations and guidance

The Principles of Public Life: 25 years

To mark its anniversary, the [Committee on Standards in Public Life](#) has made a series of short films on the principles and what they mean in practice. The videos will be useful for training and raising awareness of the principles amongst staff and all holders of public office.

Sustainability and Good Governance

This is a briefing from the [CIPFA Better Governance Forum](#) that examines the importance of sustainability to good governance and considers different aspects within the principles that underpin the annual governance statement. The briefing also includes some key questions to support the annual review.

Financial Resilience Index

CIPFA's [Financial Resilience Index](#) is a comparative analytical tool that may be used by chief financial officers to support good financial management, providing a common understanding within a council of their financial position. The indicators take publicly available data and compare similar authorities across a range of factors. It is available on the CIPFA website.

Local authority investment in commercial property

The [NAO report](#) reviews the arrangements for managing investments in commercial property. Local external auditors have indicated to the NAO that there is room for improvement in the governance and risk mitigation arrangements of some authorities over their commercial investments.

Brydon review: The quality and effectiveness of audit

The [Brydon review](#) is the latest in a series of reviews in the last year on external audit and regulation. Key conclusions and recommendations include separating audit from the accounting profession and reinforcing its role as a public interest function.

Whilst the review focuses on corporate audit, it will inevitably have implications for local audit since the firms providing local audit also provide company audit. The Redmond Review (to be published later in 2020) will need to take the recommendations of the Brydon Review into account.

Aid to audit committees in evaluating audit quality

The [Audit Quality Practice Aid for Audit Committees](#) from the Financial Reporting Council is written for private sector audit committees but includes some useful questions for any audit committee to use when meeting with external audit.

Local Audit - Quarterly monitoring

This is the first [Quarterly Monitoring Report](#) from Public Sector Audit Appointments (PSAA) on the 2018/19 audits and includes a table on delayed audit opinions by firm.

Local Audit Quality Forum

The presentations from the November event are available to download from the [Public Sector Audit Appointments website](#). The materials include an update from PSAA on the delays to the finalisation of the audit of accounts at many authorities and good practice sessions.

Performance Tracker 2019

Published by the Institute for Government and CIPFA, [Performance Tracker 2019](#) projects the demand and spending on nine public services for the next five years: GPs, hospitals, adult social care, children's social care, neighbourhood services, police, prisons, courts, and schools.

The report finds that all public services analysed have seen some decline in performance – either in their quality (the standard of public service provided and how satisfied users are) or scope (the range of services provided and the number of people able to access them).

Round-up for audit committees

A summary of recent NAO reports and guidance relevant for audit committees is available from the [NAO website](#).

CIPFA Fraud and Corruption Tracker (CFaCT) survey

CIPFA has published the [summary report](#) from its survey of fraud and corruption experienced by local authorities in 2018/19. The three greatest areas of perceived fraud risk continue to be procurement, council tax single person discount and adult social care.

Local government in Scotland

Most of Scotland's 32 councils are increasingly relying on money from reserves to keep up with demand for services and balance their budgets according to the latest report [Local Government in Scotland](#) from the Accounts Commission.

NHS financial management and sustainability

The NAO's latest report on [NHS financial management and sustainability](#) concludes that the short-term fixes that DHSC, NHS England and NHS Improvement put in place to manage resources in a constrained financial environment are not sustainable. Delivery of long-term financial sustainability is at risk unless every organisation is on a realistic path to breaking even.

Review of Public Services Boards

A review of the [Public Service Boards](#) by the Wales Audit Office has found that changes are needed if they are to realise their full potential. The report says that public bodies haven't always taken the opportunity to effectively organise and resource the work of public service boards and they are not consistently being scrutinised or held to account.

Financial management and governance – Community and town councils 2018-19

The Wales Audit Office have published an [overview report](#) of the audits of town and community councils. 218 councils either failed to comply with their statutory requirements, or mis-stated information in their annual return.

