

MEETING:	Audit Committee
DATE:	Wednesday, 18 March 2020
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

AGENDA

Procedural/Administrative Items

1. Declarations of Pecuniary and Non-Pecuniary Interest
2. Minutes (*Pages 5 - 10*)

To receive the minutes of the meeting held on the 22nd January, 2020.

Items for Discussion/Decision

3. Local Government Act 2003 - Section 25 Report (*Pages 11 - 16*)

The Service Director Finance will submit his Section 25 Report providing advice on aspects of the 2020/21 budget proposals. This report was submitted to the budget Council meeting held on the 27th February, 2020.

A link to the full budget papers is detailed below for information and reference purposes only:

<https://barnsleymbcintranet.moderngov.co.uk/ieListDocuments.aspx?CId=133&MIId=5844&Ver=4>

4. Corporate Financial Performance - Quarter Ended 31st December, 2019 (*Pages 17 - 24*)

The Executive Director Core Services and Service Director Finance (Section 151 Officer) will submit a report that was considered by Cabinet on the 4th March, 2020 on the financial performance of the Authority during the third quarter ending 31st December, 2019 and assessing the implications against the Council's Medium Term Financial Strategy.

5. Internal Audit Progress Report 2019/20 (*Pages 25 - 36*)

The Head of Internal Audit, Anti-Fraud and Assurance will submit a report providing a summary of the Internal Audit activity completed and the key issues arising from it for the period 1st January to 29th February, 2020.

6. Audit Committee Terms of Reference - Proposed Revisions (*Pages 37 - 42*)

The Executive Director Core Services will submit a report highlighting suggested amendments to the Committee's Terms of Reference following the review undertaken recently and recommending that these amendments be referred to the Annual Council on the 22nd May, 2020 for approval.

Items for Information

7. Changes to the Audit Market *(Pages 43 - 54)*

The External Auditor (Grant Thornton) will make a presentation regarding changes to the audit market.

8. Future Procurement and Market Supply Options Review - Final Report *(Pages 55 - 86)*

The External Auditor (Grant Thornton) will submit the final report of the Public Sector Audit Appointments (PSAA) recently commissioned independent review of the sustainability of the Local Government audit market on options for the future procurement approach in preparation for letting audit contracts for the next appointing period (the five years commencing with the audit year 2023/24).

9. Audit Committee Work Plan 2020 *(Pages 87 - 90)*

The Committee will receive the indicative Audit Committee Work Plan for January to December 2020.

10. Exclusion of the Public and Press

To consider if the public and press should be excluded from this meeting during consideration of the following items because of the likely disclosure of exempt information.

11. Indicative Internal Audit Plan 2020/21 *(Pages 91 - 98)*

The Head of Internal Audit, Anti-Fraud and Assurance will submit a report presenting the indicative Internal Audit Plan for the financial (audit) year 2020/21, describing the rationale and process for setting the plan, the risk assessment process used and how Internal audit resources are calculated and deployed.

Reason restricted:

Paragraph (7) Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

To: Chair and Members of Audit Committee:-

Councillors Richardson (Chair), Barnard, P. Birkinshaw and Lofts; together with Independent members Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

Chief Executive

All Executive Directors

Andrew Frostdick, Executive Director Core Services

Rob Winter, Head of Internal Audit, Anti-Fraud and Assurance

Neil Copley, Service Director Finance (Section 151 Officer)

Ian Rooth, Head of Financial Services

Michael Potter, Service Director Business Improvement and Communications

Alison Salt – Corporate Governance and Assurance Manager

Council Governance Unit – 3 copies

Please contact William Ward on email governance@barnsley.gov.uk

Tuesday, 10 March 2020

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MEETING:	Audit Committee
DATE:	Wednesday, 22 January 2020
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

MINUTES

Present Councillors Richardson (Chair) and Barnard together with Independent Members - Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

41. MRS L BOOTH - AUDIT MANAGER

Members of the Committee noted that this would be the last meeting that Mrs L Booth (Audit Manager) would attend before leaving the Authority to take up the position of Head of Internal Audit at Leeds City Council.

Members and Officers asked to place on record their thanks and appreciation of her hard work, dedication and service to the Authority and they gave her their best wishes for the future.

42. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

There were no declarations of interest from Members in respect of items on the agenda.

43. MINUTES

The minutes of the meeting held on the 4th December, 2019 were taken as read and signed by the Chair as a correct record.

44. INTERNAL AUDIT PROGRESS REPORT 2019/20

The Head of Internal Audit, Anti-Fraud and Assurance submitted a report providing a summary of the Internal Audit activity completed and the key issues arising from it for the period 1st November to 31st December, 2019 and providing information regarding the performance of the Internal Audit function during that period.

The report, which was presented by Mrs L Booth, Audit Manager, outlined:

- The progress of the Internal Audit Plan up to the end of December, 2019 analysed by the number of plan assignments producing a report and audit days delivered by Directorate/Service. It was reported that 71% of total chargeable days had been achieved against the plan which was in line with what was expected at this time of the audit year
- There was a variance of five assignments completed against those planned. Four were in draft report stage and one was being finalised. Meetings had been scheduled with officers to discuss the outcomes and finalise all the reports
- A number of audits had been deferred, added to or deleted from the audit plan as agreed in conjunction with management. The reasons for these actions were outlined. Specific reference was made to an additional audit to provide

specialist audit support for the Interim Executive Board of Dearne Goldthorpe Primary School

- Two audits had been finalised since the last meeting and copies of all final reports were available upon request. A summary of assurances and the number and categorisation of recommendations included in the report was outlined.
- No audit reports had been issued during the period that had a limited or no assurance opinion
- Details were provided of the outcome of other Internal Audit activities concluded not producing a specific assurance opinion
- Information was provided on the following up of Internal Audit Report management actions together with a summary of work in progress
- Information on the status of management actions by directorate/maintained schools due for completion was provided
- Details of Internal Audit performance against Performance Indicators
- Based on the audits reported during the period an overall adequate assurance was considered to be appropriate

The key area of focus for Members discussion centred on the audit of the Glassworks Phase II Governance arrangements. The Head of Internal Audit, Anti-Fraud and Assurance and Audit Manager explained the rationale as to why an assurance opinion for this audit was not applicable. They went on to outline the background to and the action taken in relation to the three 'high priority' recommendations as follows:

- The approval of the Project Execution Plan
- The review and formalisation of overarching risk management arrangements
- General meeting governance

All recommendations identified had been actioned and would continue to be monitored by audit staff

Mr G Mills (External Auditor) commented that the Glassworks Project continued to be an area of focus in relation to Value for Money. In relation to their assessment of Phase I, which had been undertaken last year, they were satisfied with the arrangements in place. The matters raised within this report would be examined and any outstanding issues, if any, would be included within their report submitted to the July meeting.

RESOLVED:

- (i) that the issues arising from the completed internal audit work for the period along with the responses received from management be noted;
- (ii) that the assurance opinion on the adequacy and effectiveness of the Authority's Internal Control Framework based on the work of Internal Audit in the period to the end of December, 2019 be noted;
- (iii) that the progress against the Internal Audit Plan for 2019/20 for the period to the end of December, 2019 be noted; and

- (iv) that the performance of the Internal Audit Division for the third quarter be noted.

45. CORPORATE WHISTLEBLOWING POLICY - ANNUAL REPORT

The Executive Director Core Services submitted his annual report reviewing the activities and current issues regarding the Council's Corporate Whistleblowing policy and supporting procedures.

The report, in outlining the background to the development of the policy, reminded the Committee that the policy had undergone a number of reviews and revisions to ensure that it remained fit for purpose and continued to meet best practice and guidance. The latest revision/refresh had been undertaken at the previous meeting held on the 4th December, 2019 when its name had been changed to the Confidential Reporting (Whistleblowing) Policy. In addition, a number of other policies, strategies and procedures had also been reviewed at that time and these were to be published more widely. Such publicity would dovetail into the preparations for the Anti-Fraud week scheduled for May. Further details of this would be made available in due course.

The specific whistleblowing arrangements were, of course, only one means of raising concerns and, therefore, the degree and extent of the use of the policy was not considered significant. What was important was to ensure that there were a number of clear and understood routes for raising concerns and that there were suitable resources and arrangements in place to ensure that appropriate investigations were undertaken.

During the last 12 months there had been 4 referrals, 3 received via email and one through direct contact to one of the Corporate Whistleblowing Officers. None of these had been raised anonymously which suggested that there was confidence that the Whistleblowing arrangements were implemented correctly and that confidentiality was, where appropriate, maintained. He also reported that since writing the report a further anonymous referral had been received. This was currently being investigated

Of the 4 cases referred, 2 had been investigated and were now closed and 2 remained the subject of live investigations. In relation to the closed cases, no significant concerns had been identified and the issues raised generally related to operational matters. A satisfactory outcome had been achieved with appropriate actions arising from the concerns raised. In addition, the staff raising those concerns were satisfied that appropriate action had been taken.

It was noted that whilst this figure was low, it was nevertheless difficult to speculate what would be an appropriate figure.

