

# Public Document Pack



## Business Efficiency Board

**Tuesday, 21 July 2020 at 5.30 p.m.  
Via Public Remote Access (please  
contact the Clerk named below for  
instructions)**

A handwritten signature in black ink that reads 'David Wall'.

**Chief Executive**

### **BOARD MEMBERSHIP**

Councillor Martha Lloyd Jones (Chair)	Labour
Councillor Andrea Wall (Vice-Chair)	Labour
Councillor Ellen Cargill	Labour
Councillor Alan Lowe	Labour
Councillor Andrew MacManus	Labour
Councillor Tony McDermott	Labour
Councillor Ged Philbin	Labour
Councillor Norman Plumpton Walsh	Labour
Councillor Joe Roberts	Labour
Councillor Gareth Stockton	Liberal Democrats
Councillor John Stockton	Labour

***Please contact Angela Scott on 0151 511 8670 or e-mail  
angela.scott@halton.gov.uk for further information.***

***The next meeting of the Board is on Wednesday, 23 September 2020***

**ITEMS TO BE DEALT WITH  
IN THE PRESENCE OF THE PRESS AND PUBLIC**

**Part I**

<b>Item No.</b>	<b>Page No.</b>
<b>1. MINUTES</b>	<b>1 - 5</b>
<b>2. DECLARATION OF INTEREST</b>	
Members are reminded of their responsibility to declare any Disclosable Pecuniary Interest or Other Disclosable Interest which they have in any item of business on the agenda, no later than when that item is reached or as soon as the interest becomes apparent and, with Disclosable Pecuniary interests, to leave the meeting during any discussion or voting on the item.	
<b>3. AUDIT PROGRESS 2018/19 FINAL ACCOUNTS</b>	<b>6 - 7</b>
<b>4. INTERNAL AUDIT ANNUAL REPORT - 2019/20</b>	<b>8 - 22</b>
<b>5. ANNUAL REVIEW OF THE CORPORATE RISK REGISTER 2020/21</b>	<b>23 - 71</b>
<b>6. REVIEW OF THE EXTERNAL AUDIT MARKET AND 2020/21 EXTERNAL AUDIT FEES</b>	<b>72 - 110</b>
<b>7. SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972 AND THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985</b>	

**PART II**

In this case the Board has a discretion to exclude the press and public and, in view of the nature of the business to be transacted, it is **RECOMMENDED** that under Section 100A(4) of the Local Government Act 1972, having been satisfied that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 of Part 1 of Schedule 12A to the Act.

<b>8. INTERNAL AUDIT PROGRESS REPORT</b>	<b>111 - 209</b>
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***In accordance with the Health and Safety at Work Act the Council is required to notify those attending meetings of the fire evacuation procedures. A copy has previously been circulated to Members and instructions are located in all rooms within the Civic block.***

**BUSINESS EFFICIENCY BOARD**

*At a meeting of the Business Efficiency Board held on Monday, 24 February 2020 at the Civic Suite, Town Hall, Runcorn*

Present: Councillors M. Lloyd Jones (Chair), Wall (Vice-Chair), E. Cargill, A. Lowe, MacManus, N. Plumpton Walsh, Joe Roberts and J. Stockton

Apologies for Absence: Councillors McDermott and G. Stockton

Absence declared on Council business: None

Officers present: E. Dawson, M. Murphy and A. Scott

Also in attendance: Helen Stevenson and John Farron, External Auditors, Grant Thornton

**ITEMS DEALT WITH  
UNDER DUTIES  
EXERCISABLE BY THE BOARD**

**BEB15 MINUTES**

The Minutes of the meeting held on 20 November 2019 were taken as read and signed as a correct record.

**BEB16 CORPORATE RISK REGISTER**

The Board considered a report of the Strategic Director, Enterprise, Community and Resources, on the bi-annual update of the Corporate Risk Register.

The Board was advised that the Council recognised its responsibility to manage both internal and external risks as a key component of good corporate governance. At Directorate level, arrangements were in place for the high risk mitigation measures on the Directorate Risk Registers to be reviewed and updated mid-year, in line with Directorate Business Plans. Progress was then reported to Management Team and Policy and Performance Boards.

It was reported that the Risk Control Measures had been reviewed and updated in line with current changes within the Authority and as proposed by managers and stakeholders. The risks had been re-prioritised so that

*Action*

people, (the community and staff), took priority. These were set out in the report.

On the current outbreak of the Coronavirus (also named COVID-19), Members were advised that the Risk Management Team were working closely with Public Health England at a national and local level. The situation was evolving and guidance and advice being regularly updated. Business Continuity Plans were in place to deal with the impact on Council services should the situation worsen.

RESOLVED: That the update of actions be noted.

#### BEB17 ANNUAL GOVERNANCE STATEMENT 2018/19

The Board considered a report of the Strategic Director, Enterprise, Community and Resources, which sought approval of the revised 2018/19 Annual Governance Statement.

The Board was reminded that at its meeting on 24 July 2019, the 2018/19 Annual Governance Statement had been presented, alongside an update report on the external audit of the Council's 2018/19 Statement of Accounts. That report explained that, due to a technical accounting issue, the External Auditor was unable to publish an audit certificate or opinion by the deadline of 31 July 2019. It was noted that the delay in completing the audit of the 2018/19 Statement of Accounts, necessitated that the 2018/19 Annual Governance Statement be updated to reflect developments since the Board originally approved the document.

The revised 2018/19 Annual Governance Statement was attached as an Appendix to the report. It was noted that the Action Plan relating to governance issues for 2019/20 had been updated to reflect developments since 24 July 2019. The remainder of the document remained unchanged from the version previously approved.

RESOLVED: That the revised 2018/19 Annual Governance Statement be recommended for adoption by the Leader of the Council and the Chief Executive.

Strategic Director  
- Enterprise,  
Community and  
Resources

*(N.B. Councillor John Stockton declared a Disclosable Other Interest in the following item of business as he was a Governor at St Martin's Catholic Primary School)*

BEB18 INTERNAL AUDIT PLAN 2020/21

The Board considered a report of the Divisional Manager, Audit, Procurement and Operational Finance, which sought approval for the planned programme of internal audit work for 2020/21.

A risk based Audit Plan had been prepared, designed to enable internal audit to deliver an overall opinion on the Council's risk management and control and governance arrangements.

A copy of the draft Audit Plan for 2020/21 was attached as an appendix to the report. It was noted that the Plan had incorporated four reviews originally included in 2019/20 Audit Plan, that could not be completed during the year due to capacity issues. The Board was advised that, as in previous years, the Audit Plan would need to remain flexible and that changes may be required in order to respond to risks which emerge during the year. Internal Audit would work closely with the Council's external auditor, Grant Thornton, to minimise duplication and to ensure efficient and effective deployment of the overall audit resource.

RESOLVED: That the Board approves the proposed Internal Audit Plan for 2020/21.

Divisional  
Manager, Audit,  
Procurement and  
Operational  
Finance

BEB19 AUDIT PROGRESS 2018/19 FINAL ACCOUNTS

The Board considered a report of the Operational Director, Finance, on the latest position regarding the external audit of the Council's 2018/19 Statement of Accounts.

The Board was advised that the Statement of Accounts set out the Council's financial performance for the year in terms of revenue and capital spending. It presented the year-end financial position as reflected in the balance sheet.

It was reported that due to a number of technical accounting issues, the external auditor was not in a position to publish the audit certificate or opinion on the 2018/19 Statement of Accounts.

It was reported that the Council had published a notice on 31 July 2019 stating the reasons why it had not been able to publish the final Statement of Accounts. The final audited Statement of Accounts would be reported to the

Board once the audit was complete, along with the Audit Findings report.

RESOLVED: That the external auditor's verbal update on progress be noted.

BEB20 SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972 AND THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

The Board considered:

- 1) whether Members of the press and public should be excluded from the meeting of the Board during consideration of the following item of business in accordance with Section 100A (4) of the Local Government Act 1972 because it was likely that, in view of the nature of the business to be considered, exempt information would be disclosed, being information defined in Section 100 (1) and paragraph 3 of Schedule 12A of the Local Government Act 1972; and
- 2) whether the disclosure of information was in the public interest, whether any relevant exemptions were applicable and whether, when applying the public interest test and exemptions, the public interest in maintaining the exemption outweighed that in disclosing the information.

RESOLVED: That as, in all the circumstances of the case, the public interest in maintaining the exemption outweighed that in disclosing the information, members of the press and public be excluded from the meeting during consideration of the following item of business in accordance with Section 100A(4) of the Local Government Act 1972 because it was likely that, in view of the nature of the business, exempt information would be disclosed, being information defined in Section 100 (1) and paragraph 3 of Schedule 12A of the Local Government Act 1972.

BEB21 INTERNAL AUDIT PROGRESS REPORT

The Board considered a report of the Divisional Manager, Audit, Procurement and Operational Finance, which provided Members with a summary of internal audit work completed since the last progress report on 20 November 2019. The report also highlighted matters relevant to the Board's responsibilities as the Council's Audit Committee.

It was noted that a total of 11 Internal Audit reports had been finalised since the last progress report. An overall assurance opinion was provided for each audit engagement. It was reported that there had been no follow-up audit reviews completed since the last progress report with the main focus of activity being on completing as many reviews as possible from the 2019/20 Internal Audit Plan.