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Certificate No.

CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report title	Payment Transparency	
Accountable director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Committee is asked to note:

1. The Council's current position with regards to the publication of all its expenditure.

1.0 Purpose

1.1 This report is to update the Committee on the Council's current position with regards to the publication of all its expenditure.

2.0 Background

2.1 The latest position on the Council's payment transparency activity is as follows:

- The Council publishes its own spend data which is available on the Council's internet site under Transparency and Accountability (payments to suppliers) and is updated monthly.
- In addition, to the spend to date, the site also includes spend for the financial years from 2011.
- Since last reported to the Audit and Risk Committee, there have been no requests for information from the public (as an 'armchair auditor').

3.0 Progress

3.1 We will continue to report back to the Audit and Risk Committee on the details of any 'armchair auditor' requests the Council receives.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendation in this report.
[GE/10032020/M]

5.0 Legal implications

5.1 There are no legal implications arising from the recommendation in this report.
[TS/10032020/W]]

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendation in this report.

7.0 Climate Change and Environmental implications

7.1 There are no climate change and environmental implications arising from the recommendation in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendation in this report.

9.0 Health and Wellbeing implications

9.1 There are no health and wellbeing implications arising from the recommendation in this report.

10.0 Corporate landlord implications

10.1 There are no corporate landlord implications arising from the recommendation in this report.

11.0 Schedule of background papers

11.1 None.

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 23 March 2020
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Report Title	Audit Services – Counter Fraud Update	
Accountable Director	Claire Nye, Director of Finance	
Originating service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for noting:

The Committee is asked to note:

1. The contents of the latest Audit Services Counter Fraud Update.

1.0 Purpose

- 1.1 The purpose of this report is to provide Members with an update on current counter fraud activities undertaken by Audit Services.

2.0 Background

- 2.1 The Counter Fraud Unit was set up within Audit Services, in response to the increased emphasis being placed upon both fraud prevention and detection by the Ministry of Housing, Communities and Local Government.

3.0 Progress

- 3.1 At the last meeting of the Audit and Risk Committee in January 2020, it was agreed that regular updates on the progress the Council was making in tackling fraud would continue to be brought before the Committee.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report.
[GE/09032020/B]

5.0 Legal implications

- 5.1 Investigations by the Counter Fraud Unit may have legal implications depending upon what action is taken or decided against in respect of those investigations.
[TS/10032020/Q]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no climate change and environmental implications arising from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from this report.