In the ensuing discussion the following matters were highlighted:

- The difficulties associated with benchmarking Whistleblowing referrals with other authorities was noted
- There was a discussion of the reasons for the low number of referrals and the reasons for this. It was felt that one of the reasons could be because staff had confidence in raising issues or concerns via alternative routes such as through

their line managers. It was felt that this demonstrated that the normal management arrangements were working correctly.

- The fact that staff raising concerns via this policy did not do so anonymously was really encouraging and demonstrated the robustness of and confidence in the arrangements
- It was noted that in view of the forthcoming retirement of the Executive Director Core Services decisions would have to be taken as to who would take on responsibility of being the designated officer for whistleblowing complaints

RESOLVED:

- (i) that the report, and the assurances that it provides be noted; and
- (ii) that the Committee confirms its commitment to continue to support the Council's overall counter fraud culture and the work of the Corporate Anti-Fraud Team.

46. EXTERNAL AUDIT PLAN 2019/20

The Committee received a report from the External Auditor providing an overview of the planned scope and timing of the statutory audit of the Council.

It was noted that the Council was required to prepare group financial statements that consolidated the financial information for Bernesali Homes and Penistone Grammar Trust

In relation to significant risks, the External Auditor would communicate any significant findings in relation to Management override of controls, Valuation of Land and Buildings and Valuation of the Pension Fund Liability (as well as other significant matters arising from the audit) in their Audit Findings Report in July 2020.

The planning materiality had been determined to be £8.443m for the Group and £8.425m for the Council's single entity statements which equated to 1.5% of the gross expenditure on the cost of services in the previous year. They would also continue to report uncorrected omissions and misstatements other than those that were 'clearly trivial' – the 'clearly trivial' threshold had been set at £422,000. Reference was also made to the way in which the materiality levels had been set.

Significant Value for Money risks had been identified and this was a key area of focus given the significant financial pressures facing the authority as well as the Glassworks development which was one of the largest projects undertaken by the Council.

The Interim visit would take place in February and March 2020 with the final accounts being presented in June and July. Initial meetings had already taken place with the Service Director Finance and with staff from the Finance Team. The key deliverables were outlined in the Audit Plan and the Audit Findings report and the fee had been set at £125,568 (and increase from £113,718 in the previous year) but was subject to the Council meeting their requirements. The increase in fees reflected the additional work which was required during 2019/20. Details of the additional work to be undertaken were provided within the report.

In the ensuing discussion particular reference was made to the following:

- Reference was made to the valuation of land and buildings which had been assessed as a significant risk and particular reference was made to the Glassworks project. It was noted that once a phase/project was brought into operation it was assessed at actual value rather than 'at cost'. The rationale for such valuations was explained by representatives of the External Auditor and by the Head of Finance. It was noted that the work completed on the Metropolitan Centre , the Market, the Lightbox/Library and various public realm works would be brought into the accounts and valued appropriately once operational
- It was noted that in a new development for 2019/20, the External Auditor was to appoint its own valuer who would assess the instructions to the Authority's Valuer, the Authority's Valuer's report and the assumptions that underpinned valuations. The reasons for this appointment were outlined
- There was a brief discussion of the potential implications of the new Code of Audit Practice which was anticipated shortly and arising out of this particular reference was made to the possible impact this could have on future audit arrangements, procedures and processes as well as the audit timetable given the current difficulties faced by all External Auditors in meeting the statutory deadlines for Local Authority audits.

RESOLVED that the External Audit Plan 2019/20 be noted and, insofar as this Committee is concerned, the action to be taken be supported.

47. AUDIT COMMITTEE WORK PLAN 2019/20 AND 2020/21

The Committee received a report providing the indicative work plan for the remainder of the 2019/20 Municipal Year and for 2020/21.

The Head of Internal Audit, Anti-Fraud and Assurance reported that following the appointment of the Corporate Governance and Assurance Manager and as a result of discussions at the recent Workshop meeting held in October and the Training/Awareness Session held earlier today, this report would be revised, produced in an alternative format and submitted to the next meeting for approval

RESOLVED that the core work plan for 2019/20 and 2020/21 meetings of the Audit Committee be approved and reviewed on a regular basis.

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Chair

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BARNSELY METROPOLITAN BOROUGH COUNCIL

LOCAL GOVERNMENT ACT 2003, SECTION 25 REPORT ON THE 2020/2021 BUDGET PROPOSALS

1. **Purpose of the Report**

- 1.1 To provide, in accordance with the requirements of Section 25 of the Local Government Act 2003, advice from the Authority's Chief Finance Officer (CFO) on aspects of the 2020/21 budget proposals.

2. **Background**

- 2.1 Part 2 of the Local Government Act 2003 contains a series of duties and powers that give statutory support to aspects of good financial management within local government.
- 2.2 Section 25 requires the CFO to report to an Authority, when it is making its decision on determining the council tax, providing advice on the following issues:
- The robustness of the estimates included in the budget; and
 - The adequacy of the reserves the budget will provide.
- 2.3 The CIPFA Prudential Code also requires consideration to be given to the affordability and prudence of future capital investment - given its impact on the revenue budget.
- 2.4 CIPFA's Financial Management Code also highlights the importance of the budget setting framework which operates within local authorities and the legal requirements under which this sits.

3. **Advice of the Chief Finance Officer**

- 3.1 This report is based on the Budget Recommendations (separately attached).

Robustness of the Estimates

- 3.2 As Members are aware, the setting of the 2020/21 Revenue and Capital budgets are part of the Council's Medium Term Financial Strategy that forms the framework for the budget for the period 2020-2023.
- 3.3 The Council's financial strategy has sought to clearly identify the risks associated with the budget so that properly informed and prioritised decisions are made. This is particularly relevant given the outcome of the recent election, the continuing uncertainty around certain aspects of the UK's exit from the EU and the impact this may ultimately have on local government finance.

- 3.4 Specifically, the Government has not yet indicated what resources local government is likely to receive beyond 2020/21. Whilst the Government announced a one year settlement in September, it has not outlined its long term spending plans as it originally intended, mainly because of Brexit and the subsequent December election. The Government's Comprehensive Spending Review is not now scheduled until late in 2020 and there are also delays to the Government's other intended reforms such as Fair Funding and the move to 75% Business Rate Retention. This general uncertainty makes it very difficult to assess the Council's future funding position beyond 2020/21 and this is identified as a key risk facing the Council moving forwards.
- 3.5 Moreover, there are other financial risks facing the Council that Members need to be aware of and, where necessary, provide for. One specific risk relates to the way the Council receives the majority of its income under the Business Rate Retention (BRR) model. Whereas previously, our funding used to be largely grant dependent, it is now much more localised and thereby increasingly reliant upon the actual rate of collection. This means our primary sources of income (e.g. Business Rates, Council Tax) are subject to greater volatility than prior to the introduction of the BRR model which, in turn, makes financial planning and forecasting more difficult to predict.
- 3.6 My Section 25 report reflects this changing financial environment in addition to the specific proposals contained within the budget. In terms of the estimates which are included in the proposed 2020/21 budget, I would offer the following comments:

(i) ***Council Tax Income Assumptions***

The estimates for Council Tax Income are based on a collection rate of 95%. This remains at the same level as in previous years and takes into account proposed policy changes including the recently revised Local Council Tax Support scheme and ongoing issues surrounding Universal Credit. At this stage I have no reason to believe that this is not a robust assumption, although given the aforementioned policy changes, the position will need to be closely monitored during the course of the year.

(ii) ***Business Rates Income Assumptions***

Under the current Business Rate Retention scheme, Barnsley retains 49% of the total income collected. As previously mentioned, there is the potential for volatility around this income source in relation to the impact of the UK's exit from the EU on the level of businesses in the Borough and in respect of any appeals that are already within the 'system' that fall on the Council to fund. At this stage the expected income of £23.6M from retained business rates included within the budget is, I believe, based on prudent assumptions although again the position will need to be closely monitored during the course of the year.

(iii) ***Pay Inflation Assumptions***

A provision for a pay award equating to a 2% increase has been included in the 2020/21 budget and the forecast for 2021-2023. The Trade Unions made an initial pay claim in July 2019 although the negotiations have stalled due to the recent election. As the pay claim is outside of the sums provided for within the budget, further consideration may need to be given to this provision on conclusion of the national pay claim negotiations.

A provision has also been made in relation to the potential impact of the increase in the National Living Wage on external contracts. The full impact will need to be monitored and managed during the year.

(iv) ***Interest Rate Assumptions***

A prudent view of interest rates has been taken in constructing estimates for interest charges in 2020/21 and future years. Whilst these estimates are currently considered to be adequate and take on board advice/forecasts from our treasury advisors, there is the potential for considerable volatility in relation to interest rates. This is due to the current economic uncertainty as a consequence of the ongoing EU exit negotiations but also reflects the recent unexpected 1% rise in PWLB rates. As such, interest rates will need to be closely monitored throughout the year and regular updates will be submitted into the Council's Treasury Management Panel and Cabinet, to ensure timely action is taken to optimise the Authority's position.