As reported elsewhere on the agenda, a total of four audits had been deferred from 2019/20 and would be included in the 2020/21 Audit Plan. However, it was reported that there had been sufficient audit work completed during the year to allow an overall opinion to be formed on the Council's governance, risk management and control. This would be reported to the July meeting of the Board in the Annual Internal Audit Report.

RESOLVED: That the report be noted.

#### **VOTE OF THANKS**

At the conclusion of the meeting, the Chair wished to place on record her thanks on behalf of the Board to Councillor Joe Roberts and Councillor Andrew MacManus for their past contribution as members of the Board. Both Councillors would be standing down from the Council in May 2020 and the Chair wished them well in their future endeavours.

*Meeting ended at 7.30 p.m.*



**REPORT TO:** Business Efficiency Board  
**DATE:** 21 July 2020  
**REPORTING OFFICER:** Operational Director, Finance  
**PORTFOLIO:** Resources  
**SUBJECT:** Audit Progress 2018/19 Final Accounts  
**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to provide an update on the latest position regarding the external audit of the Council's 2018/19 Statement of Accounts. Grant Thornton will provide a verbal update to the Board on progress with the external audit.

**2.0 RECOMMENDED: That the External Auditor's verbal update on progress, be noted.**

## **3.0 BACKGROUND**

3.1 The Statement of Accounts sets out the Council's financial performance for the year in terms of revenue and capital spending and presents the year-end financial position as reflected in the balance sheet.

3.2 Due to a number of technical accounting issues the External Auditor is still not yet in a position to publish the audit certificate or opinion on the 2018/19 Statement of Accounts. Work continues to reach agreement on outstanding issues. It is likely that amendments will be required to the 2018/19 draft Statement of Accounts together with restated accounts for 2017/18.

3.3 The Council published a notice on 31 July 2019 with reasons why it had not yet been possible to publish the final Statement of Accounts.

3.4 The final audited Statement of Accounts will be reported to the Business Efficiency Board once the audit has been completed, along with the Audit Findings Report. In accordance with the Accounts and Audit Regulations 2015 the Council will then publish the final Statement of Accounts together with relevant audit certificate as soon as reasonably practicable following the certificate date.

## **4.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

### **4.1 Children and Young People in Halton**

There are no specific implications for any of the Council's priorities.

**4.2 Employment, Learning and Skills in Halton**

See 4.1

**4.3 A Healthy Halton**

See 4.1

**4.4 A Safer Halton**

See 4.1

**4.5 Halton's Urban Renewal**

See 4.1

**5.0 RISK ANALYSIS**

The Accounts and Audit Regulations require that the Statement of Accounts is certified by the External Auditor and published by 31 July 2019 or as soon as is reasonable practicable thereafter. As required, the Council published a notice on 31 July 2019 with reasons why it had not yet been able to publish the final Statement of Accounts.

**6.0 EQUALITY AND DIVERSITY ISSUES**

There are no equality and diversity issues arising from this report.

**7.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Accounts and Audit Regulations 2015	Kingsway House Kingsway Widnes	Steve Baker Divisional Manager, Revenues and Financial Management
Code of Practice on Local Authority Accounting in the UK 2018/19	Kingsway House Kingsway Widnes	Steve Baker Divisional Manager, Revenues and Financial Management

<b>REPORT TO:</b>	Business Efficiency Board
<b>DATE:</b>	21 July 2020
<b>REPORTING OFFICER:</b>	Divisional Manager – Audit, Procurement & Operational Finance
<b>PORTFOLIO:</b>	Resources
<b>SUBJECT:</b>	Internal Audit Annual Report – 2019/20
<b>WARD(S):</b>	Borough-wide

### **1.0 PURPOSE OF REPORT**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual audit opinion and report, which can be used to inform the Annual Governance Statement.
- 1.2 This report summarises the work of internal audit during 2019/20 and presents the Head of Internal Audit's opinion on the effectiveness of the Council's overall risk management, control and governance processes.

### **2.0 RECOMMENDATION: That the Board considers and approves the Internal Audit Annual report.**

### **3.0 SUPPORTING INFORMATION**

- 3.1 Internal Audit is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes.
- 3.2 The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. The Annual Internal Audit Report provides that opinion.
- 3.3 In March 2019, the Business Efficiency Board considered and approved an internal audit plan for 2019/20. Some amendments to the plan were reported to, and agreed by, the Board during the course of the year.
- 3.4 The Annual Report (attached as a separate document) summarises the internal audit work completed over the 2019/20 financial year. It includes an overall assurance opinion on the Council's risk management, control and governance processes. Details of the evidence base supporting the opinion are provided in the report
- 3.5 In proving an overall opinion, account has also been taken of the unprecedented challenges faced by the Council in responding to COVID-19. This inevitably continues to impact on the structure of the Council's risk management, control and governance processes, both in terms of

the Council response to the pandemic and also in regard to the reset arrangements.

#### **4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS**

4.1 Under Regulation 6 of the Accounts & Audit Regulations 2015, the Council 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. This responsibility is delegated to the Operational Director – Finance.

4.2 There are no direct policy implications arising from this report. However, the Head of Internal Audit's opinion on the Council's risk management, control and governance processes is one of the key sources of assurance that supports the Council's Annual Governance Statement.

4.3 The internal audit work carried out during the year provides assurance that the Council's main financial systems are operating effectively.

#### **5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

##### **5.1 Children and Young People in Halton**

Internal audit provides assurance over the Council's risk management, control and governance processes, which help to support the achievement of the aims and objectives set out in the Corporate Plan.

##### **5.2 Employment, Learning and Skills in Halton**

See 5.1

##### **5.3 A Healthy Halton**

See 5.1

##### **5.4 A Safer Halton**

See 5.1

##### **5.5 Halton's Urban Renewal**

See 5.1

#### **6.0 RISK ANALYSIS**

Internal Audit adopts a risk based approach to its work and provides assurance over the Council's key business risks. In the course of its work, internal audit raises issues which have risk implications for the Council. The regular internal audit progress reports to the Business Efficiency Board summarise these issues and provides details of the actions agreed with management to mitigate any risks identified.

There are no direct risk implications arising from this report.

**7.0 EQUALITY AND DIVERSITY ISSUES**

None

**8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<u>Document</u>	<u>Place of Inspection</u>	<u>Contact</u>
Internal Audit Plan 2019/20	Halton Stadium, Widnes	Merv Murphy
Internal Audit reports		
Public Sector Internal Audit Standards		
Local Government Application Note for the UK Public Sector Internal Audit Standards		



# Internal Audit Annual Report

Business Efficiency Board - 21 July 2020

## 2019/20

## Section One

### Executive summary

#### 1.1 Introduction

In accordance with the Public Sector Internal Audit Standards, the Head of Internal Audit is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. This is achieved through delivering a risk-based plan of work (the Internal Audit Plan), which has been agreed with management and approved by the Business Efficiency Board.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. However, the Head of Internal Audit's opinion forms one of the sources of assurance that underpins the Council's Annual Governance Statement.

#### 1.2 Overall assurance

In providing an opinion it should be noted that assurance can never be absolute. The work of Internal Audit can only provide reasonable assurance that there are no major weaknesses in the Council's risk management, control and governance processes.

The opinion provided is based on the work completed by internal audit and reported to the Business Efficiency Board. It must be noted that there may be weaknesses in the Council's systems of internal control that have not been identified if they did not form part of the programme of audit work completed or were excluded from the scope of individual internal audit assignments.

#### 1.3 Opinion

In the opinion of the Head of Internal Audit, the Council continues to maintain adequate and effective risk management, control and governance processes. This opinion is based on audit work performed during 2019/20 and from cumulative knowledge of the organisation.

There has been positive engagement with management in agreeing recommendations where audit work has identified weaknesses in the design or application of controls. Action plans are in place to address all issues identified through the work of internal audit.

The results of the follow up audits completed provide assurance that the actions agreed in response to audit reports are implemented.

## Section Two

### Basis of the opinion

#### 2.1 Planned coverage and output

Internal audit delivered 684 of the 895 planned days of audit work during 2019/20. As reported to the Board throughout the year, completion of the planned number of days of audit work was not achievable. This was due to a combination of factors, which included a long term-sickness absence, maternity leave, a vacancy and time lost towards the end of the year as a result of Covid-19, when the audit team was asked to support other business areas to respond to the pandemic.

To mitigate the reduction in staffing resource the Business Efficiency Board agreed to defer a number of reviews and include them in the 2020/21 Audit Plan. Additional resource was also brought in during the year through a temporary agency placement.

The audit work completed during the year is considered sufficient and wide-ranging enough to allow a confident and evidence-based annual audit opinion.

It is important to note that the overall opinion is based on Internal Audit work undertaken during 2019/20, the majority of which took place prior to Covid-19 and the resulting emergency measures being implemented. Covid-19 has resulted in a significant level of challenge to the Council and necessitated some changes to its control and governance arrangements. Internal Audit has however had significant involvement in supporting the Council's response to Covid-19. This is both in terms of completing audit work directly relating to the Council's emergency response, and also in terms of supporting and advising other business areas. To date no significant issues or weaknesses have been identified that would impact on the overall opinion.

