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Coventry City Council

Agenda

Audit and Procurement Committee

Time and Date
3.00 pm on Monday, 16th March 2020

Place
Diamond Room 2 - Council House

Public Business

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of Previous Meeting** (Pages 3 - 12)

   To agree the minutes of the meeting held on 27th January 2020

4. **Outstanding Issues** (Pages 13 - 20)

   Report of the Deputy Chief Executive (Place)

5. **Work Programme 2019/20** (Pages 21 - 22)

   Report of the Deputy Chief Executive (Place)

6. **Informing the Audit Risk Assessment for Coventry City Council Group 2019-20** (Pages 23 - 52)

   Report of the External Auditor

7. **PSAA Publications on Audit Market** (Pages 53 - 88)

   Report of the External Auditor

8. **2019/20 Third Quarter Financial Monitoring Report (to December 2019)** (Pages 89 - 116)

   Report of the Deputy Chief Executive (Place)

9. **Quarter Three Internal Audit Progress Report 2019/2020** (Pages 117 - 128)

   Report of the Deputy Chief Executive (Place)

10. **Internal Audit Recommendation Tracking Report** (Pages 129 - 138)

    Report of the Deputy Chief Executive (Place)

11. **Code of Corporate Governance** (Pages 139 - 154)

    Report of the Director of Finance and Corporate Services

12. **Annual Compliance Report - Regulatory & Investigatory Powers Act (RIPA) 2019** (Pages 155 - 162)

    Report of the Deputy Chief Executive (Place)

13. **Post of Director of Law and Governance - Salary Approval** (Pages 163 - 168)

    Report of the Chief Executive

14. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

Private business
Nil

Martin Yardley, Deputy Chief Executive (Place), Council House, Coventry

Friday, 6 March 2020

Note: The person to contact about the agenda and documents for this meeting is Lara Knight / Michelle Salmon, Governance Services, Tel: 024 7697 2642 / 2643, Email: lara.knight@coventry.gov.uk / michelle.salmon@coventry.gov.uk

Membership: Councillors M Ali, J Blundell, R Lakha (Chair), T Sawdon, R Singh and H Sweet

Please note: a hearing loop is available in the committee rooms

If you require a British Sign Language interpreter for this meeting OR if you would like this information in another format or language, please contact us.

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Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at 3.00 pm on Monday, 27 January 2020

Present:

Members:	Councillor R Lakha (Chair) Councillor M Ali Councillor J Blundell Councillor R Brown (Named Labour Group Substitute) Councillor T Sawdon Councillor R Singh Councillor H Sweet

Employees (by Directorate):

People:	R Perks
Place:	P Jennings, L Knight, R Martin, K Tyler
Others Present:	A Sohal, M Stocks (Grant Thornton)

Public Business

47. **Councillor S Bains**

The Chair referred to the recent death of Councillor S Bains, who had previously been Chair of the Committee and during the last year had been the Deputy Chair. Those present stood for a minute's silence as a mark of respect.

48. **Declarations of Interest**

There were no disclosable pecuniary interests.

49. **Minutes of Previous Meeting**

The minutes of the meeting held on 11th November 2019 were agreed and signed as a true record.

50. **Exclusion of Press and Public**

RESOLVED to exclude the press and public under Section 100(A)(4) of the Local Government Act 1972 relating to the private report in Minute 59 below headed 'Consideration of Approval of Severance Package', on the grounds that the report involves the likely disclosure of information defined in Paragraphs1, 2 and 3 of Schedule 12A of the Act, as it contains information relating to the financial and business affairs of a particular person (including the authority holding that information) and that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

51. **Outstanding Issues**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that identified issues on which a further report / information had been requested or was outstanding, so that Members were aware of them and could manage their progress.

Appendix 1 to the report provided details of issues where a report back had been requested to a meeting, along with the anticipated date for consideration of the matter. Appendix 2 to the report provided details of items where information had been requested outside formal meetings, along with the date when this had been completed.