(v) ***Service/ Demand Pressures***

Both the budget for 2020/21 and the forecast for 2021-2023 contain some significant increases in expenditure that result from increasing demand for Council services. Changes in demand / demographics are already particularly acute in adult and children's services and create significant financial pressures. It is highly likely that our financial position may also be impacted by the promised Government review of social care, when this is eventually concluded. Moreover, similar impacts are being felt across other services, such as waste and home to school transport. Whilst these have been quantified as far as is possible, the nature of the services means that demand can be difficult to predict. I have no reason to believe that the current assumptions are not robust but it is vital that these areas are monitored closely during the year so that any action required can be taken in a timely manner.

Adequacy of Reserves

3.7 **Section 2c** of the 2020/21 Budget Proposals set out the Council's position in relation to the current level of provisions, reserves and balances available to the Authority.

- 3.8 As indicated in that paper, the current Minimum Working Balance held by the Authority remains at £15M as agreed last year. I consider that this level remains prudent.
- 3.9 As part of the 2019/20 budget proposals, I recommended that a further contingent reserve be set up to assist the Council in preparing for 'Brexit' and its potential impact on the Council's major economic regeneration schemes such as the Glassworks. As Brexit remains unresolved at the time of writing this report and significant uncertainty prevails, it is recommended that this contingent reserve is retained for 2020/21.
- 3.10 The review of the Council's reserves has also included an assessment of its earmarked reserves / provisions to ensure their continued validity and make additional earmarking's where appropriate. I consider the current levels to be adequate subject to my comment at paragraph 3.12 below.
- 3.11 The 2020/21 one-year settlement has enabled the release of additional resources to be used on the Council's strategic priorities. I recommend that this additional resource is treated as one off pending the full 3 year spending review which is expected to be announced in Autumn 2020.
- 3.12 It should also be noted that not all resources have yet been received and need to be 'banked' before being committed to future investments. I will ensure that this position is reviewed and reported through future monitoring reports. In addition, I also consider it appropriate and necessary to continually monitor reserve levels in the light of the changing circumstances facing the Council and as such, a further detailed review will be carried out as an integral part of the 2019/20 accounts closure.

Prudence and Affordability

- 3.13 The current Prudential Borrowing regime places a duty on the CFO to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by Government, are affordable both in the immediate future and over the longer term.
- 3.14 Consideration of the revenue impact of all new capital schemes is therefore undertaken alongside other operational service issues to ensure that resources are allocated in accordance with the Authority's overall priorities and within the overall resources available.
- 3.15 The 2020/21 budget includes provision for £5.0M of prudential borrowing which has already been earmarked to support the Glassworks redevelopment. My advice is that due to the significant borrowing necessary to complete the scheme, that only prudent and modest additional borrowing be considered for the remainder of the planning period, in order that the Council can effectively manage its risk exposure over the life of the MTFs.

Financial Resilience and Sustainability

- 3.16 CIPFA has recently published their Financial Resilience assessment of the Council based on the 2018/19 financial year.
- 3.17 Following a detailed review of the results combined with the other internal governance and financial control measures in place, I conclude that the Council is on a sound financial footing and has sufficient resilience in place to ensure a sustainable financial position.
- 3.18 However, the assessment does highlight that the Council has high levels of debt compared to its statistical neighbours. Whilst these levels have been agreed on a prudent, affordable and sustainable basis, this overall position underpins my advice to limit additional significant borrowing over the planning period until such a time as the risks associated with the Glassworks scheme have been appropriately mitigated.

Medium Term Financial Strategy (MTFS) and Budget Reduction Measures

- 3.19 A balanced 2020/21 budget can be delivered through the agreement of the proposals within the budget papers. However, this view is contingent upon the additional matters identified at paragraph 3.6 above and paragraphs 3.20 to 3.23 below.
- 3.20 The draft budget for 2020/21 is again based upon a significant volume of budget reduction measures and there needs to be a strong and sustained focus on ensuring the timely and comprehensive implementation of these measures. This equally applies to the budget reduction measures proposed to deliver a balanced budget in 2021/22.
- 3.21 In addition and as mentioned at paragraph 3.4, there remains considerable uncertainty around the overall level of resources available to local authorities beyond 2020/21.
- 3.22 Although we have taken a prudent approach in relation to our medium term financial strategy and provided for known pressures over the planning period, any additional pressures will need to be considered as part of future budget processes. Members therefore need to be mindful that if these pressures cannot be contained, then the current balanced position (identified within the current MTFS paper at **Section 2**) is likely to deteriorate and necessitate an urgent review of both our MTFS and Reserves Strategy respectively.
- 3.23 The Council has a strong financial planning and control framework in place to deliver a balanced position both in 2020/21 and over the medium term. This has been evidenced through the Corporate Peer Review in May 2019 that concluded that the Council has a 'strong financial grip on both its expenditure and performance' and 'benefits from early forward thinking and planning'. As mentioned above, I have also reviewed the Council's position against CIPFA's Financial Resilience Index and can conclude that, in my opinion, the Council is a financially resilient authority. Furthermore I will be undertaking an assessment

against CIPFA's Financial Management Code during 2020/21 and will report back my findings on this in due course.

4. **Budget Recommendations**

- 4.1 As indicated in the 3 year forecast at **Section 2a (Appendix 1)** and based on the Budget Recommendations, a balanced budget will be set for 2020/21.
- 4.2 This would see the Minimum Working Balance being maintained at £15.0M and a further £16.8M set aside as a contingency in light of the economic and political uncertainty facing local government. This position also allows for new General Fund investment of £19.4M (**Sections 5 and 7 refer**).
- 4.3 The proposals identified within the budget papers also provide the foundation around which Barnsley's 2030 Plan can be developed whilst also providing the framework to deliver and a balanced position achieved for 2021/22 (in addition to 2020/21) based on current assumptions.
- 4.4 However, it is evident that these assumptions could change and therefore further action may be needed to ensure that the plan not only delivers a balanced position in 2020/21 but remains on track to deliver a balanced position over the full planning period.
- 4.5 **In summarising my advice, I would stress that the robustness of the estimates and adequacy of the reserves which the budget will provide are satisfactory. However, this is contingent upon the requirements outlined at paragraphs 3.19 – 3.23 and reiterated at paragraph 4.4 above being delivered.**

N Copley CPFA
Service Director Finance and S151 Officer

Item 4

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is not a Key Decision within the Council's definition and has not been included in the relevant Forward Plan

Report of the Executive Director – Core Services &
Service Director – Finance (Section 151)

CORPORATE FINANCIAL PERFORMANCE QUARTER ENDING 31st DECEMBER 2019

1. Purpose of Report

- 1.1 To consider the financial performance of the Authority during the third quarter ended December 2019 and assess the implications against the Council's Medium Term Financial Strategy (MTFS).

2. Recommendations

- 2.1 It is recommended that Cabinet:

CORPORATE FINANCIAL PERFORMANCE

- Note the current forecast General Fund revenue operational underspend for 2019/20 of £5.877M and agree that this be considered as part of the updated Reserves Strategy which will form part of the 20/21 budget setting process;
- Note the current forecast Housing Revenue account (HRA) operational underspend of £1.981M;
- Approve the writing off of historic bad debts totalling £1.736M (£1.563M General Fund/ £0.173M HRA);

CAPITAL PROGRAMME PERFORMANCE

- Note the forecast position on the 2019/20 and overall five year Capital Programme;
- Approve project scheme slippage of £22.487M;
- Note the new schemes approved during the Quarter totalling £11.922M;
- Approve a total net increase in scheme costs in 2019/20 of £0.482M;

TREASURY MANAGEMENT

- Note the key messages from the Council's Treasury Management activities carried out during the quarter.

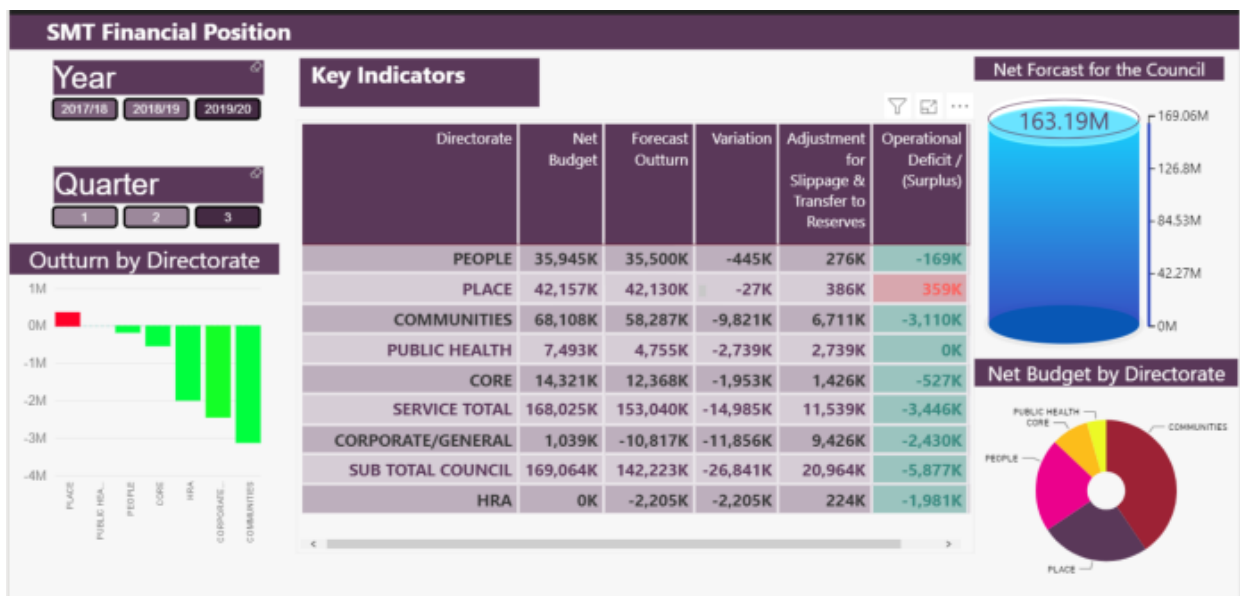
3. Overall General Fund Position to the Quarter Ending December 2019

The Council is currently reporting an overall projected General Fund revenue underspend for 2019/20 of £5.877M. This is comprised of a forecast underspend on Directorate budgets of £3.447M and a further £2.430M underspend on Corporate budgets.