#### 2.2 Summary of work supporting the opinion

The audit work undertaken that forms the basis of the opinion includes:

- Review of the risk management arrangements within specific business areas;
- The work of Internal Audit in reviewing the Council's governance arrangements and annual review of the Constitution;
- Assessment of the range of audit opinions arising from audit assignments that have been reported to the Business Efficiency Board throughout the year. This assessment has taken account of the relative materiality of each area audited.
- Assessment of management's responses to Internal Audit's recommendations and the progress made in addressing risks and issues identified through audit work.



## Section Two

### Basis of the opinion

#### 2.3 Audit assignments completed

A full list of the audit assignments that have helped inform the opinion is provided in Appendix A. Each audit is graded in terms of how well risks were managed in the area under review. Three different assurance levels are used: substantial, adequate and limited. Definitions of the assurance levels are provided in Appendix C.

42 audit reports were finalised and reported to the Board during the year. The assurance ratings provided are shown in the table below with comparative information for 2018/19 and 2017/18. Also included is the number of audit days delivered in each year.

Financial year	No. of audit days	Substantial Assurance	Adequate Assurance	Limited Assurance	Total
2019/20	684	36	6	0	42
2018/19	883	43	7	1	51
2017/18	991	35	18	2	55

#### 2.4 Follow-up audit assignments completed

Six 'follow-up' audit assignments were completed during the year and are listed in Appendix B. These audits examine the progress that management has made in implementing previously agreed audit recommendations. A revised assurance opinion is issued for each 'follow up' audit, which is informed by the extent to which the issues identified in the original audit report have been addressed. The opinions issued are summarised below:

- Four audits resulted in substantial assurance opinions;
- Two audits resulted in an adequate assurance opinion.

#### 2.5 Limitations placed on internal audit

During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

## Section Two

### Basis of the opinion

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As previously reported to the Board, the Head of Internal Audit also has managerial responsibility for a number of other finance functions. Arrangements to safeguard the independence of internal audit have been established and agreed by the Business Efficiency Board. These arrangements have operated effectively throughout the year.

The audit of Direct Payments for Children with Disabilities was the only audit completed during the year that included coverage of an area for which the Head of Internal Audit also had some operational responsibilities.

#### 2.6 Conformance with the Public Sector Internal Audit Standards

Under PSIAS, internal audit services are required to have an external quality assessment every five years. The Council's external assessment was completed during 2017/18 and the overall conclusion was that the Council's internal audit arrangements substantially conform to the standards. There were no departures from these arrangements in 2019/20.

## Section Three

# Quality Assurance and Improvement Programme

### 3.1 Quality Assurance

The development and maintenance of a Quality Assurance and Improvement Programme (QAIP) is a requirement within PSIAS.

The purpose of the QAIP is to ensure that the Internal Audit service operates in accordance with PSIAS and the Local Government Application Note (LGAN) and maintains consistently high standards.

Key elements of the quality assurance arrangements are described below:

- The Internal Audit team is made up of appropriately trained and qualified staff with significant local government experience. The majority of the team are members of professional institutes and all of the team complies with ethical rules, technical standards and professional practice laid down by those bodies;
- Internal audit work is based upon a detailed risk-based audit plan, which is agreed in consultation with management and is approved by the Business Efficiency Board;
- Internal Audit employs an audit methodology that is in accordance with professional standards;
- Terms of reference are developed with key stakeholders for each audit assignment which set out the agreed coverage;
- Robust management review is undertaken of all audit files and reports prior to issue;
- There is a system of regular reporting of progress against the plan to the Business Efficiency Board;
- All Internal Audit staff complete annual declarations confirming their compliance with the Code of Ethics;
- There is a commitment to the continuing professional development of all internal audit staff through a range of learning and development opportunities. These include professional training, on the job training, e-learning, webinars and attendance at relevant training events and workshops.

### 3.2 Feedback from audit clients

Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved.

## Section Three

# Quality Assurance and Improvement Programme

The feedback received from the survey returned in the year was very positive and there were no common themes in the questionnaires returned that highlighted any particular areas for improvement.

A sample of comments received through the questionnaires is included below:

- *Professional, put us at ease, explained things fully.*
- *The audit was carried out in a thoroughly professional manner and feedback at all times was constructive.*
- *The report captured the breadth of activities that help manage risk across the Council very well.*
- *A worthwhile audit with some very effective recommendations that will have a positive impact.*
- *The auditor was very supportive and understanding given the current situation. The recommendations were useful moving forwards.*

### 3.3 Areas for development

The challenge for the Internal Audit team in 2020/21 is to complete sufficient audit work during the year to provide assurance to support the annual audit opinion. For various reasons the current pandemic impacted on the completion of audit work and coverage in quarter one of 2020/21 has been affected.

Like many other teams, all members of the Internal Audit team have been working from home since mid-March. Initially most of the team were seconded to other business areas to provide support where it was needed most. However, the auditors are now mostly engaged in audit work with audits being completed remotely. This enforced change has provided the opportunity to challenge the way the team operates and to implement some improvements to working practices. Performance management and quality control arrangements will however need to be kept under review and adapted as required.

In terms of audit coverage, some planned audits of frontline services have had to be postponed temporarily to allow services to focus on the Council's response to the pandemic. The pandemic has also necessitated changes to planned work, as the environment within which the Council is operating has changed significantly since the 2020/21 Audit Plan was approved on 24 February 2020.

In order to address the situation, a more dynamic approach will be undertaken to the planning of audit work with planned coverage being kept under constant review. The 2020/21 Audit Plan will therefore need to be flexible to accommodate changes in the priority of audit work. Changes to planned coverage will be reported to the Board through the regular Internal Audit Progress Reports.

## Appendix A

### Summary of audit assignments

A summary of the audit assignments completed in the year is set out below showing the assurance ratings and the number and priority of recommendations made. The audits are grouped according to the Business Efficiency Board meeting at which they were presented:

#### 20 November 2019

Assignment	Assurance Rating	Recommendations made		
		High	Medium	Low
1. Key Route Network (KRN) Grant – Silver Jubilee Bridge - Q1 2019/20	Substantial	0	0	0
2. Sustainable Transport Enhancement Package (STEP) Grant – Q1 2019/20	Substantial	0	0	0
3. Sustainable Transport Enhancement Package (STEP) Grant – Q2 2019/20	Substantial	0	0	0
4. Troubled Families Grant Claim (July 2019)	Substantial	0	0	0
5. Troubled Families Grant Claim (September 2019)	Substantial	0	0	0
6. Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q1 2019/20	Substantial	0	0	0
7. Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q2 2019/20	Substantial	0	0	0
8. Local Transport Capital Block Funding – Pothole Action Fund 2018/19	Substantial	0	0	0
9. Madeline McKenna Court and Millbrow Care Homes	Adequate	0	5	3
10. Learning & Development	Substantial	0	0	2
11. Payment Card Industry Data Security Standard (PCIDSS)	Adequate	0	6	0
12. Adult Placement Service	Substantial	0	2	1
13. Ditton and Warrington Road Nursery Schools	Substantial	0	0	2
14. St. Edward's Catholic Primary School	Substantial	0	0	2

## Appendix A

### Summary of audit assignments

24 February 2020

Assignment		Assurance Rating	Recommendations made		
			High	Medium	Low
15.	0-19 Healthy Child Service	Adequate	0	3	1
16.	Disabled Facilities Grant Claim (DFG) – 2018/19	Substantial	0	0	0
17.	Redundancy and Severance Payments	Substantial	0	0	1
18.	Troubled Families Grant Claim (November 2019)	Substantial	0	0	0
19.	Troubled Families (December 2019)	Substantial	0	0	0
20.	Waste Disposal	Substantial	0	0	4
21.	Apprenticeships	Substantial	0	2	2
22.	The Brow Primary School	Substantial	0	0	3
23.	Sustainable Transport Enhancement Package (STEP) Grant – Q3 2019/20	Substantial	0	0	0
24.	Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q3 2019/20	Substantial	0	0	0
25.	Syrian Vulnerable Persons Resettlement Scheme	Substantial	0	2	2

## Appendix A

# Summary of audit assignments

21 July 2020

Assignment		Assurance Rating	Recommendations made		
	High		Medium	Low	
26.	Troubled Families (February 2020)	Substantial	0	0	0
27.	Disabled Facilities Grants (Full System Audit)	Substantial	0	2	3
28.	Weston Point Primary School	Substantial	0	2	2
29.	Birchfield Nursery School	Substantial	0	0	4
30.	Direct Payments - Children with Disabilities	Adequate	0	3	1
31.	Highways Inspections and Repairs	Adequate	0	4	1
32.	De-linking of the Silver Jubilee Bridge – Grant Claim	Substantial	0	0	0
33.	Strategic Cycling and Walking Schemes Grant	Substantial	0	0	0
34.	Town Centre Fund Grant Claim – Halton Lea Quarter Four 2019/20	Substantial	0	0	0
35.	Sustainable Transport Enhancement Package (STEP) Grant – Q4 2019/20	Substantial	0	0	0
36.	Local Growth Fund (LGF) Grant - Silver Jubilee Bridge - Q4 2019/20	Substantial	0	0	0
37.	Troubled Families (May 2020)	Substantial	0	0	0
38.	Infection Control Fund - Tranche 1	Substantial	0	0	2
39.	St Gerard's Catholic Primary & Nursery School	Substantial	0	0	2
40.	Covid-19 Personal Protective Equipment	Substantial	0	2	1
41.	St. Martin's RC Primary School	Adequate	0	4	1
42.	Skills Capital Investment Fund – Q1 2020/21 Grant Claim	Substantial	0	0	0

## Appendix B

### Summary of follow-up audit assignments




The Public Sector Internal Audit Standards require the 'chief audit executive' to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This process involves internal audit carrying out work to determine the progress that management has made in implementing recommendations previously agreed. A follow-up audit report is then issued summarising the results of this work.