Members noted that in respect of Appendix 2, information had been circulated following publication of the meeting papers in relation to item 3 headed 'Procurement and Commissioning Progress Report – Webcasting Upgrade'. The Committee agreed that this item could now be logged as completed.

RESOLVED that the Audit and Procurement Committee notes the outstanding issues report.

52. **Work Programme 2019/20**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which set out the Work Programme of scheduled issues for consideration by the Committee for the Year 2019/2020.

It was noted that the Code of Corporate Governance had been deferred for consideration at the next scheduled meeting on 16th March 2020. The Committee requested that, where items are deferred to future meetings that details of the reasons for deferral are provided.

The Committee sought clarification on when the 4 items listed on the work programme as 'Date to be Agreed' would be submitted for consideration. The Chief Internal Auditor indicated that she would investigate the items concerned and provide further information to the Chair.

RESOLVED that the Audit and Procurement Committee:

1. **Notes the Work Programme for 2019/2020.**

2. **Requests that where items are to be deferred to a future meeting, details of the reasons for the deferral be reported to the Committee.**

3. **Requests that investigations be made into the 4 items listed on the work programme as 'Date to be Agreed' and further information provided to the Chair.**

53. **2019-2020 Second Quarter Financial Monitoring Report (to September 2019)**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which set out the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity at Quarter 2 of the 2019/20 financial year (to September 2019).

The Committee noted that the report had been considered by the Cabinet at its meeting held on 19th November 2019.

The headline revenue forecast for 2019/20 was a net balanced budget. At the same point in 2018/19 there was a projected overspend of £0.5m. The headline capital position reported £4.8m of expenditure rescheduled into 2020/21.

The largest area of budget pressure and the biggest movement since Quarter 1 was services for housing and homelessness, which were projecting an overspend of £2.8m for the year. There were other overspends in services relating to Looked after Children Placements and Special Education Needs (SEN) Transport with compensating below budget expenditure in corporate areas.

The Council's capital spending was projected to be £218.7m for the year and included major scheme expenditure including investment in the A46 Link Road, Coventry Station Masterplan, Whitley South infrastructure and the National Battery Plant. The position assumed the addition of £0.5m to the Capital Programme in 2019/20 for Waste Containers, which was approved by the Cabinet, due to the need to fund this expenditure from Prudential Borrowing. The borrowing was to be funded from the additional income generated from the containers.

With regard to the Net Asset Management Revenue Account, expenditure was anticipated to be £1.9m less than budget because of lower costs of capital financing, higher investment income and higher loan income. Other corporate budgets reflected lower than budgeted pension costs linked to an early payment arrangement with the West Midlands Pension Fund (£2m), uncommitted resources related to one-off social care funding (£1m), Coventry and Warwickshire Business Rate Pool income in excess of budget (£1.1m), projected additional savings from the Friargate Project (£0.75m) and lower than budgeted levy costs (£0.6m). It was recommended that a contribution be made from this area into reserves for managing the costs of major.

The Committee indicated that they were aware there had been some realigning / reshaping of services across the authority and, in light of the overspend identified, sought clarification on whether there had been any realigning or reshaping of the SEN Transport service. In addition, the Committee requested information on the Capital Programme, in particular the level of expenditure within the Programme that related to the A46 link road and how much has been spent to date on the project. Officers undertook to provide this information to the Committee.

RESOLVED that, the Audit and Procurement Committee:

1. **Consider and note the proposals in the report and indicate that they have no recommendations to the Cabinet.**

2. **Request further information in relation to whether the SEN Transport Service has undertaken any service realignment and the level of expenditure within the Capital Programme that related to the A46 link road and how much has been spent to date on the project.**

54. **Corporate Risk Register Update**

The Audit and Procurement Committee considered a report of the Director of Finance and Corporate Services, which set out the outcome of the review of the Corporate Risk Register 2020-21.