In addition, there is also an underspend of £1.981M forecast on the Housing Revenue Account.

This position is summarised below with further detail provided in the attached link.

Key Messages



- 3.1 The General Fund revenue outturn position as at December 2019 is currently reporting a healthy forecast underspend of £5.877M. There is also a forecast underspend on the Housing Revenue Account of £1.981M which will be available to support future strategic housing priorities. These provisional balances have been considered in the updated Reserves Strategy forming part of the 20/21 budget setting process.
- 3.2 It should be noted that £21M of resources available in 2019/20 will be spent in 2020/21 and beyond in line with the Council's Reserves Strategy which had always envisaged that some of these resources would be spent in future years and also recognising revised plans for specific schemes and initiatives originally anticipated to complete this financial year.
- 3.3 There is also a 100% delivery forecast against the 2019/20 efficiency targets.
- 3.4 Core income collection also remains positive with Council Tax collections being on track to deliver against target (96.00%) and Business Rate collections forecasting above target (98.85%).

- 3.5 Government have recently announced a one year spending review to provide some funding certainty for 2020/21. It is expected that this will release one-off resources to invest in key priorities. The Council's MTFS is currently in the process of being updated to reflect this and to roll forward the forecast for a further year (to 2022/23).
- 3.6 It should be noted that there remains considerable funding uncertainty beyond 20/21, pending the Government's full Comprehensive Spending and Fair Funding reviews.

Directorate Updates

People Directorate

- 3.7 The People Directorate is currently forecasting an **underspend of £0.169M**; a slight improvement from Q2 (£0.061M), as a result of increasing vacancies and staff turnover. However, Children in Care remains an area of concern, projecting an overspend of £0.452M for 2019/20, although this represents a reduction of £0.176M since Q2 due to the reduced cost of LAC placements. This overspend is fully offset by the planned use of the 2019/20 Social Care Grant, although this position is unsustainable in the long term unless future spending reviews address the funding position on an ongoing basis.
- 3.8 The outturn for centrally retained Dedicated Schools Grant (DSG) remains unchanged and continues to forecast an overspend of £5.9M by the year end mainly relating to the SEND/High Needs Block. The recent announcement by the Government of additional funding for SEND will provide some mitigation in future years alongside the ongoing actions stemming from the SEND Strategic Review action plan and potential increased contributions from schools which the schools forum have recently agreed.

Place Directorate

- 3.9 An **overspend of £0.359M** is forecast for the Place Directorate. Waste disposal continues to be a key area of concern for the Directorate due to the fall in the market price of recycled materials. The rising costs in Home to School Transport, reflecting the wider pressures in SEND, also continue to cause concern. These overspends have been mitigated to some extent by underspends elsewhere in the Directorate predominately relating to delays in recruitment to vacant posts and the early delivery of 2020/21 efficiency savings (LED street lighting).
- 3.10 The overspends in the Waste and Home to School Transport services have been mitigated moving forwards with additional budget provision provided for in the Council's MTFS.

Communities Directorate

- 3.11 The Communities Directorate is forecasting an overall **underspend of £3.1M**, an improvement of £0.302M from Q2. This is predominately due to an operational underspend in Adult Social Care of £2.7M resulting from the early delivery of future years efficiency savings (increased client contributions and additional funding from health), and increasing levels of non-recurrent funding. However, this is not sustainable longer term and the delay of the ASC Green Paper makes it difficult for long term planning.

- 3.12 Provider services are also forecasting an underspend of £0.589M mainly as a result of the early delivery of future years efficiencies (Keresforth centre and Assisted Living Technology).
- 3.13 An underspend of £0.164M is forecast for Safer, Stronger & Healthier Communities as a result of vacancies across the structure.
- 3.14 The above is offset by an overspend in IT and Customer Services of £0.360M mainly due to the increased cost of software licences, some of which is one-off in nature.

Public Health

- 3.15 Public Health continues to forecasting an **underspend of £2.7M**. This includes resources (£2.1M) previously identified as being required to support the 4 year plan. The remaining underspend relates to Regulatory Services which is due to staff vacancies / turnover and unspent resources carried forward from 2018/19. It is proposed that the full underspend be earmarked to support the delivery of the four year public health plan as well as delivering a number of planned food inspections.

Core Directorate

- 3.16 The Core Directorate is currently forecasting an **underspend of £0.527M**, a reduction of £0.057M since Q2. The underspend across the Directorate is mainly due to delays in recruiting to new staffing structures, together with the early delivery of 2020/21 efficiencies within the Council Governance BU. There is also additional one off income received from court fees and unexpected government grant income awarded to the Benefits and Taxation and Elections services respectively.

Corporate Budgets

- 3.17 Corporate budgets are forecasting to be **underspent** by £2.430M by the end of 2019/20. This relates to an underspend on the budget set aside to meet the Council's debt costs which is due to the continuing low interest rate environment, together with additional one-off government grant received in year.

Housing Revenue Account

- 3.18 The Housing Revenue Account (HRA) is forecasting an **underspend of £1.981M** due to higher than anticipated rental income from lower than expected void levels, together with the expected collection of an additional week's rent in this financial year.
- 3.19 The HRA Medium Term Financial Strategy and 30 year business plan is currently in the process of being updated. It is expected that this will release resources for further investment in both Council Housing and wider strategic housing priorities. This will be presented to Cabinet during the next financial year.
- 3.20 The Housing Property Repair and Improvement Programme (PRIP) contract has recently been re-procured with the new contractor (Wates Construction) to commence delivering the programme from 1st April 2020. The impact of this on Berneslai Homes operation and subsequent impact on the HRA is currently being determined

4. Overall Capital Position to the Quarter Ending September 2019

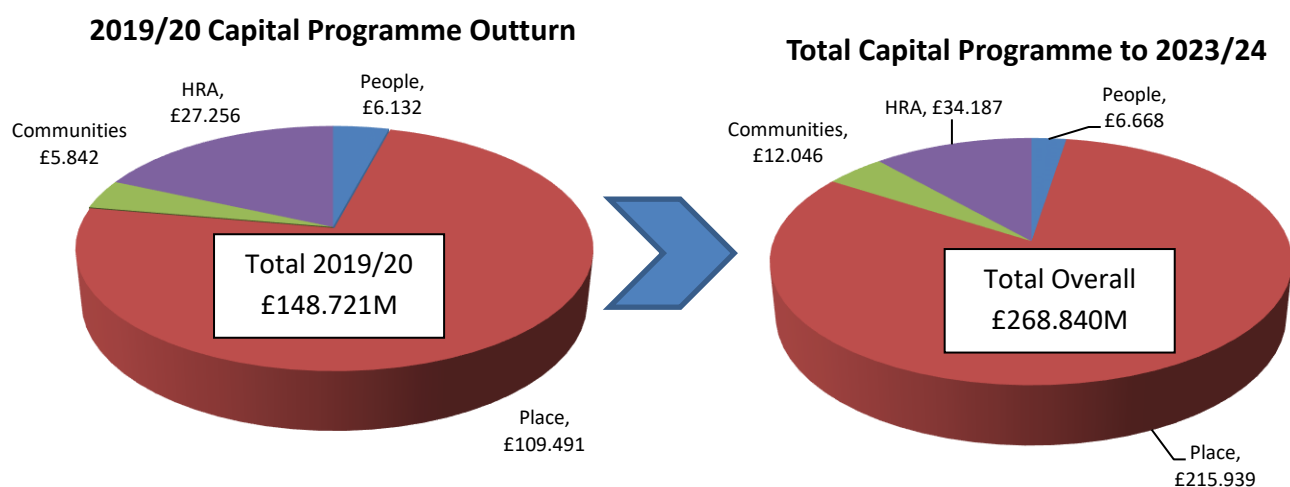
The position on the Council's Capital Programme for 2019/20 is currently projected to be an overall lower than anticipated expenditure of £22.045M.

This includes scheme slippage of £22.487M. There is also an increase in scheme costs totalling £0.388M which all relates to schemes with restricted (specific) funding.