Each follow-up audit provides an overall assurance opinion, which is based on the extent to which the risks identified in the original audit have been addressed. The following table summarises the results of the follow-up assignments completed during the year:

	Assignment	Assurance Rating	Status of agreed actions			
			Implemented	Ongoing	Outstanding	No longer relevant
1.	The Holy Spirit Catholic Primary School	Substantial	6	0	0	0
2.	Leisure Centres	Substantial	7	1	0	0
3.	Gypsy Traveller Sites	Substantial	7	1	0	0
4.	Property Insurance	Adequate	4	4	0	0
5.	Chesnut Lodge School	Substantial	6	0	0	0
6.	The Stadium	Adequate	7	4	0	0



## Appendix C: Assurance Level Definitions

<i>Conclusions from Audit Findings</i>	<i>Assurance Level</i>
Improvements in procedures and controls are required to strengthen the management of risk(s) fundamental or material to the activities reviewed.	 <b>Limited</b>
In the main there are appropriate procedures and controls in place to mitigate the key risks to the activities reviewed. However, some opportunities were identified to improvement the management of some risks.	 <b>Adequate</b>
Effective procedures and controls in place to mitigate the key risks to the activities reviewed.	 <b>Substantial</b>

**REPORT TO:** Business Efficiency Board

**DATE:** 21 July 2020

**REPORTING OFFICER:** Strategic Director - Enterprise Community & Resources

**PORTFOLIO:** Resources

**SUBJECT:** Annual Review of Corporate Risk Register 2020/21

**WARD(S)** Borough-wide

**1.0 PURPOSE OF THE REPORT**

1.1 To provide an annual review update for the risk control measures as identified in the Corporate Risk Register for 2020/21

**2.0 RECOMMENDATION: That the update of actions be noted.**

**3.0 SUPPORTING INFORMATION**

3.1 The report contains an annual review of the measures in managing the corporate risks for this year.

3.2 The Council recognises that it has a responsibility to manage both internal and external risks as a key component of good corporate governance, this document being one of many processes and activities making a contribution to this management.

3.3 Risk is defined as being the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk Management is defined as the process by which risks are identified, evaluated and controlled.

3.4 The Risk Control Measures have been reviewed and updated in line with current changes within the Authority and as proposed by managers and internal stakeholders.

3.5 The risks have been grouped in order of priority and the scores relate to 'Unmitigated Risk Scores' and then to 'Mitigated Risk Scores'. The priority has been given to risks around people and the headings and scores in order are:

- i. COVID-19 (25:20);
- ii. European Union Exit (25:20);
- iii. Delivery of Services to Vulnerable Adults (25:20);
- iv. Safeguarding Children and Adults (25:16);
- v. Health & Wellbeing (20:16);
- vi. Education (20:16);
- vii. Cyber Risk (25:20)
- viii. Data Protection (25:15)
- ix. Capacity and Resilience (20:16);
- x. Council Finances (25:20);
- xi. Keeping Halton Community Safe (15:12);
- xii. Changes to Government Arrangements (25:15);
- xiii. Mersey Gateway (15:10);
- xiv. Community Expectations (20:16);
- xv. Partnerships (9:4);
- xvi. Fraud (12:6); and
- xvii. Funding and Income Generation (16:12) (20:16).

#### 4.0 **POLICY IMPLICATIONS**

- 4.1 To provide a framework through which effectively manages the actual and potential opportunities and threats that may affect the achievement of the Council's strategic priorities and operational objectives.

#### 5.0 **FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications.

**6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

**6.1 Children & Young People in Halton**

There are no direct implications on the Council's 'Children & Young People in Halton' priority.

**6.2 Employment, Learning & Skills in Halton**

There are no direct implications on the Council's 'Employment, Learning & Skills in Halton' priority

**6.3 A Healthy Halton**

There are no direct implications on the Council's 'A Healthy Halton' priority

**6.4 A Safer Halton**

There are no direct implications on the Council's 'A Safer Halton' priority

**6.5 Halton's Urban Renewal**

There are no direct implications on the Council's 'Halton's Urban Renewal'

**7.0 RISK ANALYSIS**

7.1 Failure to review and monitor the performance of the Corporate Risk Management could result in service development opportunities being lost and existing service delivery being compromised.

**8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 Within the risk register there are a number of implications for Equality and Diversity issues, e.g. Council Finances, Capacity and Resilience.

**9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

None under the meaning of the Act.

# Corporate Risk Register

Lead Strategic Director: **Ian Leivesley**

Risk Management Coordinator: **Lynn P Ramsden**

Initial Register Completion Date: **November 2011**

Register Review Date: **May 2020**

Progress update:

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## Coronavirus (COVID 19)

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
1	Worldwide Virus Outbreak	5	5	25	All

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>• The Local Authority to respond to the Covid-19 Major Emergency.</li> <li>• Response to arising issues on a daily basis.</li> <li>• Dedicated 'Restricted' Coronavirus SharePoint area within the Local Authority's SharePoint, which is located via the Emergency Planning portal.</li> <li>• As part of the response Chief Executive leads on a weekly Management Team Teleconference to assess risk, resilience and agree a work programme going forward as part of the response and recovery.</li> <li>• The authority takes part in a number of teleconferences led by Cheshire Resilience Forum, i.e. Strategic and Tactical Group Teleconferences.</li> <li>• To support the Strategic and Tactical response, a number of Covid-19 Hub Groups have been created and sit-reps are produced.</li> <li>• Local Authority Public Health take part in a number of health teleconferences.</li> </ul>	5	4	20	Daily/Weekly/ Monthly as situation evolves/rises/ reduces	Chief Executive (David Parr)



<ul style="list-style-type: none"> <li>• Information and actions generated from these teleconfernces are shared appropriately.</li> <li>• CRF Situation Reports are produced via the CRF to MHCLG.</li> <li>• Data and information is shared by key organisaitons and MHCLG to ensure the local authrotiy have the correct level of information to protect and support the community.</li> <li>• Failure to deliver quality services to vulnerable adults would negatively affect the health and wellbeing i.e. increasing complex care needs, ageing population, reduction in available funding, recruitment and provider failure</li> <li>• A number of tested plans and procedures have been activated to respond and recover to this Major Incident.</li> <li>• Chief Executive\Strategic Directors\Senior Managmeent Team (Covid-19 Group, are updated on a regular basis.</li> <li>• Shielded Individuals Hub in place providing food supplies for vulnerable residents.</li> <li>• Personal Protective Equipment Hub (PPE) opened to provide the necessary equipment to enable relevant staff to continue providing vital services</li> <li>• A number of wellbeing resources made available to staff</li> </ul>					
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Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
1.1	<p>Reduced staffing levels beyond normal tolerance levels, across service areas, as a result of absence linked to COVID-19 (self-isolation and / or sickness absence).</p> <p>Major impact on frontline services.</p> <p>Major impact on processing of monthly payroll for Council, schools and external clients.</p>	5	5	25	All

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Implement government guidance and PHE direction across the workforce to minimise exposure to virus as far as is possible. This is designed to keep productivity at highest possible level. <ul style="list-style-type: none"> <li>Weekly staff communications (corporate) issued to all staff to direct behaviours.</li> <li>Daily briefings issued to schools.</li> <li>Home working in place for employee's who can do so.</li> </ul> </li> </ul>	4	4	16	weekly	Strategic Director Enterprise, Community & Resources (Ian Leivesley) and Operational Director PPPE

<ul style="list-style-type: none"> <li>- Where possible, accommodate home working where employees directed to self-isolate by a health professional / 111.</li> <li>- NHS Test, Trace and Isolate service in place / 119</li> <li>- 'Reset' programme ongoing as government measures relaxed to ensure workplaces are safe for minimum numbers of staff to return.</li> <li>- Government guidance followed on the wider reopening of schools.</li> <li>- Local Outbreak Plan and Local Outbreak Hub in place</li> </ul>					
<ul style="list-style-type: none"> <li>- Implement actions in Business Continuity Plan, where staff levels fall below acceptable levels in priority service area to maintain service delivery.</li> </ul>	4	3	<b>12</b>	As required	Strategic Director Enterprise, Community & Resources (Ian Leivesley) and Operational Director PPPE

**EUROPEAN UNION EXIT**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
2	Local, sub-regional and nationwide identified and unidentified risks	5	5	<b>25</b> <b>No Change</b>	All

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Dedicated EU Exit working group dealing with arising issues on a monthly basis</li> <li>Dedicated EU Exit SharePoint area on Council Intranet holding all relevant information</li> <li>As part of Cheshire Resilience Forum, the Authority takes part in the Strategic Co-ordination Group Tele Conferences on a fortnightly basis</li> <li>Tactical Co-ordination Group teleconferences take place on a weekly basis</li> <li>Risk Assessments are submitted via the Cheshire Resilience Forum to MHCLG (Ministry of Housing, Communities and Local Government) on a weekly basis</li> <li>Chief Executive/Strategic Directors updated on a regular basis (where appropriate) i.e. Management Team</li> </ul>	5	4	<b>20</b> <b>No Change</b>	6 monthly	Strategic Director Enterprise, Community & Resources (Ian Leivesley)