9.0 Health and Wellbeing implications

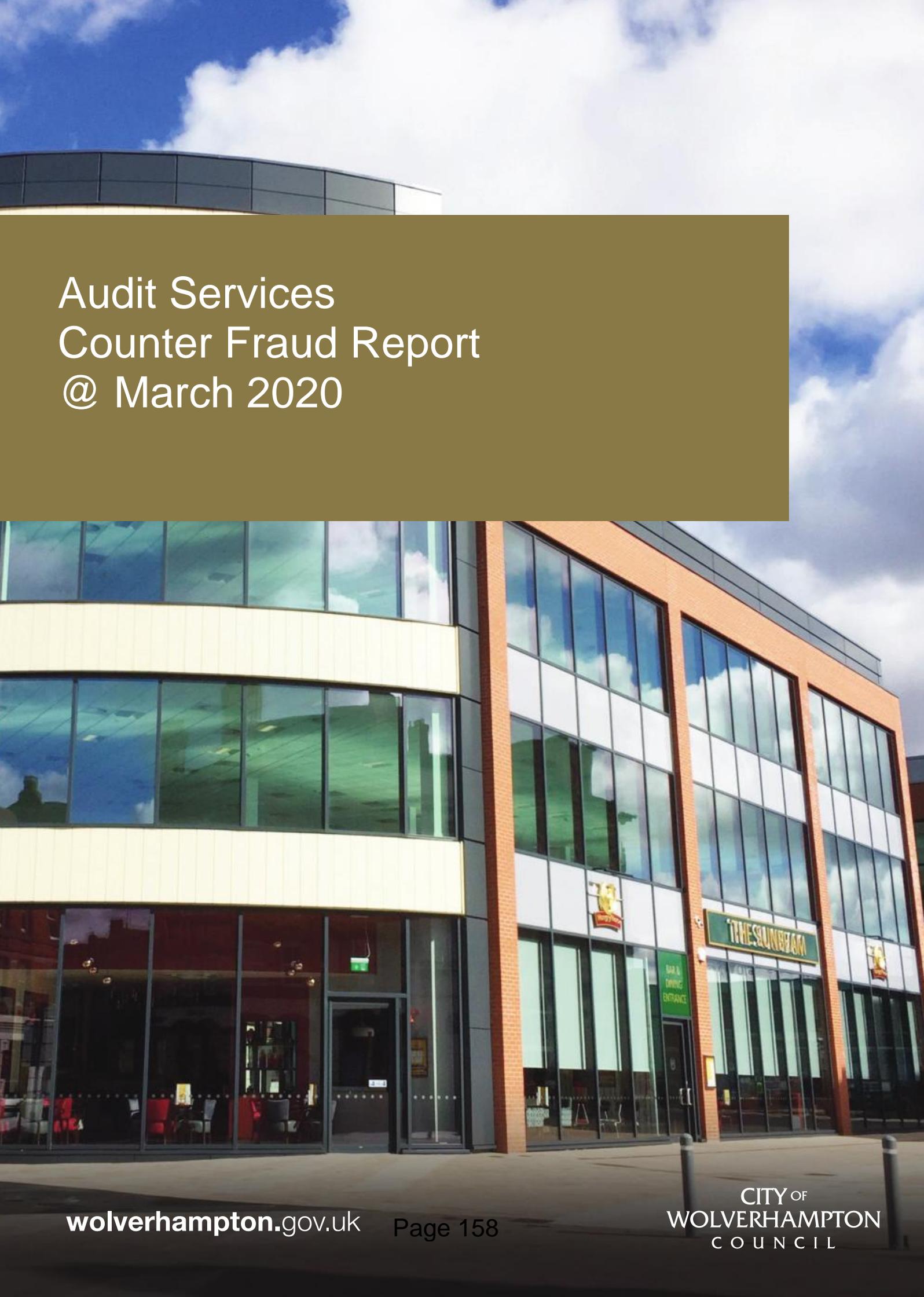
- 9.1 There are no health and wellbeing implications arising from this report.

10.0 Corporate landlord implications

- 10.1 There are no corporate landlord implications arising from this report.

11.0 Schedule of background papers

11.1 None.



Audit Services Counter Fraud Report @ March 2020

1 *Introduction*

The counter fraud agenda is one that continues to hold significant prominence from Central Government who are promoting a wide range of counter fraud activities. The purpose of this report is to bring the Audit and Risk Committee up to date on the counter-fraud activities undertaken by the Counter Fraud Unit within Audit Services.

The Council is committed to creating and maintaining an environment where fraud, corruption and bribery will not be tolerated. This message is made clear within the Authority's Anti-Fraud and Corruption Policy, which states: "The Council operates a zero tolerance on fraud, corruption and bribery whereby all instances will be investigated, and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover all monies stolen from the Council."

2 *The Counter Fraud Team*

The Counter Fraud Team, which sits within Audit Services, is continuing to develop and lead in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity and organises a series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity. The team maintains the Council's fraud risk register, implements the counter fraud plan and lead on the Cabinet Office's National Fraud Initiative (NFI) exercise.

The team also provide a tenancy fraud investigation service to Wolverhampton Homes under a service level agreement.