There have also been new schemes approved during the quarter totalling £11.922M.

The position on the Council's Capital Programme over the five year period to 2023/24 is currently projected to be an overall higher than anticipated expenditure of £0.388M mainly due to increased costs on the Council's Traffic Signals programme.

4.1 The Council's capital programme is planned over the five year period 2019/20 through 2023/24 inclusive. The total capital programme over the period stands at £268.840M. This is distributed across the respective directorates as shown in the chart below:



Key 2019/20 Movements

	2019/20 £M	Later Years £M	Total £M
Reported Variance as at 31st December			
<i>As a result of:</i>			
<u>Slippage:</u>			
People	(0.441)	0.441	-
Place	(18.007)	18.007	-
Communities	(1.519)	1.519	-
HRA	(2.520)	2.520	-
Sub-Total	(22.487)	22.487	-

Re-phasing:			
People	0.005	(0.005)	-
Communities	0.009	(0.009)	-
Sub-Total	0.014	0.014	-
Funded Increases/(Decreases) in Scheme			
Costs*:			
People	0.040	(0.040)	-
Place	(0.240)	-	(0.240)
Communities	(0.095)	-	(0.095)
Housing Revenue Account	0.723	-	0.723
Sub-Total	0.428	(0.040)	0.388
Total	(22.045)	22.433	0.388

2019/20 Slippage

4.3 Scheme slippage totaling £20.889M is reported during the quarter. This includes slippage on the Market Gate Bridge (£5.144M) to 2020/21 to align with the wider Glassworks construction program.

4.4 There has also been slippage on the Vehicle Replacement Programme (£5.565M) due to the lead time required between order and delivery. Minor slippage has also occurred other schemes including the Property Investment Fund Phase 2 (£1.043M), and Barnsley Homes Scheme – Roofing / Central Heating Replacement schemes (£1.700M).

2019/20 Re-phasing

4.5 The above slippage has been partly offset by re-phasing of the LED Street Light Replacement Programme (£1.598M) due to the lantern replacement element of the scheme being ahead of schedule.

2019/20 Scheme Variation

4.6 There has also been a minor cost variation of £0.388M across the programme. The key cost increase relates to additional adaptations works on the non Barnsley Homes Standard Major Adaptation scheme (£0.500M) due to an increase in demand.

2019/20 New Scheme Approval

4.7 A number of new capital schemes have been approved during the quarter totaling £11.922M. These include:

- New build housing developments at St Michaels -£5.341M (Cab 8.1.2020/3)
- New build housing development at Billingley View -£2.510M (Cab 8.1.2020/9);
- Increase in scheme costs on the M1 J36 Phase 2 – Goldthorpe scheme – £2.745M (Cab11.12.2019/17);
- Dorothy Hyman Phase 2 development - £0.381M (S106 Capital Board); and
- SAP infrastructure upgrade programme (£0.350M) (Cab 27.11.20019/4).

5. Treasury Management update

Economic Summary

There has been a steady rise in PWLB borrowing rates throughout most of the quarter following the 1% increase announced by HM Treasury. There is speculation that the base rate will fall in the near future due to low economic growth and uncertainty over future the trade arrangements with the EU, although the general expectation remains that rates will rise over the medium term.

Borrowing Activity

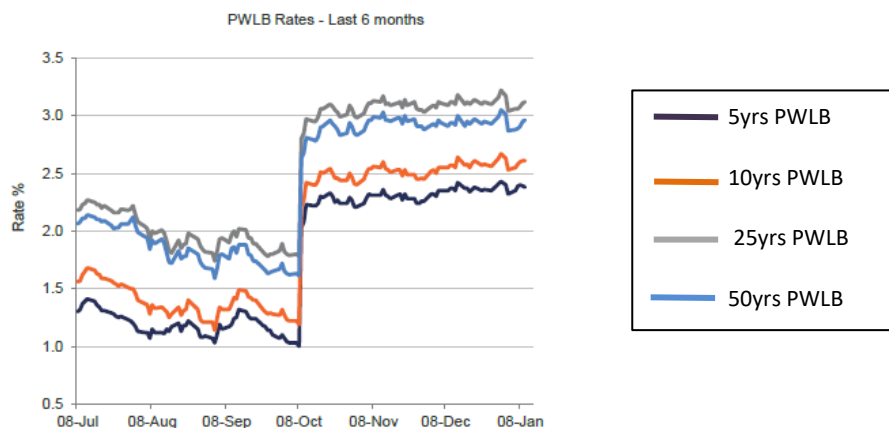
Some £38M of new fixed-rate borrowing was undertaken during the quarter, including drawing down the £20M deferred loan which was secured during 2018/19. The Council may need to borrow an additional £203M (including £68M of fixed-rate borrowing) by the end of 2021/22 to address the remaining capital financing requirement,

Investment Activity

Security and liquidity remained the key investment priorities, with the majority of new investments placed in secure Money Market Funds and instant access accounts.

Key Messages – Economic Summary

- 5.1 Interest rates remain a key driver of the Council's Treasury Management activities. There was a steady rise in PWLB borrowing rates throughout the quarter following the 1% increase announced by HM Treasury (on the 9th October):



- 5.2 There has since been some speculation of a base rate cut in the near future due to low economic growth and uncertainty over future trade arrangements with the EU. However, there is still a general expectation that rates will rise over the medium term, although any further rises are expected to be gradual (see table below from the Council's advisors):

Latest Interest Rate Projections (Link Asset Services)
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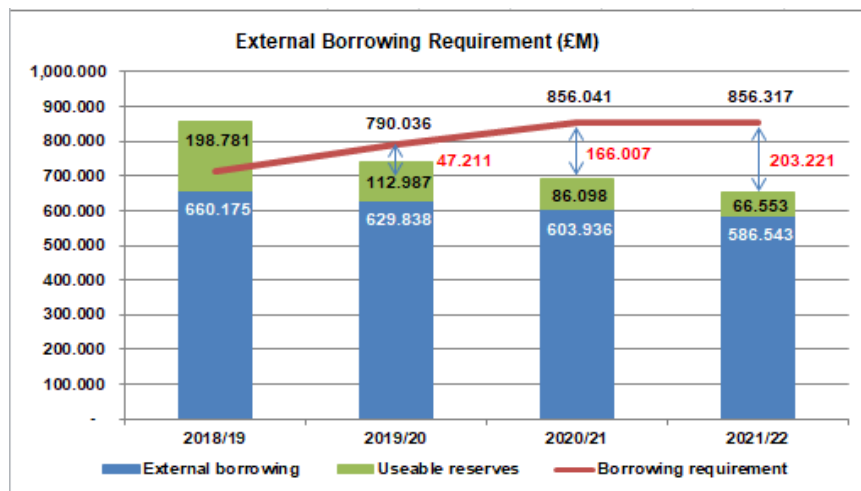
	Latest	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Base Rate	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
25 Year PWLB	2.95%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%
50 Year PWLB	2.78%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%

* The Public Works Loan Board (PWLB) is an Executive Agency of HM Treasury whose primary function is to lend money to local authorities.

Key Messages – Borrowing Activity

5.3 As reported at Q2, and given the recent movement in interest rates the S151 Officer's advice was to keep a watching brief on further rate movements which may necessitate bringing forward borrowing activity into Q3 and / or Q4. Subsequently £38M of new fixed-rate borrowing was taken during the quarter, including £20M of deferred loan funding secured in 2018/19. The purpose of which was to cover the repayment of maturing PWLB loans.

5.4 As highlighted above there is a requirement to borrow upto £203M to the end of 2021/22 as a result of planned capital investment activity and existing loans that are due to mature. It is expected that upto £68M of this borrowing requirement will need to be fixed out to deliver the objective of reasonable cost certainty in line with the approved treasury management strategy.



Key Messages - Investments

5.6 The Council's investment strategy is to ensure that its cash balances are invested prudently and are available when needed to meet its spending commitments objectives are security and liquidity.

5.7 In order to deliver this any new investments are placed in secure money market funds and instant access accounts. However, advantage is also taken of the competitive rates offered on short term local authority deposits.

Background Information – available on request

Corporate Finance Performance Q3 detailed
 Capital Programme Monitoring Report Q3 detailed
 Treasury Management Review Q3 detailed

Item 5

Report of the Head of Internal Audit, Anti-Fraud and Assurance

AUDIT COMMITTEE – 18th March 2020

INTERNAL AUDIT PROGRESS REPORT 2019/20

1. Purpose of this report

- 1.1 The purpose of this report is to provide a summary of the Internal Audit activity completed, and the key issues arising from it, for the period from 1st January 2020 to 29th February 2020.
- 1.2 To provide information regarding the performance of the Internal Audit function during the period.

2 Background information

- 2.1 The Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The reports issued by internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.
- 2.2 At the end of the financial year, Internal Audit will produce an Annual Internal Audit Report, which will provide our overall opinion on the adequacy of the Council's control environment and compliance with it during the year.