### DELIVERY OF SERVICES TO VULNERABLE ADULTS

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
3	Failure to deliver quality services to vulnerable adults could negatively affect their health and wellbeing i.e. increasing complex care needs, ageing population, reduction in available funding, recruitment and provider failure. Impact of COVID19 on service delivery	5 (4)	5	<b>25 (20)</b>	A Healthy Halton / A Safer Halton

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Effectively allocating and using available finances and resources in the delivery of services</li> <li>Integration of Health and Social Care with a view to improving the outcomes for people using the services</li> <li>Transformation of provider markets so that responsive and sustainable markets in adult social care can be developed and supported</li> <li>Delivery of prevention and early intervention to vulnerable adults</li> <li>Effective use of alternative funding streams and community assets</li> <li>Joint approach with Health to ensure efficient quality assurance</li> </ul>	4	5 (4)	<b>20 (16)</b>	6 monthly	Strategic Director - People (Milorad Vasic)

<ul style="list-style-type: none"><li>• Effective infection prevention and control measure</li><li>• Care home resilience plan in place</li></ul>					
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## SAFEGUARDING CHILDREN AND ADULTS

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
4	Failure to support and protect the safeguarding of children and adults could adversely impact on their health, safety and opportunity to reach their potential	5	5	25	A Healthy Halton / Employment, Learning and Skills / Children and Young People / A Safer Halton

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		

<ul style="list-style-type: none"> <li>Halton's Children's and Young People Safeguarding Partnership Board fully operational with appropriate resources and are operating within statutory guidance and towards identified priorities</li> <li>Representatives from the Children's and Adult's Safeguarding Boards to work in partnership through attending corresponding boards</li> <li>Children's and Adult's Safeguarding Board's to work with strategic groups within the Borough to ensure accountability and effectiveness of safeguarding</li> <li>Services regularly audit Children's and Adult's cases for quality and consistency of practices</li> </ul>	4	4	16	6 monthly	Strategic Director - People (Milorad Vasic)
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<ul style="list-style-type: none"> <li>• Comprehensive suite of performance reports for Children’s and Adults are reviewed at least monthly and compared with regional and national benchmarks</li> <li>• Progress reports for Children’s and Adults are taken to the Board and Members for their attention</li> <li>• Improving the health and wellbeing of children and adults through early intervention and treatment services delivered in house and externally via a range of providers and partners</li> <li>• Providing efficient safeguards to support vulnerable adults who lack capacity and require the support of the Deprivation of Liberty Safeguards and the Court of Protection</li> <li>• Support local care home providers to drive up the quality of care within their homes to ensure positive outcomes for vulnerable adults</li> <li>• COVID-19,             <ol style="list-style-type: none"> <li>1. Visits to care homes restricted to essential only. Use of technology used to complete assessments including Skype, Facetime etc</li> <li>2. Training sessions, Strategy and MDT Meetings completed by Skype, to mitigate the risk</li> <li>3. Enhanced Care Home Model completed remotely with wider MDT, including GP’s, LLAMS and social care</li> <li>4. Section 12 Drs, Advocacy provided with a monthly meeting remotely to review processes and provide support to IASU team</li> <li>5. The Government issued guidance for access to the court of protection</li> <li>6. Advocacy have implemented interim measures regarding their approach during the Pandemic.</li> <li>7. NW ADASS group continues to communicate to share learning, ideas and approaches to manage Safeguarding, DoLS and MCA related issues, with the restrictions that are currently in place</li> </ol> </li> </ul>					
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8. Government guidance on how LA's manage DoLS processes, including how to complete assessment					
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**HEALTH AND WELLBEING**

Item	Identified risk	Impact <sup>i</sup> (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
5	<p>Reduced capacity to sustain delivery of services that prevent harm, protect health and promote positive physical, mental and emotional health and wellbeing across the population of Halton.</p> <p>Failure to engage with appropriate partners and agencies to respond with adequate safeguards and mitigate against current and potential harms to health and wellbeing.</p>	5	4	<b>20</b> (new)	A Healthy Halton / Environment and Regeneration / A Safer Halton / Children and Young People

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Ensuring that the council adequately fulfils its requirement to protect and promote health within the population, including the appropriate delivery of mandated public health services</li> <li>Oversight of antibiotic stewardship through collaborative approaches to prevent and respond to Antimicrobial Resistance across all</li> </ul>	4	4	<b>16</b> (new)	6 monthly	Director of Public Health (Eileen O'Meara)

<p>organisations and sectors: including the implementation of antimicrobial action plans</p> <ul style="list-style-type: none"> <li>• Development and implementation of local, regional; and national pandemic response plans, to cover influenza and other mass population outbreak scenarios; including involvement in PHE and local LRF coordination and response structures</li> <li>• Maintain and improving on trajectories to reduce risk of Health Care Associated Infections (eg MRSA, C. Difficile, CRE, E-Coli etc), including regular monitoring, oversight and assurance of providers, using relevant networks and commissioners</li> <li>• Promote and improve uptake of all NHS prevention programmes including immunisation and screening and maintain effective oversight and scrutiny of appropriate NHS commissioner and providers.</li> <li>• Ensure that appropriate public health engagement and advice is included in the development, maintenance and testing of emergency plans including, adverse weather (heatwave, cold weather and flooding), COMAH</li> <li>• Systems are in place for the identifications and mitigation of environmental hazards and mitigation, including ongoing monitoring and assurance of air quality, monitoring of industrial processes, ability to respond to regulatory functions for food hygiene, health and safety.</li> </ul>					
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<ul style="list-style-type: none"> <li>Ensure that the we engage with all local providers to maximise opportunity for Halton residents to enhance positive wellbeing opportunities, reduce emotional and mental ill health and seek appropriate support at times of crisis, including responding to, and preventing suicides.</li> </ul>					
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## EDUCATION

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
6	Risk of not providing a broad and balanced curriculum and a full educational offer to all children and young people Risk of negatively impacting vulnerable and disadvantaged pupils disproportionately on their educational outcomes and wider lifelong opportunities	5	4	<b>20 (new)</b>	Children and Young People

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Ensure children and young people have access to IT equipment/resources and opportunity to engage in remote/home/blended learning</li> <li>Children and young people have access to government funded catch up programmes</li> <li>Children and young people have access to National Tutor Programme</li> <li>Schools and educational provision identify gaps in learning; design a recovery curriculum appropriate to individual needs and hold high expectations and support for children and young people</li> </ul>	4	4	<b>16 (new)</b>	Termly or following any child/young person impacted by self-isolation from Covid case or outbreak	Strategic Director - People (Milorad Vasic)

<ul style="list-style-type: none"> <li>• Schools and educational provisions to closely monitor the impact of catch up and intervention programmes on children and young peoples educational outcomes</li> <li>• Support for children and young peoples health and well being eg access to Cahms; educational psychology service; specialist teachers; school based mental health first aider etc</li> <li>• All schools to have a plan to ensure access to remote/home/blended learning if a Covid case or outbreak were to occur</li> <li>• All schools and educational provisions to plan and use rigorous risk assessment processes to limit risk of transmission to large groups of children and young people</li> <li>• All schools and educational provisions to have a trained mental health first aider; a trained SENDCO; pastoral lead and knowledge to signpost youth support services as required</li> <li>• All schools and educational provisions to ensure children and young people are supported with return to school; smooth transition and PHSE</li> <li>• All schools and educational provisions work in close partnership with pupils, parents and carers and communicate regularly and sensitively</li> <li>• Any impact of a positive covid case/outbreak or self-isolation reported to LA (Ann McIntyre/Jill Farrell) to ensure recovery plans are in place and access to remote learning is possible and of high quality</li> <li>• Schools and educational provisions to engage in EEF programmes; NCETM or wider intervention strategies to support progress and attainment for children and young people</li> </ul>					
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**CYBER RISK**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
7	Risk of adverse business Impact as a result of the failure of key business systems brought about by cyber incidents	5	5	25	All

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>The Council adopts a range of activities to manage the risk of loss of services as a result of Cyber threats, which includes risk elimination, reduction, transfer and acceptance</li> <li>A dedicated service within ICT Services that has the responsibility of managing the cyber risk facing the Council</li> <li>Clear reporting lines to senior management allowing the risk to be managed</li> <li>Numerous Compliance regimes that provide the necessary assurance frameworks to demonstrate how the Council complies with industry standards</li> <li>Ongoing education and awareness programme for key staff</li> </ul>	5	4	20	6 monthly	All Strategic Directors

**DATA PROTECTION**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
8	Data Protection: Risk of breach of data caused by mishandling of personal data by inadequate data handling and not adequately preventing and minimising security incidents, including ICT incidents, resulting in loss of data, unlawful sharing of data, reputational damage and significant financial penalties levied by the Information Commissioner's Office  Failure to comply with information governance requirements, eg Data Protection Act (General Data Protection Regulation); Freedom of Information Act	5	5	25	All