3 *Counter Fraud Update*

Counter Fraud Plan

The latest status of progress against the counter fraud plan is shown at Appendix 1

National Anti-Fraud Network Intelligence Notifications

The National Anti-Fraud Network (NAFN) issues regular alerts which provide information on fraud attempts, trends and emerging threats. The information provided in the alerts has been notified to NAFN by other local authorities from across the country. These alerts are checked to the Council's systems to verify whether there have been any instances at Wolverhampton. Alerts which either involve suppliers used by the Council or are applicable to all Councils, are notified to appropriate sections of the Council. The most common alerts relate to Bank Mandate fraud, Council Tax Refund fraud and cyber fraud including ransomware and email interception.

Fighting Fraud and Corruption Locally Strategy 2020

'Fighting Fraud and Corruption Locally' is the local government counter fraud and corruption strategy. The strategy was developed by councils and relevant stakeholders and sets out the approach and the main areas of focus that local authorities should take to tackle fraud effectively.

In 2011, the first Fighting Fraud and Corruption Locally Strategy was published by the National Fraud Authority. The strategies key principles of 'Acknowledge', 'Prevent' and 'Pursue' were adopted and form the basis of the Council's Anti-Fraud and Corruption Policy.

A revised strategy was published in 2016 which reflected changes in the fraud landscape affecting local government. The Council has continued to implement the strategy through its Fraud Risk Register and the Counter Fraud Plan.

The Credit Industry Fraud Avoidance System (Cifas) has taken responsibility for the Fighting Fraud and Corruption Locally Strategy and has prepared a revised strategy which will be launched during March 2020. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.

The Council has taken part in the consultation stage in developing the revised strategy and once published will benchmark the Council counter fraud activities. Where appropriate the Council will amend its practices in line with the strategy. The impact of the revised strategy on the Council's approach to fraud prevention will be reported to future meetings of this committee.

National Fraud Initiative Exercise 2019/20

The Counter Fraud Team co-ordinates the investigation of matches identified by the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Where matches are identified, the ensuing investigations may detect instances of fraud, over or underpayments, and other errors. A match does not automatically mean there is a fraud. Often there is another explanation for a data match that prompts bodies to update their records and to improve their systems.

The latest NFI exercise commenced in January 2019 and a total of 15,125 matches have now been released by the Cabinet Office. A total of 2,343 matches have been processed with five amounts recovered for Pension and Council Tax overpayments totalling £8,562. This provides an indication that systems are generally working effectively. As more matches are processed details of the progress made will be brought before the Committee as it becomes known.

Counter Fraud Team - Tenancy Fraud Performance

The Counter Fraud Teams Tenancy Fraud results for April 2019 to February 2020 are shown in the following tables:

	April 2019 – Nov 2019	Dec 2019 – Feb 2020
	Number	Number
Total Number of Referrals Received	110	23
Referrals open being Investigated	19	11
Anti-Money Laundering – Right to Buy Checks	78	3
Residency Duration Checks for Right to Buy Applications	64	2

Further details of the above figures are included below.

Type of fraud and/or error	April 2019 – Nov 2019		Dec 2019 – Feb 2020	
	Cases	*Value £	Cases	*Value £
Tenancy sub-letting – Illegal subletting of properties which were recovered	7	651,000	3	279,000
Right to buy – preventing fraudulent RTB applications	1	65,000	0	0
Other tenancy fraud – succession, abandonment or non-occupation	1	93,000	0	0
Social Housing Application fraud – offers withdrawn and/or applicants excluded from waiting list	7	252,000	2	72,000
Total	16	1,061,000	5	351,000

*The savings figures for tenancy fraud are based on methodology and calculations produced by the Cabinet Office in support of the National Fraud Initiative. The figures include:

Social housing tenancy fraud - Notional £93,000 (previously £18,000). The increase in the notional savings recognises the future losses prevented from recovering the property. Previously the calculation only considered one year's loss.