3 Recommendations

- 3.1 **It is recommended that the Audit Committee considers the assurances it needs on the effectiveness of the Authority's internal control, risk and governance arrangements through the work of Internal Audit by:-**
 - i. **considering the issues arising from completed Internal Audit work in the period along with the responses received from management;**
 - ii. **noting the assurance opinion on the adequacy and effectiveness of the Authority's internal control framework based on the work of Internal Audit in the period to the end of February 2020, and;**
 - iii. **noting the progress against the Internal Audit plan for 2019/20 for the period to the end of February 2020.**

4 Local Area Implications

- 4.1 There are no Local Area Implications arising from this report.

5 Consultations

- 5.1 All audit reports are discussed and agreed with the Audit Sponsor and Designated Operational Lead. Individual audit reports are provided to the appropriate Executive Director and/or Service Director to apprise him/her of key issues raised and remedial actions agreed.
- 5.2 No specific consultation has been necessary in the preparation of this quarterly report.

6 Compatibility with European Convention on Human Rights

- 6.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 2018, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

7 Reduction of Crime and Disorder

- 7.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls are made. Additionally, Internal Audit ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

8 Risk Management Considerations

- 8.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues are inherent in the body of the report.
- 8.2 The Service's operational risk register includes the following risks which are relevant to this report:
- Ensuring the appropriate use of and management of, information to inform and direct internal audit activities;
 - Able to provide a flexible, high performing and innovative service; and
 - Ensuring continuously high levels of customer satisfaction.
- 8.3 All of these risks have been assessed and remain within the tolerance of the Service.
- 8.4 An essential element of the control (and on-going) management of these risks is the provision of update reports to the Audit Committee and the assurance this provides.

9 Employee Implications

- 9.1 There are no employee implications arising from this report.

10 Financial Implications

10.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function are included within the Authority's base budget.

11 Appendices

Appendix 1 - Key To Internal Audit Assurance Gradings & Classification of Management Actions.

12 Background Papers

12.1 Various Internal and External Audit reports, files and working papers.

Officer Contact: Head of Internal Audit, Anti-Fraud and Assurance

Telephone No: 01226 773241

Date: 6th March 2020

Barnsley Metropolitan Borough Council

Internal Audit Progress Report

Audit Committee

18th March 2020

INTERNAL AUDIT PROGRESS REPORT 2019/20
1st January to 29th February 2020

Purpose of this report

This report has been prepared to inform the Committee on the Internal Audit activity for the period 1st January to 29th February 2020, bringing attention to matters that are relevant to the responsibilities of the Authority's Audit Committee.

The report also provides information regarding the performance of the Internal Audit function during the period.

2019/20 Internal Audit Plan Progress

The following tables show the progress of the internal audit plan up to the end of February 2020, analysed by the number of plan assignments producing a report and audit days delivered by Directorate / Service.

Position as at 29th February 2020 – Audit Days Delivered

Directorate	Original 2019/20 Plan days	Revised 2019/20 Plan days	Actual days (% of revised days)
Communities	102	90	70 (78%)
People	128	101	91 (90%)
Place	87	112	99 (88%)
Public Health	11	19	18 (95%)
Core Services	408	449	383 (85%)
Council Wide	165	148	127 (86%)
Corporate	177	187	164 (88%)
Responsive	40	11	0
Barnsley MBC	1,118	1,117	952 (85%)
Corporate Anti-Fraud Team	572	572	478 (84%)
Barnsley MBC Internal Audit Total	1,690	1,689	1,430 (85%)

HoIA role as Head of Assurance	0	1	12 (1200%)
HoIA role as DPO	50	50	58 (116%)
DPO Assurance	45	45	51(113%)
Sub Total	95	96	121 (126%)

External Clients	1,215	1,215	984 (81%)
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Total Chargeable Planned Days	3,000	3,000	2,535 (85%)
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Position as at 29th February 2020 – Plan Assignments

Directorate	2019/20 plan assignments	Assignments expected to be completed to date	Actual assignments completed
Communities	2	2	2
People	2	1	1
Place	4	3	3
Public Health	0	0	0
Core Services	13	12	11
Total	21	18	17

The variance of 1 assignment completed is due to a report being at draft report stage (see work in progress at page 6). Meetings are scheduled with officers to discuss the outcomes and finalise the report. As in previous years, there will be a number of jobs that will be completed in April and therefore notionally fall into the next financial year. All planned work will have been completed to be considered as part of the HoIA Annual report.

Changes to the 2019/20 Internal Audit Plan

At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency.

The following audits (in this period) have been deferred, added to or deleted from the audit plan, as agreed in conjunction with management:

Directorate/ Service	Audit Assignment Title	Deferred / Added / Deleted/ +/- contingency days
Core/Finance	Fixed Asset Register	Added – agreed financial systems coverage for 2019/20.
Core/Finance	Main Accounting System – Journals	Added – agreed financial systems coverage for 2019/20.
Core/Finance	Payroll Financial System	Added – agreed financial systems coverage for 2019/20.
People/Schools	Barugh Green School	Added – providing specialist audit support to the Head Teacher.
Communities – Stronger, Safer & Healthier Communities	BCVS	Added – at the request of Executive Director.

Final Internal Audit reports issued

We have finalised 4 audit reports since the last Audit Committee meeting. The following table provides a summary of assurances, where applicable, and the number and categorisation of agreed management actions included in these reports:

Directorate- Audit Assignment	Assurance Opinion	Number of Management Actions Agreed:			Total	Agreed
		High	Medium	Low		
Systems Fit For Purpose -Project Governance Arrangements (IS)	Limited	1	7	1	9	9
SAP Concur Expense System – Compliance	Limited	3	5	2	10	10
IT Project /Programme Management	Reasonable	0	2	3	5	5
Fixed Asset Register	Reasonable	0	5	0	5	5
Total		4	19	6	29	29

Please note that final audit reports are available to Audit Committee members on request.

Internal Audit reports providing a limited or no assurance opinion

There were 2 audit reports issued during the period that had a limited assurance opinion (included in the above table).

Details and outcome of other Internal Audit activities concluded in the period not producing a specific assurance opinion

Audit Work Completed	Details	Contribution to Assurance
Communities: Troubled Families – Quarterly validation	Grant claim validation.	The work contributes to assurance in respect of financial management.
Core/Place: Glassworks Board Attendance	Provide independent and objective assurance that effective and efficient risk, control and governance arrangements exist to provide a robust framework upon which the phase two scheme can be delivered (i.e. on time, in budget and to the required standard).	The work contributes to assurance in respect to contract management, governance and financial management.
CPR Working Group	Phase 2 review of the Council's Contract Procedure Rules to consider and incorporate (where applicable) additional feedback received from stakeholders as part of the initial consultation process following the completion of CPR Phase 1 review.	The work ensures that the Council's CPRs facilitate compliance with legislative, regulatory and regulatory requirements. In addition, ensures that they are streamlined to ensure that the needs of the organisation are met whilst operating within the legal framework.
Core – SAP Access Controls	Provision of advice to Finance and IT colleagues on the adequacy and effectiveness of access controls and separation of duties within the financial elements of the SAP system	The work contributes to assurance in respect of financial management allowing for the more timely update and / or removal of access permissions and also the proactive monitoring and management of SOD conflicts.

Other Internal Audit work undertaken

Audit Activity	Description
Follow-up of Recommendations	Regular work undertaken to follow-up recommendations / agreed management actions made.
Attendance at Steering / Working Groups	<ul style="list-style-type: none"> • Information Governance Board • Commissioning, Procurement & Contracts Working Group • Housing Property Repairs & Improvement Board • Digital Leadership Team • Capital Programme Oversight Board • SharePoint Board • Public Health Quality & Governance Group
Liaison, Planning and Feedback	Meeting and corresponding with Service and Executive Directors and Heads of Service regarding progress of audit work, future planning and general client liaison.
Audit Committee Support	Time taken in the preparation of Audit Committee reports, Audit Committee Member training, general support and development.
Corporate Whistleblowing	General time taken in providing advice and the initial consideration of matters raised. Also includes the review of arrangements.
Corporate Matters	Covering time required to meet corporate requirements, i.e. corporate document management, service business continuity and health and safety.

Work in progress

The following table provides a summary of audits in progress at the time of producing this report:

Directorate- Audit Assignment	Audit Planning	Work in Progress	Draft Report
People – Dearne Goldthorpe School			✓
Core – Procurement Compliance Review			✓
Family Centres			✓
Policy into Practice – Honoraria & Agency Staff		✓	
Core - DPO Arrangements Compliance		✓	
People – SEND Improvement Governance		✓	
Main Accounting - Journals		✓	
BCVS		✓	
Barugh Green School	✓		
Payroll	✓		

Follow-up of Internal Audit report management actions

As previously reported to members, Internal Audit is working closely with management to monitor the general position with regards the implementation of management actions and to establish the reasons behind any delays. In an effort to provide more transparency to Executive Directors on the status and progress of their management actions, Internal Audit continues to issue a detailed monthly status update. This is in addition to the quarterly performance reports currently presented to SMT.

The following table shows the status of internal audit management actions by Directorate due for completion during the period:

Internal Audit performance indicators and performance feedback for 2019/20

Internal Audit's performance against a number of indicators is summarised below.