The report indicated that local government had been operating in a challenging environment of substantial budget cuts and major policy change. There was concern that pressure would continue on the level of available revenue resources to manage spending levels. In addition to reducing resources, there were demographic challenges leading to increased demand for services whilst quality must be maintained. The pace of change and the scale of the challenges required the Council to regularly assess its risk profile and implement suitable controls to manage these.

The Committee's terms of reference require it to monitor the effective development and operation of risk management with in the Council. The Council's Risk Management Policy and Strategy identified that the Committee would receive risk management reports to assist it to provide independent assurance of the risk management framework and associated control environment.

The Risk Register appended to the report had been reviewed in consultation with the Senior Management board and the allocated Risk Manager. It identified the main risks facing the Council, the planned risk treatment, the progress made to date, where responsibility lay for the Council's response and the risk control status using a traffic light system.

The Committee noted that the report covered only those risks that were viewed as the most critical for the Council and which were considered at a corporate level. Risk management activity continued at other levels throughout the Council for dealing with those at a lower level.

The corporate risks set out in the appendix to the report fell into two separate categories:

- Operational / Business as Usual – those risks that could affect the underlying and fundamental operations and structure of the Council:
    - CR 001 Finance
    - CR 006 Health and Adult Social Care
    - CR 007 Safeguarding / Protecting Vulnerable Adults, Children and Families
    - CR 013 Combined Authority for the West Midlands
    - CR 014 Information Governance
    - CR 016 Failure to comply with Health and Safety Legislation
    - CR 020 Brexit

- Specific / Project – those risks that could affect specific projects or the major change initiatives to how we operate:
    - CR 002 Sky Blue Sport and Leisure
    - CR 003 ICT Infrastructure and Change
    - CR 005 Workforce Strategy
    - CR 011 Friargate Business District
    - CR 017 City Centre South
    - CR 018 Coventry Station Masterplan
    - CR 019 Homelessness and Temporary Accommodation

The Committee noted that items CR 019 and CR 020 had been added to the Risk Register since the previous report was considered.

In considering the information provided within the Register, the Committee indicated that it would be helpful if the name of the risk manager was included rather than the job title in order to provide clarity over who was responsible for particular risks.

The Committee expressed their concern over a number of the risk ratings within the appendix, including CR 002 (Sky Blue Sports and Leisure), CR 003 (ICT Infrastructure and Change), CR 011 (Friargate Business District), and CR 017 (City Centre South). The Committee debated at length how and why these risks were at the level they were and to assist with the understanding of how risk levels were achieved, it was agreed that a copy of the current risk matrix be circulated to members of the Committee.

The Committee highlighted a significant concern regarding risk CR 020, relating to Brexit, in light of the uncertainty of the impact that Brexit would have on the City. The risk level had been assessed as amber, with a number of Committee members believing that this should have been red. The Committee were advised that there were regular meetings of the Brexit Preparatory Group and whilst updates were being received from Government, there was a limit to what the Council could do until the situation was clearer. It was acknowledged that this particular risk may need to be re-evaluated within the next two to three months. It was agreed that a position statement be circulated to the Committee setting out the current situation in relation to the Council and Brexit preparations. It was also agreed that the Committee's suggestion that the risk be rated as red be considered and a further report submitted to Committee.

RESOLVED that, the Audit and Procurement Committee:

1. **Note the current Corporate Risk Register, having satisfied themselves that Corporate Risks are being identified and managed.**

2. **Request that the suggested red rating for Risk CR 020 relating to Brexit be considered and a further report be submitted to the Committee on this matter.**

55. **Half Yearly Fraud and Error Report 2019-20**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which provided a summary of the Council's anti-fraud and error activity undertaken by the Internal Audit Service during the during the financial year 2019/20 to date.

The Committee noted that fraud in the public sector had a national focus through the publication of "Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy stated that the level of fraud in the public sector was significant, the current trends in fraud activity included areas which the Council did not have responsibility for, such as social housing, and the levels of identified / reported fraud against the Council were at relatively low levels, in terms of both numbers and values.