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>• Policies and procedures for council staff including Data Protection</li> <li>• Policy and Information Governance Handbook.</li> <li>• Wide range of guidance about handling personal data available to council staff on the internal intranet site.</li> </ul>	5	3	15	6 monthly	All Strategic Directors



<ul style="list-style-type: none"> <li>• Mandatory training for council staff via E-Learning module</li> <li>• Reporting to internal Information Governance Group, ICT Strategy Board and senior Management Team Reviews and internal audits.</li> <li>• Privacy Impact Assessments for new technologies or where processing is likely to result in a high risk to individuals</li> <li>• Contractor's compliance</li> <li>• Management controls, including effective logging and tracking, complaints and appeals procedures</li> <li>• Effective use of technology</li> <li>• The model publication scheme approved by the Information Commissioner adopted.</li> </ul>					
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**CAPACITY AND RESILIENCE**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
9	Reduced capacity to sustain the delivery of services and respond to emergency situations in line with Council Priorities.	5	4	20	Corporate Effectiveness and Efficiency

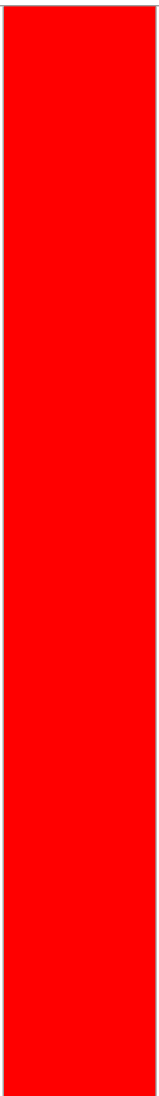
Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Maintaining a supportive working environment through shared service organisational ethos, pride and value across Members, staff, management, Unions and partners</li> <li>Focusing delivery of performance on the council’s corporate vision and key strategic priorities leading to a clearly understood and shared set of priorities</li> <li>Emphasis on management and leadership standards with recognition of the challenges faced by the Authority leading to managers who are able to direct, inform, develop and support staff. This also enables a focus on succession planning</li> <li>Maintaining a workforce that are skilled, informed, flexible and competent in order to ensure that they deliver efficient and effective services</li> </ul>	4	4	16	6 monthly	All Strategic Directors

• COVID-19, see section 1					
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**COUNCIL FINANCES**

Item	Identified risk	Impact <sup>ii</sup> (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
10	<p>A significant reduction in the Council’s funding from Government grant and/or locally raised business rates/council tax, leads to an inability to deliver the Council’s key service priorities, especially those services essential for the support of the most vulnerable members of the community.</p> <p><u>Covid19</u> A significant shortfall in Government grant funding provided to meet Covid19 related costs, fees &amp; charges/sales income losses, and ongoing reductions in council tax and business rates income.</p>	5	5	<b>25</b>	Corporate Effectiveness and Efficiency

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Financial Planning is undertaken to compare available financial resources with spending requirements over the medium term (3 years), resulting in preparation of the Medium Term Financial Strategy which allows overall budget gaps to be identified at an early stage and appropriate plans put in place to tackle them</li> </ul>	5	4	<b>20</b>	6 monthly	Strategic Director - Enterprise Community & Resources (Ian Leivesley)

<ul style="list-style-type: none"><li>• Proposed developments regarding the future funding of Local Government nationally are monitored, to assess the potential impact for the Council and take account of this within the Medium Term Strategy. Responses have been submitted to the Government’s consultations on “Fair Funding – a Review of Relative Needs and Resources” and “Business Rates Retention Reform” both individually and jointly with the LCR councils and Sigoma. The Government have confirmed that the Spending Review has been deferred until 2020, which will be closely monitored to assess the impact for Halton.</li><li>• Effective Business Planning to ensure that appropriate resources are directed towards the Councils key strategic priorities</li><li>• Budget setting is aligned to the annual Business Planning Cycle in order to ensure that the value of financial resources are maximised</li><li>• Budget Risk Register works in conjunction with the Budget Setting Cycle to ensure that emerging budget risks are identified together with relevant mitigating measures</li><li>• Exploring the potential for collaboration, shared services and partnership working with neighbouring Local Authorities</li><li>• Continue to respond to new challenges to maintain current performance</li></ul> <p><u>Covid19</u></p> <ul style="list-style-type: none"><li>• Covid19 related costs are being separately identified within the Agresso system as far as possible and along with estimated income losses are being reported monthly to MHCLG.</li><li>• Covid19 related costs and income losses are being closely monitored and will be reported regularly to Management Team and Executive Board.</li></ul>					
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<ul style="list-style-type: none"> <li>• A review of the 2020/21 Council budget will be undertaken in order to assess the impact of Covid19 upon the existing budget, in light of the level of Covid19 funding provided by Government. The outcome of this review will identify any funding gaps which will require action such as spending reductions, use of reserves etc. A revised/emergency budget for 2020/21 will then be brought to Council for approval.</li> <li>• The 2020-2024 Medium Term Financial Strategy will be reviewed to assess the likely impact of Covid19 upon the Council's forecast spending requirements and funding resources over the next three years. In particular, the impact of the expected economic recession upon council tax and business rates income will be modelled, as well as ongoing spending pressures and levels of Government funding. This will provide the framework for preparing future years' annual budgets and anticipating potential budget funding gaps.</li> </ul>					
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**KEEPING HALTON COMMUNITY SAFE**

Item	Identified risk	Impact <sup>iii</sup> (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
11	A failure to monitor and appropriately manage the risks created by global, national and local events, and how these might impact on local community tensions, could potentially lead to a threat to security and have an adverse effect on the stability of Halton's communities.	5	3	15	A Healthy Halton / Environment and Regeneration / A Safer Halton

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>The Safer Halton Partnership (SHP) involves joint working, clear communications and information sharing across various partner agencies, including emergency services. The SHP works to ensure that there is community cohesion with safe and secure neighbourhood environments</li> <li>Multi agency Community Safety team that addresses anti-social behaviour and crime thus supporting the SHP agenda</li> </ul>	4	3	12	6 monthly	Chief Executive (David Parr)

<ul style="list-style-type: none"> <li>• The Channel Panel is a multi-agency group which provides support for those who are vulnerable to be drawn into terrorism through a programme of early intervention and diversion</li> <li>• Emergency Planning team have developed and tested Multi-Agency Response plans in place for all risks within the borough</li> <li>• To respond to 'Major Accident' cloudburst incidents at Upper Tier COMAH sites; Emergency Planning Team have tested and validated Emergency COMAH Plans for all 9 sites</li> <li>• Emergency Planning Team work in partnership with the Cheshire Resilience Forum to provide an integrated approach for dealing with emergencies across Cheshire</li> <li>• Emergency Planning Team work with cross border organisations/agencies within Merseyside and the Liverpool City Region regarding cross border risks and resilience planning</li> <li>• Critical Incident Management procedures, including 'lockdown', have been developed, communicated and tested for Council buildings and schools</li> <li>• Security surveys conducted for main council buildings and schools</li> <li>• COVID-19, see section 1</li> </ul>					
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**CHANGES TO GOVERNMENT ARRANGEMENTS**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
12	Changes to Government arrangements and other public sector organisations could potentially lead to a deterioration of local services	5	5	25	A Healthy Halton / Employment, learning and skills / Children and Young People / A Safer Halton / Corporate effectiveness and business efficiency

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Ensuring that both Members and officers from the Council plays an active role in the Combined Authority for the Liverpool City Region</li> <li>Through 'One Halton' work the Authority is ensuring a smooth interaction between Health and Halton colleagues</li> </ul>	5	3	15	6 monthly	Chief Executive (David Parr)

**MERSEY GATEWAY**

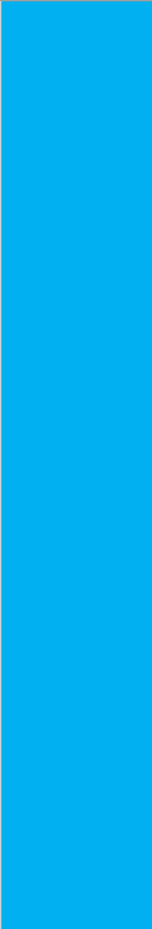
Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
13	Lack of effective management of and adherence to governance arrangements / contractual requirements or disrupted journeys could lead to increased project costs. In addition these could also lead to adverse publicity and reputational risks to the Council	5	3	15	Environment and Regeneration / Employment, Learning and Skills

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<u>Demand Management Participation Agreement (DMPA)</u> <ul style="list-style-type: none"> <li>Base line is realistic and achievable</li> <li>Agreed contract is designed to incentivise an increase in volumes of traffic</li> <li>Mersey Gateway Crossings Board has a role in managing the DMPA</li> <li>Effective publicity around speed and reliability of bridge</li> </ul>	5	2	10	6 monthly	Strategic Director - Enterprise Community & Resources (Ian Leivesley)
<u>Tolling Risk</u> <ul style="list-style-type: none"> <li>In order to mitigate the risk of the project not delivering sufficient toll revenue each year to meet project costs, a liquidity reserve of £19m</li> </ul>					

has been established jointly by the Department for Transport and Halton Borough Council (through borrowing funded from future toll revenues). If necessary the reserve will be topped-up periodically by undertaking further borrowing.