Rec. Classification	Due for completion this period	Completed in period	Not yet completed – Revised date agreed	Not yet completed / No management response	Number not yet due	Number Followed up in period
Communities						
Fundamental/ High	0	0	0	0	1	1
Significant/ Medium	0	0	0	0	10	10
TOTAL	0	0	0	0	11	11
Place						
Fundamental/ High	1	0	1	0	0	1
Significant/ Medium	2	1	0	1	0	2
TOTAL	3	1	1	1	0	3
People (excl Maintained Schools)						
Fundamental/ High	2	2	0	0	1	3
Significant/ Medium	5	4	0	1	15	20
TOTAL	7	6	0	1	16	23
Maintained Schools						
Fundamental/ High	1	1	0	0	0	1
Significant/ Medium	3	3	0	0	0	3
TOTAL	4	4	0	0	0	4
Core						
Fundamental/ High	0	0	0	0	2	2
Significant/ Medium	3	0	0	3	9	12
TOTAL	3	0	0	3	11	14
Public Health						
Fundamental/ High	0	0	0	0	0	0
Significant/ Medium	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0
OVERALL TOTAL	17	11	1	5	38	55
		17				

Head of Internal Audit's Internal Control Assurance Opinion

The Head of Internal Audit, Corporate Anti-Fraud and Assurance must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Based on the audits reported in the period, an overall **reasonable** assurance opinion is considered to be appropriate.

A summary of our quarterly opinions for the year to date is as follows:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Assurance Opinion	Reasonable	Reasonable	Reasonable	Reasonable

Consideration of our overall opinion takes the following into account:

- results from the substantive audit assignments we have completed during the period;
- outcomes from our audit work not producing an assurance opinion;
- an assessment as to the timely implementation of internal audit report management actions.

Fraud, Investigations and the Corporate Anti-Fraud Team

The Audit Committee receives a separate report covering the detail of fraud and irregularity investigations undertaken, the preventative work and the general activities and work plan of the Corporate Anti-Fraud Team.

Audit Contacts

Contact	Title	Contact Details
Rob Winter	Head of Internal Audit, Anti-Fraud and Assurance	Tel: 01226 773241 Mobile: 07786 525319 Email: RobWinter@barnsley.gov.uk
Sharon Bradley	Audit Manager	Tel: 01226 773187 Mobile: 07795 305846 Email: SharonBradley@barnsley.gov.uk

KEY TO INTERNAL AUDIT ASSURANCE GRADINGS AND CLASSIFICATION OF MANAGEMENT ACTIONS

1. Classification of Management Actions

- Fundamental / High** Requires immediate action – imperative to ensuring the objectives of the system under review are met.
- Significant / Medium** Requiring action necessary to avoid exposure to a significant risk to the achievement of the objectives of the system under review.
- Merits Attention / Low** Action is advised to enhance control or improve operational efficiency.

2. Assurance Opinions

	Level	Control Adequacy	Control Application
POSITIVE OPINIONS	Substantial	Robust framework of controls exist that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	Reasonable	Sufficient framework of key controls exist that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
NEGATIVE OPINIONS	Limited	Risk exists of objectives not being achieved due to the absence of key controls in the system.	Significant breakdown in the application of key controls.
	No	Significant risk exists of objectives not being achieved due to the absence of controls in the system.	Fundamental breakdown in the application of all or most controls.

Item 6

Report of the Executive Director Core Services

Audit Committee – 18th March 2020

Revisions to the Audit Committee Terms of Reference

1. Purpose of the Report

- 1.1 This brief report highlights the suggested amendments to the Committee's terms of reference following the review undertaken recently. The amendments are not significant but will ensure that the Committee's remit is accurately reflected and meets recommended best practice.

2. Recommendations

- 2.1 **It is recommended that the Committee agrees the amendments highlighted in the attached revised Terms of Reference and refers them for formal approval at annual Council in May.**
- 2.2 **It is also recommended that part of the Committee's development session in October each year is devoted to a self-assessment review.**

3. Review of the Terms of Reference

- 3.1 It is good practice to periodically review the effectiveness of the audit committee including the terms of reference. Members of the Committee recently completed two questionnaires, one to consider how the Committee operates and one to look specifically at the terms of reference.
- 3.2 The results of both questionnaires were discussed by the Committee at a briefing session prior to the January meeting following which the suggested amendments to the terms of reference have been made.
- 3.3 The proposed revised terms of reference are attached as Appendix 1.
- 3.4 The outcome of the effectiveness review focussed largely on obtaining information and assurance regarding how the Authority governs its partnerships and collaborations, preparing an annual report to promote the work of the Committee and ensure its status and profile within the Authority were raised and encouraging senior management to attend the Committee to present items. All these areas have been taken into account in the workplan for the Committee over the next municipal year.

3.5 Also recognised as part of the review process was that the name of the Committee should be changed to the Audit and Governance Committee to more accurately reflect the broader perspective and remit beyond traditional areas of financial and internal audit and therefore encompass the breadth of governance across the Authority. Again, the workplan has been prepared to reflect that broader perspective.

4. Appendices

4.1 Appendix 1 – Revised Terms of Reference

Contact Officer: Head of Internal Audit, Anti-Fraud and Assurance
robwinter@barnsley.gov.uk
9th March 2020

Audit and Governance Committee

A. General Remit

1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment.
2. To provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
3. To oversee the financial reporting process.
4. To promote the application of and compliance with effective governance arrangements across the Authority and its partner organisations.

B. Internal Control incorporating Risk Management, Financial Probity and Stewardship

- (a) To consider the overall adequacy and effectiveness of the system of internal control and the arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).
- (b) To ensure that the highest standards of financial probity and stewardship are maintained throughout the Authority, within policies set by the Council from time to time.
- (c) To consider develop such policies for consideration and approval by the Council.
- (d) To promote effective internal control by the systematic appraisal of the Authority's internal control mechanisms and by the development of an anti-fraud culture.
- (e) To promote effective risk management throughout the Council in accordance with the Council's Risk Management Policy Objectives Statement.
- (f) To periodically review the Authority's strategic risk register and to invite, when appropriate, a Member of the Senior Management Team to meetings to discuss strategic risks within their specific service area.
- (g) To consider, challenge and comment on the Annual Governance Statement.

(h) To receive periodic reports on additional corporate functions contributing to overall assurance against the corporate priorities and specifically in relation to:

- Business Improvement, Human Resources and Communications
- Health & Safety & Resilience
- Governance, Member and Business Support
- Information Governance

(i) To encourage wider dialogue with members of the Senior Management Team by inviting them to meetings on a periodic basis to give assurance about issues identified within reports relating to various Directorate activities and, in particular, those which are subject to Internal Audit recommendation

C. Internal Audit

(h) To oversee, in consultation with internal auditors, the preparation and approval of an annual audit plan for the Authority and to receive periodic reports from the internal auditor on performance against the plan.

(i) To monitor compliance with internal audit reports following their consideration by management.

(j) To examine reports previously submitted to the Cabinet in respect of ongoing activities and investigations conducted by internal auditors and to make appropriate comments and recommendations.

(k) To review the performance of the internal audit function by way of quarterly performance management reports.

(l) To consider the Head of Internal Audit's annual audit report and opinion, and a summary of internal audit activity (actual and planned) and the level of assurance it can give over the Council's corporate governance arrangements.

(m) To enhance the profile, status and authority of the internal audit function and demonstrate its independence.

(n) To approve and periodically review the Internal Audit Strategy and Audit Charter

D. External Audit and other Inspectorates or Regulatory Bodies

(o) To oversee, in consultation with external auditors, the preparation of the annual audit plan for the Authority and to receive periodic reports from the external auditor on performance against the plan.

- (p) To consider and report to Cabinet and the Council the annual audit and inspection letter.
- (q) To consider the appointment of the Council's external auditor.
- (r) To monitor compliance with external audit, external inspectorate and Ombudsman reports following their consideration and resolution by the Cabinet and/or Council.
- (s) To ~~consider~~ ~~determine~~ any payments in excess of £2000, or provide other benefits in cases of maladministration by the Authority within the scope of section 92 of the Local Government Act 2000.

E. Other

- (t) To consider general issues and statistics in relation to the Council's Confidential Reporting (Whistleblowing) Corporate ~~“Whistleblowing”~~ Policy.
- (u) To review the Authority's arrangements for establishing appropriate anti-fraud policies and procedures.
- (v) To monitor compliance with and the effectiveness of anti-fraud and corruption policies and procedures.
- (w) To monitor compliance with the Authority's Partnership Governance Framework.
- (x) To consider and review compliance with the Authority's Treasury Management policy.

F. Accounts

- (y) To review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (z) To contribute to the annual review, consideration and challenge of the financial statements.

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What is happening in the external audit market?