Social housing application fraud – Notional £36,000 (previously £8,000). The increase in the notional savings recognises the future losses prevented by not letting the property to an ineligible individual and with the potential of having to place a genuine prospective tenant from the waiting list in expensive temporary accommodation. There is no allowance in this calculation for past value fraud and therefore the notional loss is less than that of social housing tenancy fraud.

Right to Buy fraud – Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RTB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RTB cap and the changes in average house prices. This method allows for benchmarking to be carried out.

Tenancy Fraud Training

Following the successful delivery of face-to-face Tenancy Fraud training to frontline staff including Tenancy Officers, Income Officers and ASB Officers. The Counter Fraud Team has developed tenancy fraud training for Wolverhampton Homes tradespersons, which it is planned, will be delivered at Toolbox Talks.

To complement the face-to-face training the Counter Fraud Team has been working with Wolverhampton Homes to produce a tenancy fraud e-learning course, which is available for the benefit all employees.

Partnership Working

The partnership arrangement with Sandwell Metropolitan Borough Council, is continuing with the Fraud Team at Sandwell assisting in the implementation of the Council's Counter Fraud Plan, including carrying out investigations. This joint approach will see an increase in shared information, working practices and the introduction of new counter fraud initiatives.

Fraud Risk Register

The Counter Fraud Unit maintains the Council's fraud risk register. The register is used to help identify areas for testing and to inform future audit assurance plans by focusing on the areas with the 'highest' risk of fraud. The latest fraud risk register is included at Appendix 2.

Midland Fraud Group

This group consists of fraud officers from across the Midland's local authorities. The purpose of the group is to identify and discuss the outcome of initiatives being used to tackle fraud. At the last meeting in February 2020 discussions were held on Council Tax Exemptions, Blue Badge fraud, DWP joint working, Anti Money Laundering and cases of interest.

Counter Fraud Plan Update

Issue	Action	Timescale
Raising counter fraud awareness across the Council	Develop and deliver Fraud Awareness seminars	Fraud based training provided Autumn 2019
	Develop on line fraud training for staff.	To be refreshed Summer 2020
	Work with Workforce Development to develop and promote fraud training.	Fraud seminars and surgeries promoted through City People On-going use of online training package
	Establish measures for assessing the level of employee fraud awareness.	Summer 2020
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries planned for Summer 2020
	Use various forms of media to promote fraud awareness across the Council including City People, the intranet and the internet.	Fraud seminars and surgeries will be promoted through City People
	Work closely with Wolverhampton Homes and seek opportunities to promote joint fraud awareness.	On-going
Work with national, regional and local networks to identify current fraud risks and initiatives.	Maintain membership of the National Anti-Fraud Network (NAFN).	On-going
	Participate in the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Acting as key contact for the Council, the West Midlands Pension Scheme and Wolverhampton Homes.	On-going. Latest exercise commenced January 2019
	Complete the annual CIPFA fraud survey.	CIPFA Survey completed July 2019
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for additional Single Person Discount data match
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – last meeting February 2020 next meeting Summer 2020
Attend external fraud seminars and courses.	Fighting Fraud and Corruption Locally Conference – March 2019 NAFN Fraud Roadshow – June 2019	

Issue	Action	Timescale
		<p>Direct Payment Fraud Training – July 2019</p> <p>NAFN Counter Fraud Conference November 2019</p>
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> • New CIPFA Code of Practice 	June 2015 (the last time required)
	<ul style="list-style-type: none"> • CIPFA Counter Fraud Tracker Survey 	Annually
	<ul style="list-style-type: none"> • The former Department for Communities and Local Government – ten actions to tackle fraud against the Council. 	On-going
Identify and rank the fraud risks facing the Council	Manage the Council's fraud risk register to ensure key risks are identified and prioritised.	On-going
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	On-going
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	On-going
Work with other fraud investigation teams at the Council	Develop good communication links between the Counter Fraud Unit, Wolverhampton Homes, and Audit Services.	The Council's Counter Fraud Team provide a tenancy fraud service to Wolverhampton Homes.
Work with external organisations to share knowledge about frauds?	Establish formal joint working relationships with external bodies, for example Police, Health Service and Immigration Enforcement.	On-going
Participate in external initiatives and address requests for information	Implement industry best practice as identified in reports produced by external bodies, for example; Cipfa's Annual Fraud Tracker Survey and the National Fraud Initiative report.	Annual/on-going
	Encourage Service Areas to participate in initiatives to identify cases of fraud.	Corporate Fraud Group established
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated across bodies, for example other Councils.	On-going
	Undertake a programme of proactive target testing.	On-going
	Respond to external requests for information or requests to take part in national initiatives.	On-going