Conclusion of Construction Phase to Subsequent Operating Phase

- Dedicated company (Mersey Gateway Crossings Board Ltd) now established, with suitably experienced staff and directors, both Executive and Non-executive, and supported by class leading professional advisers. The relationship between Council and MGCB is detailed within a Governance Agreement
- Routine project assurance monitored through external bodies including specialist non-executive directors and advisers on the Board of Directors of MGCB, external Gateway Reviews (4Ps) Department for Transport and HM Treasury scrutiny at specific project milestones
- Delivery within the Funding Framework agreed with Government that is reviewed at regular intervals and managed through the Mersey Gateway Crossings Board’s Risk Register, which is reviewed regularly by both the Audit Committee and the Board of Directors
- Maintenance of effective relationships with Government Departments (as co funders for MG) maintained by both Department for Transport and HM Treasury being represented on the Board of Directors of MGCB



**COMMUNITY EXPECTATIONS**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
14	Failure to effectively realise community expectations could lead to damage to the Authorities reputation and credibility resulting in negative views towards the transparency of the decision making process	5	4	20	Corporate Effectiveness and Efficiency

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>• Consultation and community engagement embedded in the Council's constitution (local code of corporate governance)</li> <li>• Utilising recognised mediums to identify, communicate and coordinate community expectations and priorities. These include:                             <ul style="list-style-type: none"> <li>Surveys;</li> <li>Customer analysis;</li> <li>On line services;</li> <li>Local and social media;</li> <li>Target consultation exercises for specific projects;</li> <li>Service user groups;</li> <li>Elected member surgeries; and</li> </ul> </li> </ul>	4	4	16	6 monthly	All Strategic Directors

<p>Other meetings</p> <ul style="list-style-type: none"> <li>• Conducting Equality Impact Assessments with new and revised Policies</li> <li>• Honesty and integrity by the Authority in communicating with the public having regard to reducing budgets including promoting a self-help agenda</li> <li>• Any decisions to cease or amend service provision that has a significant impact on communities; early warning of intended actions through direct engagement with relevant communities to invite views</li> <li>• Continue to respond to new challenges to maintain current performance</li> <li>• COVID-19, Residents, partners, members, MP and staff kept informed via various platforms <ol style="list-style-type: none"> <li>1. Specific area on <a href="http://www.halton.gov.uk">www.halton.gov.uk</a> set up to highlight changes to services and information available to support the community</li> <li>2. Press releases issued to local broadcast and newspaper media</li> <li>3. Council's social media accounts used to cascade details quickly – in the first six weeks there were 1.92m social media impressions and nearly 500,000 visits to website</li> <li>4. For persons who did not have access to the internet or do not use the internet regularly to access information, a special issue of Inside Halton produced and hand delivered to over 35k homes.</li> </ol> </li> </ul>					
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**PARTNERSHIPS**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
15	Ineffective and poorly governed partnerships with statutory and non-statutory organisations will lead to a lack of accountability and ineffective use of resources resulting in a failure to meet the needs of and improve outcomes for local communities.	3	3	9	A Healthy Halton / Employment Learning and Skills / Children and Young People / A Safer Halton / Environment and Regeneration

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>• Having efficient and effective arrangements with external partners through a shared strategic vision and action plans enables and influences partners to deliver at local levels</li> <li>• Maintaining financial probity with the pooled budgets, as appropriate, with partners through effective governance arrangements</li> <li>• Engagement with communities and partners on service priorities in order to identify and design alternative forms of delivery, as appropriate, maximising opportunities for joint working</li> <li>• Collaborating with partners to identify and address community issues</li> <li>• COVID-19, Stakeholders and Partners have a responsibility to have effective and well developed relationships which will enable a swift and effect</li> </ul>	2	2	4	6 monthly	Chief Executive (David Parr)

responsive for Halton residents. These responsibilities are detailed in the council's emergency plans and local outbreak plans.

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**FRAUD**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
16	Inadequate control systems lead to an increase in fraud and financial loss	4	3 (4)	<b>12 (was 16)</b>	Corporate Effectiveness and Efficiency

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>The Business Efficiency Board monitors and reviews the adequacy of the Council’s anti-fraud and corruption policies and arrangements and has in place dedicated Fraud Investigation officers who focus on internal and external fraud</li> </ul> <p>Internal</p> <p>The Council maintains an effective system of internal control, which includes:</p> <ul style="list-style-type: none"> <li>Relevant policies and systems, e.g. Procurement Standing Orders, Finance Standing Orders, etc.</li> <li>Rigorous pre-employment checks of new employees</li> <li>Whistleblowing arrangements</li> <li>Anti-Fraud, Bribery &amp; Corruption Strategy</li> </ul>	3	2	<b>6 No Change</b>	6 monthly	Strategic Director – Enterprise, Community & Resources (Ian Leivesley)



<ul style="list-style-type: none"> <li>• Fraud Response Plan</li> <li>• Fraud Sanction and Prosecution Policy</li> <li>• Anti-Facilitation of Tax Evasion Policy</li> <li>• Fraud and bribery awareness training</li> <li>• A continuous internal audit of the Council’s systems and services</li> <li>• Crime insurance policy in place to indemnify the Council against significant financial loss resulting from fraud</li> </ul> <p>External</p> <ul style="list-style-type: none"> <li>• The Authority is an active participant in the National Fraud Initiative</li> <li>• The Council runs regular fraud awareness campaigns encouraging members of the public and employees to raise any concerns about fraud and corruption</li> <li>• The Council collaborates with other local authorities across the region and shares best practice in regard to tackling fraud and corruption</li> <li>• The Council has established formal arrangements with the DWP to participate in joint criminal fraud investigations relating to the Council Tax Reduction Scheme (CTRS) and social security benefit fraud</li> <li>• The Council is a member of the National Anti-Fraud Network (NAFN), which is the largest shared service in the country and provides data, intelligence and best practice in support of fraud and investigation work</li> </ul>					
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**FUNDING AND INCOME GENERATION**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
17	Failure to maximise and identify funding opportunities in light of government cuts resulting in a potential challenge of the Councils capacity to delivery its priorities	4	4	<b>16</b>	A Healthy Halton / Employment, Learning and Skills / Children and Young People / A Safer Halton

Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Continuing to identify funding streams and income generating options through horizon scanning, alternative untapped funding opportunities and shared partnerships with 3rd sector, private sector, and other public sector bodies</li> <li>During the budget setting process Directorates identify and prioritise funding requirements biannually including ensuring that there are systems to capture and report when funding comes to an end</li> <li>Corporate External Funding Team reports to Executive Board and Management Team to highlight services the Team can offer and meets with Departments to identify funding requirements; regularly signposts Council services to specific funding streams</li> </ul>	3	4	<b>12</b>	6 monthly	All Strategic Directors

<ul style="list-style-type: none"> <li>• Commercially focussed through establishing trading and income generation possibilities in order to protect and effectively use funds; pilot Charging Policy for bid-writing introduced September 2018 for 12 months</li> <li>• Continue to work with colleagues to improve the methods of dissemination and ensure prioritisation of/submission to relevant funding streams</li> </ul>					
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**FUNDING AND INCOME GENERATION**

Item	Identified risk	Impact (Severity)	Likelihood (Probability)	Unmitigated Risk Score (I x L)	Council Priority Area(s)
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17.1	Uncertainty surrounding transition arrangements in respect of European Funding  Lack of certainty regarding the length of European Programmes and Successor Funding through the 'Transformation and Prosperity Fund'	4	5	<b>20</b>	A Healthy Halton / Employment, Learning and Skills / Children and Young People / A Safer Halton
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Risk control measures	Residual score with measures implemented			Timescale / Review frequency	Lead Officer/s
	Impact (Severity)	Likelihood (Probability)	Mitigated Risk Score (I x L)		
<ul style="list-style-type: none"> <li>Work with Combined Authority to lobby Central Government for a fair and proper allocation of the 'Shared Prosperity Fund'.</li> </ul>	4	4	<b>16</b>	6 monthly	All Strategic Directors

## Version Control Record

Version	Date Created	Date of Amendment:	Nature of Amendment	Date of Next Review:
1.0	13.10.11			
1.1		28.8.12	Progress Commentary	
2.0		13.3.13	Reviewed and updated	13.10.13
2.1		20.9.13	Progress Commentary	
3.0		31.3.14	Reviewed and updated in line with the Corporate Peer Challenge and the revised Business Planning Process and associated guidance notes	13.10.14
3.1		15.9.14	Progress Commentary	
4.0		10.4.15	Reviewed and updated	12.10.15
4.1		10.9.15	Progress Commentary	
5.0		01.4.16	Reviewed and updated	01.4.17
5.1		10.9.16	Progress Commentary	
6.0		01.4.17	Reviewed and updated	01.9.17

<b>6.1</b>		<b>10.9.17</b>	<b>Progress Commentary</b>	
<b>7.0</b>		<b>01.4.18</b>	<b>Reviewed and updated</b>	<b>01.9.18</b>
<b>7.1</b>		<b>01.9.18</b>	<b>Progress Commentary</b>	
<b>8.0</b>		<b>01.4.19</b>	<b>Reviewed and updated</b>	<b>01.09.19</b>
<b>8.1</b>		<b>01.09.19</b>	<b>Progress Commentary</b>	
<b>9.0</b>		<b>01.5.20</b>	<b>Reviewed and updated</b>	<b>01.5.20</b>

**Scoring Mechanism**

Once the business risks are identified and analysed they are scored by multiplying the impact and likelihood. They will then establish a final score (or significance rating) for that risk:



I  
M  
P  
A  
C  
T

HI	5	10	15	20	25
S	4	8	12	16	20
M	3	6	9	12	15
L	2	4	6	8	10
IM	1	2	3	4	5
	H IMPROB	IMPROB	POSS	PROB	H PROB

LIKELIHOOD



Those that have been placed in the red boxes are the primary or **Top Risks** followed by lower risks leading to **improbable** risks.