Page 43

Barnsley Metropolitan Borough Council

18 March 2020



Agenda

Page 44

FRC regulation

Length & complexity
of accounts

Audit deadlines

Audit fees

Recruitment &
retention

Reviews of the audit
market

FRC regulation

	2012	2020
Regulatory body	Audit Commission	FRC & ICAEW
Number of external Inspections per annum	5	15
Length of inspection process	3 weeks	3 months
Primary focus	<ul style="list-style-type: none"> • Timeliness of sign off • Ensuring fee not too high 	<ul style="list-style-type: none"> • Audit opinion correct • Ensuring fee not too low
Secondary focus	<ul style="list-style-type: none"> • General Fund balance and Usable Reserves appropriately stated • Financial sustainability enables the continued provision of services to expected level • Proper governance in place helping to ensure stewardship of funds 	<ul style="list-style-type: none"> • Property, Plant and Equipment appropriately valued • Pension Fund liabilities appropriately valued • Any other areas of critical judgement
Public Reporting	No	Yes
Potential sanction	Recommendation to Head of Audit	Fine of individual and firm

Length & complexity of accounts

The changing face of local government financial reporting – Birmingham City Council

	2008/09	2018/19
Auditor	Audit Commission	Grant Thornton
Length of financial statements (excluding opinion)	91 pages	219 pages
Length of audit opinion	3 pages	12 pages
Date opinion signed	Feb 2010 (11 months after year end)	September 2019 (6 months after year end)
Scale fee for audit opinion	£700,000	£241,000
Audit fee – grant claims	£300,000	£100,000

Page 46

Audit deadlines

Year	Target date	% opinions signed (all firms)
2016-17	30 Sep	95%
2017-18	31 July	80%
2018-19	31 July	58%

Page 47

Audit fees

- Audit fees have reduced by c.66% on average in the last 10 years
- Audit firms have sought to make audits more efficient & reduce auditor pay in real terms to remain sustainable
- However, due to the regulators raising the bar, the costs of delivery have started to significantly increase. Approx. 10%-15% increase in days last year alone.

Recruitment & retention

- Auditor pay has declined in real terms
- Unsustainable – 60+ hour weeks the norm
- Significant loss of experienced people
- Auditor shortages in UK particularly at In-Charge grade
- Resorting to foreign recruitment due to shortages in the UK

Reviews of the audit market

- CMA
- Kingman
- Brydon
- Redmond

Page 50

Our response to The Redmond Review

Local audit is facing an unprecedented set of challenges:

- Accounts have grown far more complex
- Authorities are engaging in more innovative / unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight
- Retention of key people is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical reform is needed

Our response to The Redmond Review

A 'system wide' solution is needed. We believe this should include:

- The establishment of a separate regulator for local audit
- Rebasing of audit fees to a level which reflects the additional work we are now undertaking
- A simplified CIPFA Code / tiered approach
- A revised approach to Value for Money
- Replacement of the conclusion with a narrative report, at a different time of year
- A focus on governance, financial sustainability and the three 'E's
- Move the target publication date for LG accounts back to 30 September

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TouchstoneRenard
Management Consultants



Future Procurement and Market Supply Options Review

Final Report

Review Team: Harry Machin, Phil Austin
and Andrew Herbert

Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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<u>CONTENTS</u>	<u>Page</u>
1. EXECUTIVE SUMMARY	4
2. PURPOSE AND SCOPE	6
2.1 Overview	6
2.2 Specific issues to be addressed	6
3. WORK DONE AND METHODOLOGY	7
3.1 Interviews	7
3.2 Analysing responses	7
4. BACKGROUND	8
4.1 The market and PSAA's role	8
4.2 Supply of auditors	10
4.3 Audit fees	11
4.4 Performance in the 2018/19 round of audits	12
5. THE VIEWS OF APPROVED PROVIDERS	13
5.1 Introduction	13
5.2 In the current contract, what works well and what works less well? (Contract holders only)	13
5.3 Number of lots and lot sizes	13
5.4 Composition of lots and the allocation of audits to each firm	14
5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years	14
5.6 The balance between quality and price used to evaluate the tenders	15
5.7 The degree of emphasis on social value / apprenticeships	15
5.8 Timing issues	15
5.9 The Code of Audit Practice	16
5.10 CIPFA's Code of Practice for local authority accounting	16
5.11 The quality monitoring regime	16
5.12 Other issues – fees	16
5.13 What factors would influence the firm's decision to bid in the next procurement round?	17
5.14 Is your firm's capacity to deliver local audits increasing or decreasing?	17
5.15 Is local auditing an attractive career option?	17
5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?	18
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?	18
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?	18
6. THE VIEWS OF NON-APPROVED PROVIDERS	19
6.1 Introduction	19
6.2 What capability does your firm currently have to carry out local audits?	19
6.3 Awareness of the local audit environment	19
6.4 Would your firm consider bidding for any local audits in the next round of procurement?	19
6.5 How important would the following factors be?	19

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?	20
6.7 Is local audit an attractive career option? What would make it more attractive?	21
6.8 How can more firms be encouraged to enter the local audit market?	21
6.9 Would your firm consider participating in a joint audit appointment? On what basis?	21
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?	21
7. ISSUES AND OPTIONS	22
7.1 Introduction	22
7.2 SWOT analysis for the market for audits of PSAA's eligible bodies	22
7.3 The CBS report revisited	23
7.4 Opening up the market to new entrants	24
7.5 Supply side resources	25
7.6 Timing of audits	25
7.7 Fees and quality	25
7.8 Number of lots and lot sizes	26
7.9 Composition and location of lots	27
7.10 Contract duration	28
7.11 Contract structure	28
7.12 Joint audit options	29
7.13 Collaborative response with other audit agencies	29
7.14 Creating a not-for-profit supplier	30
GLOSSARY	31

Acknowledgements

We would like to thank all the people involved throughout the review process, from PSAA and the firms, who gave us their help and support.

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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BARNLEY MBC AUDIT AND GOVERNANCE COMMITTEE – INDICATIVE WORK PROGRAMME January 2020 – December 2020

	Mtg. No.	6	7	8	1	2	3	4	5
Committee Work Area	Contact / Author	22.01.20	18.03.20	15.04.20	3.06.20	27.07.20	16.09.20	28.10.20 (2pm start)	02.12.20
Committee Arrangements								Workshop	
Committee Work Programme	WW	X	X	X	X	X	X		X
Minutes/Actions Arising	WW	X	X	X	X	X	X		X
Review of Terms of Reference	AS/CHAIR		X					X (?)	X
Self-Assessment Review	AS/CHAIR								X
Internal Control and Governance Environment									
Local Code of Corporate Governance	AF/AS			X					
Annual Governance Review Process and Timescales	AF/AS			X					
Draft/Final Annual Governance Statement & Action Plan	AF/RW				X	X			
AGS Action Plan Update	AF/RW				X				X
Corporate Whistleblowing Update & Annual Report	RW	X							
Anti-Fraud									
Annual Fraud Report	RW				X				
Corporate Fraud Team - Report	RW			X			X		
Corporate Risk Management									
Risk Management Policy & Strategy	RW			X					
Risk Management Update*	RW								
Risk Management Framework				X					
Annual Report	RW				X				
Strategic Risk Register Review	RW				X				
Internal Audit									
Internal Audit Charter (Annual)	RW				X				

	Mtg. No.	6	7	8	1	2	3	4	5
Committee Work Area	Contact / Author	22.01.20	18.03.20	15.04.20	3.06.20	27.07.20	16.09.20	28.10.20 (2pm start)	02.12.20
Internal Audit Plan	RW		X		X				
Internal Audit Quarterly Report	RW	X	X			X			X
Annual Review of the Effectiveness of Internal Audit	RW				X				
Internal Audit Annual Report	RW				X				
External Audit (Grant Thornton)									
Annual Governance Report (ISA260 Report)	GT					X			
Audit Plan	GT	X							
Annual Fees Letter	GT						X		
Claims & Returns Annual Report	GT	X							
External Audit Progress report & Technical Update	GT	X	X	X	X	X	X		X
Financial Reporting and Accounts									
Financial Regulations - Update	SL						X		
Budget Proposal Section 25 Report	NC		X						
Draft/Final Statement of Accounts	NC				X	X			
Corporate Finance and Performance Management & Capital Programme Update	NC		X				X		X
Treasury Management Annual Report	IR					X			
Treasury Management Progress Report	IR/SW								X
Treasury Management Policy & Strategy Statement	IR		X						

	Mtg. No.	6	7	8	1	2	3	4	5
Committee Work Area	Contact / Author	22.01.20	18.03.20	15.04.20	3.06.20	27.07.20	16.09.20	28.10.20 (2pm start)	02.12.20
Other Corporate Functions contributing to overall assurance programme to be determined:									
Human Resources (annual)	MP						X		
Business Continuity/Emergency Resilience (Annual)	SD					X			
Health & Safety Resilience (6 monthly report – March Update – September Annual)	SD		X				X		
Information Governance and Cyber Security update (twice yearly)	SJH			X			X		
DPO Update (twice yearly)	RW				X				X
Procurement (Annual)	CA								
Performance Management (twice yearly)	MP								
Asset Management (Annual)	DS/DS								
Ethical Framework (Annual)	AF/SL								
Equality and Inclusion (Annual)	MP								
Partnerships (Annual)	MP								
Insurance Claims, Ombudsman and Complaints (Annual)	??								

*Members of the Senior Management Team to be invited periodically to report on any issues identified within the Strategic Risk Register

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Item 11

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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