Issue	Action	Timescale
All cases of reported fraud are identified, recorded and investigated in accordance with best practice and professional standards.	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established
	Manage and co-ordinate fraud investigations across the Council.	As reported back to the Audit and Risk Committee on a quarterly basis
	Implement and update the Council's portfolio of fraud related policies in response to changes in legislation.	Latest version approved at Audit and Risk Committee – March 2018
	Where appropriate take sanctions against the perpetrators of fraud either internally in conjunction with Human Resources and Legal Services or externally by the Police.	On-going
Ensure responsibility for counter fraud activities is included in Partnership agreements with external bodies.	Embed responsibility for counter fraud activities in partnership agreements with the Council's strategic partners.	On-going
	Partnership agreements to include the Council's rights of access to conduct fraud investigations.	On-going
Provide the opportunity for employees and members of the public to report suspected fraud.	Manage and promote the Whistleblowing Hotline and record all reported allegations of fraud.	City People article – planned for Summer 2020
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potentially fraudulent activity at the Council.	Fraud surgeries planned for Summer 2020
	Seek other methods of engaging with employees and the public to report fraud.	On-going – for example through the Council's internet site
	Where appropriate ensure allegations are investigated and appropriate action taken.	On-going
	Work with and develop procedures for carrying out investigations with other service areas for example Human Resources, Legal Services and Wolverhampton Homes.	Corporate Fraud Group established
Inform members and senior officers of counter fraud activities.	Report quarterly to the Audit Committee on the implementation of Counter Fraud initiatives and the progress and outcome of fraud investigations.	On-going

Fraud Risk Register @ March 2020

Themes	Potential fraud type	Risk rating
Housing Tenancy	Subletting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, right to buy. This risk is managed by Wolverhampton Homes.	Red
Council Tax	Fraudulently claiming for discounts and exemptions such as the single person's discount and Local Council Tax Support Schemes.	Red
Personal Budgets	Falsely claiming that care is needed, carers using direct payments for personal gain, carers continuing to receive direct payments after a person dies, duplicate applications submitted to multiple Councils.	Red
Cyber Security	Using technology as a tool to commit acts of fraud – this currently has a very high profile and is an ever-increasing area susceptible to fraud	Red
Welfare Assistance	Fraudulent claims.	Amber
Procurement	Collusion (employees and bidders), false invoices, overcharging, inferior goods and services, duplicate invoices.	Amber
Business Rates	Evading payment, falsely claiming mandatory and discretionary rate relief, empty property exemption, charity status.	Amber
Payroll	'ghost' employees, expenses, claims, recruitment.	Amber
Blue Badge	Fraudulent applications use by others and continuing use after a person dies.	Amber
Electoral	Postal voting, canvassing.	Amber
Schools	School accounts, expenses, procurement, finance leases.	Amber
Bank Mandate Fraud	Fraudulent request for change of bank details (increased following a recent case).	Amber
Theft	Theft of Council assets including cash (increased following a recent case).	Amber
Insurance	Fraudulent and exaggerated claims.	Green
Manipulation of data	Amending financial records and performance information.	Green
Grants	False grant applications, failure to use for its intended purpose.	Green
Bribery	Awarding of contracts, decision making.	Green
Money Laundering	Accepting payments from the proceeds of crime.	Green

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