Measures to control the risks are identified from the following options;

1. Reducing the likelihood; or
2. Reducing the impact; or
3. Changing the consequences of the risks by,
  - Avoidance
  - Reduction
  - Retention
  - Transference; or
4. Devising Contingencies, i.e. Business Continuity Planning

The risks are scored again to establish the effects the measures have once implemented on reducing the risks and identify a score rating for residual risks.

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<b>REPORT TO:</b>	Business Efficiency Board
<b>DATE:</b>	21 July 2020
<b>REPORTING OFFICER:</b>	Operational Director – Finance
<b>SUBJECT:</b>	Review of the External Audit Market and 2020/21 External Audit Fees
<b>PORTFOLIO:</b>	Resources
<b>WARD(S):</b>	Borough-wide

### **1.0 PURPOSE OF REPORT**

- 1.1. The report outlines a review of the external audit market commission by Public Sector Audit Appointments Limited (PSAA) and also presents the Council's external audit scale fee for 2020/21.

### **2.0 RECOMMENDED: That**

- 1) The outcomes of the review of the external audit market commissioned by Public Sector Audit Appointments Limited (PSAA), be noted; and**
- 2) The Council's external audit scale fee for 2020/21 of £81,076, be noted.**

### **3.0 BACKGROUND**

- 3.1 The Local Audit and Accountability Act 2014 abolished the Audit Commission, following which the Council's external audit contract is now procured and managed by Public Sector Audit Appointments Limited (PSAA). PSAA is an independent, not-for-profit company limited by guarantee, established by the Local Government Association to procure and manage external audit contracts for nearly 500 councils.
- 3.2 The Council's contract with Grant Thornton for the provision of external audit services runs for five years until 31<sup>st</sup> March 2023.
- 3.3 Since the new contracts were let in 2018, there have been increasing concerns raised by the nine approved firms regarding the higher assurance levels which they are now required to provide by the audit regulators, compared with the resources they have available to undertake such work based upon the level of fees which can be charged. In addition, the National Audit Office has introduced a new Code of Audit Practice from 2020/21, which will further increase audit assurance requirements.

Review of the Sustainability of the External Audit Market

- 3.4 As a result of these concerns, PSAA commissioned a review of the sustainability of the external audit market and the prospects for any future audit procurement. The report presenting the outcomes of this review is shown in Appendix 1.
- 3.5 The review concluded that almost all of the approved firms have reservations about remaining in the external audit market. The report states that these reservations have arisen because fees have not risen to compensate for the higher risks that the firms perceive they face given higher assurance requirements and because the timing of local audits is now very problematic given the earlier 31 July deadline.
- 3.6 There is also a concern regarding the lack of partners, audit managers and lead auditors with local government experience, due to many having retired or left in recent years and with local external audit not being seen as attractive a career as corporate auditing.
- 3.7 A number of issues and options are identified from the review, for consideration by the PSAA in order to mitigate the risks to the sustainability of the external audit market and any future procurement.

2020/21 Audit Scale Fees

- 3.8 On 30 April 2020 the PSAA wrote to the Chair of the Business Efficiency Board and the Operational Director, Finance, to notify the Council of the 2020/21 external audit scale fees. A copy of the PSAA's letter is presented in Appendix 2.
- 3.9 The letter outlines the challenges facing the external audit market and current developments. It goes on to explain how the PSAA have set the external audit scale fees for 2020/21.
- 3.10 Halton's Scale Fee for 2020/21 will be £81,076 which is the same level as for 2019/20.
- 3.11 The PSAA letter highlights that with so much turbulence currently in the external audit environment, additional fee variations are likely to arise for most if not all audit bodies. Any variations in fees however, will be discussed with the Council at an early stage and are then required to be approved by the PSAA.
- 3.12 As a result of Covid19, MHCLG have acted to ease the pressures upon councils and external auditors, by temporarily revising the Accounts and Audit Regulations to relax the timescales for preparation and audit of the 2019/20 statement of accounts. The 2019/20 audited statement of accounts is now required to be published by 30 November 2020, rather than the previous 31 July 2020.

**4.0 FINANCIAL IMPLICATIONS**

- 4.1 The scale fee for Halton's external audit in 2020/21 will be £81,076 which is the same level as for 2019/20.

**5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

**5.1 Children and Young People in Halton**

None.

**5.2 Employment, Learning and Skills in Halton**

None.

**5.3 A Healthy Halton**

None.

**5.4 A Safer Halton**

None.

**5.5 Halton's Urban Renewal**

None.

**6.0 RISK ANALYSIS**

6.1 The provision of a robust external audit function is an important aspect of the Council's financial management, as high quality, independent audit is one of the cornerstones of public accountability, providing assurance that taxpayers' money has been well managed and properly expended.

**7.0 EQUALITY AND DIVERSITY ISSUES**

7.1 None

**8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

Document	Place of Inspection	Contact
Code of Audit Practice 2020	Halton Stadium, Widnes	Merv Murphy



30 April 2020

By email

Email [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Dear Section 151 Officer and Audit Committee Chair

**Fee Scale for the Audit 2020/21 and update on 2019/20**

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

- **How we set your scale fee**

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	<b>Scale fee for the audit 2020/21</b>	<b>Scale fee for the audit 2019/20</b>
Halton Borough Council	£81,076	£81,076

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

### **Fee Variations**

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

### **Quality of Audit Services**

- We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.
- Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

### **Impact of COVID-19 on current 2019/20 audits**

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.



We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

### **Local Audit Quality Forum**

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

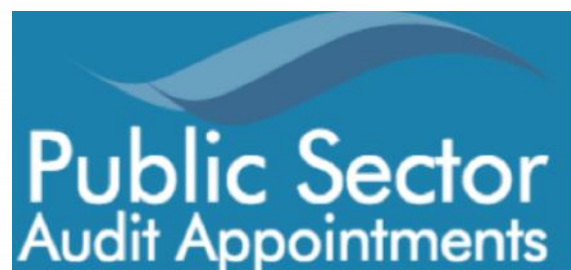
Yours sincerely,

Tony Crawley

**Chief Executive**



**TouchstoneRenard**  
Management Consultants



# **Future Procurement and Market Supply Options Review**

## **Final Report**

Review Team: Harry Machin, Phil Austin  
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Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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### **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 31<sup>st</sup> 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 19<sup>th</sup> 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"> <li>▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM).</li> <li>▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.</li> </ul>
The Competition and Markets Authority	April 2019	Recommendations re: <ul style="list-style-type: none"> <li>▪ Separation of audit from consulting services.</li> <li>▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies.</li> <li>▪ Introduction of statutory regulatory powers to increase accountability of audit committees.</li> </ul>
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: <ul style="list-style-type: none"> <li>▪ A redefinition of audit and its purpose.</li> <li>▪ The creation of a corporate auditing profession governed by principles.</li> <li>▪ The introduction of suspicion into the qualities of auditing.</li> <li>▪ The extension of the concept of auditing to areas beyond financial statements.</li> </ul>
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.

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- 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
<b>Total number of key audit partners</b>		<b>97</b>

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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> July (compared to the pre-2017/18 target date of 30<sup>th</sup> 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"> <li>▪ Current fee levels represent good value for eligible bodies.</li> <li>▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people's lives.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing.</li> <li>▪ Negative perception of external auditing generally.</li> <li>▪ Negative perception of local authorities.</li> <li>▪ Lack of profitability of PSAA contracts compared to other audit work.</li> <li>▪ A limited number of firms approved to operate in this market.</li> <li>▪ Barriers to entry including accreditation; technology; complexity.</li> <li>▪ Indifference and lack of enthusiasm from non-approved firms about entering this market.</li> <li>▪ Specialist nature of the work.</li> <li>▪ Geographical dispersal of the work.</li> <li>▪ Timing of the work in a restricted window during the summer months makes it difficult to resource.</li> <li>▪ 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.</li> <li>▪ Lack of experienced staff, especially at KAP and audit manager level.</li> <li>▪ 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).</li> <li>▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work.</li> <li>▪ Current fee levels are unattractive to firms.</li> <li>▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.</li> </ul>



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

### 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...	<b>The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.</b>
<ul style="list-style-type: none"> <li>▪ 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).</li> </ul>	<p>These factors remain and are now more strongly felt than before.</p> <p>It is <b>no longer the case that 'firms are intending to stay in the market'</b>. Their position is now less certain and dependent on developments ahead of the next procurement.</p>
<ul style="list-style-type: none"> <li>▪ there is evidence that gaining new entrants will be challenging.</li> </ul>	This remains the case.
<ul style="list-style-type: none"> <li>▪ 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.</li> </ul>	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 31<sup>st</sup> 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 30<sup>th</sup> 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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