The Internal Audit Service was responsible for leading on the Council's response to the risk of fraud and error. The work of the team focussed on four main areas during 2019/20, namely council tax; National Fraud Initiative; referrals and investigations considered through the Council's Fraud and Corruption Strategy; and proactive work.

In relation to Council Tax, work had focussed on reviewing Council Tax Exemptions and Discounts. This work had resulted in 20 exemptions being removed as the customer had failed to report a change in circumstances. Given that on an individual basis, the amounts involved were not sizeable, these had been treated as an error rather than a fraudulent application to obtain an exemption they were not entitled to. Revised bills amounting to £28,000 had been issued of which £20,000 had been repaid to the Council to date. The outstanding balances were being recovered through agreed payment instalment arrangements or the Council's standard recovery arrangements.

In addition, the Council received referrals from both internal and external sources linked to concerns around the payment of Council Tax Support or Council Tax Exemptions / Discounts. In total, 18 referrals had been received. The report indicated that, whilst most of these were passed to the Department of Work and Pensions to investigate under agreed arrangements, 2 concerns had been validated, which had resulted in revised bills / overpayments of around £8,000 being issued, all of which had been recovered.

With regards to the National Fraud Initiative (NFI), the exercise was led by the Cabinet Office and took place every two years, matching electronic data within and between public bodies with the aim of detecting fraud and error. The results of the last exercise were released in January 2019 and identified approximately 10,000 matches for the Council to consider. Around 2,500 matches had been reviewed and processed. Given the high number of matches, priority had been given to known problem areas and key matches as judged by the Cabinet Office. The Committee noted that, changes introduced by the Cabinet Office in the risk rating approach and release of additional matches under a pilot scheme had required more focus to be given to this area of work in 2019/20. The report provided a breakdown of those areas where errors / overpayments were identified. In summary, this comprised 35 errors / overpayments totalling £156,350. This sum included additional matches released by the Cabinet Office in August 2019 under the pilot scheme, which used data held by the HMRC to target 3 fraud risks of undeclared property ownership, undeclared earnings and capital, and undeclared persons in a household. The initial results from the pilot both in the Council and across other local authorities suggested that use of this data within the NFI would further strengthen the effectiveness of information available to the Council through this exercise to tackle fraud and error.

It was reported that whilst the NFI exercise took place every two years, Council Tax matches relating to the award of single person discounts was reviewed on an annual basis against the new electoral register which is published each December. This resulted in 15 single person discounts being cancelled in 2019/20 and revised bills / overpayments being issued for around £16,800.

From time to time, the Internal Audit Service received referrals or were asked to assist with investigations relating to employment misconduct and other fraud against the Council involving external individuals. During 2019/20, 8 referrals had been received to date, 3 of which had led to full investigations. It was noted that there were various reasons for referrals not leading to investigations including, for example where an initial assessment / fact finding does not find evidence to support the allegations; appropriate action has already been taken; and the nature of the event means it is impractical to pursue further.

In addition to the 3 investigations for 2019/20, a further 3 investigations were carried forward from 2018/19. Of these 6 investigations, 3 were still on going. Of the remaining 3, one related to Adult Social Care and action was taken to change the care provider being used and around £2,000 being recovered from the provider. In one case, whist there was insufficient evidence to pursue the matter under the Council's disciplinary process, other action was taken by management / Human Resources to manage wider employment risks which were identified in the course of the investigation. In the final case, involving external fraud against the Council, it was impractical to pursue the matter further. However, as a result of the investigation, a number of control improvements were identified and implemented in order to provide a robust response to increased risk of fraud in the area.

The Council's response to fraud also considered an element of proactive work to ensure that all key fraud risks were considered. In 20119/20 this work had included continuing delivery of face to face awareness sessions with staff from Adult Social Care in relation to direct payment fraud and participation in a regional worktop to assist in development of the new national fraud and corruption strategy for local government.

RESOLVED that the Audit and Procurement Committee note the anti-fraud and error activity undertaken during the first half of the financial year 2019/20.

56. **Annual Governance Statement 2018-19 – Update on Planned Actions**

Further to Minute 5/19, the Audit and Procurement Committee considered a report of the Director of Finance and Corporate Services, which provided an update on the actions planned in 2019/20 to address the governance issues highlighted in the Annual Governance Statement for 2018/19.

The Council was responsible for ensuring that its business was conducted in accordance with law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. To demonstrate such arrangements, the Council had adopted a Code of Corporate Governance (the Code), which was consistent with the principles reflected in the CIPFA / SOLACE framework and guidance 'Delivering Good Governance in Local Government' (2016).

The Annual Governance Statement (Statement) explained how the Council had complied with the Code and, in doing so, reflected the requirements of the Accounts and Audit Regulations 2015. The Audit and Procurement Committee approved the Statement for 2018/19 at its meeting on 24th June 2019. As part of this, the Committee requested an update report during the year on the actions planned to be undertaken by the Council in 2019/20 to address the governance issues highlighted. The 2018/19 Statement set out the following issues (disclosures) which were identified:

- Seeking sustainable improvement in Children's Services
- Ensuring delivery of the Council's vision and corporate objectives in line with the Medium-Term Financial Strategy
- Raising Educational standards
- Implementation of the Information Management Strategy
- Delivery of the Workforce Strategy
- Delivery of the ICT Strategy
- Management of increasing demand in relation to homelessness and the associated costs of housing families in temporary accommodation
- Producing a corporate data access standard
- Governance over relationships with partners and outside bodies
- Governance over the programme of capital projects

The Statement also set out the actions planned to be taken by the Council during the year to address the disclosures made. Whilst some of these actions would be one-of, ring fenced pieces of work which would be relatively straightforward to deliver, other actions formed part of larger, more complex activities, which would be delivered over a period of time. Consequently, the level of progress made during the year to address matters varied.

Appendix 1 to the report submitted provided an update on all of the actions planned in 2019/20, providing assurance that progress was being made across all of the identified areas. It was noted that a further update would be provided when the Annual Governance Statement for 2019/20 was presented to the Committee in June / July 2020.

RESOLVED that, the Audit and Procurement Committee note the progress made against the actions planned in 2019/20 to address the governance issues highlighted in the Annual Governance Statement for 2018/19.

57. **External Audit Plan Year Ending 31st March 2020**

The Committee considered a report of the External Auditors, Grant Thornton, which provided an overview of the planned scope and timing of the statutory audit of Coventry City Council.

The National Audit Office had issued a document entitled Code of Audit Practice, which summarised where the responsibilities of auditors began and ended and what was expected from the audited body. Respective responsibilities were also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing Grant Thornton as auditor of the Council.

The scope of the audit was set in accordance with the Code and International Standards on Auditing (ISAs)(UK). Grant Thornton would be responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Procurement Committee), and Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in its use of resources.

The audit of the financial statements did not relieve management or the Committee of responsibilities. It was the responsibility of the Council to ensure that proper arrangements were in place for the conduct of its business, and that public money was safeguarded and properly accounted for.

The audit approach would be based on a thorough understanding of the Council's business and would be risk based.

In accordance with ISA (UK) 600, the Audit Plan set out the scope and timing of the audit to be carried out by the External Auditors in relation to Coventry City Council for the year ending 31st March 2020 and included:

- Significant Risks Identified:
  - Presumed risk of fraud in revenue recognition;
  - Management override of controls;
  - Valuation of land and buildings (Council)
  - Valuation of investment properties
  - Valuation of the pension fund net liability.

- Other Risks Identified:
  - International Financial Reporting Standards (IFRS) 16 Leases (issued but not adopted)

- Other Matters
- Materiality
- Value for Money arrangements
- Audit logistics
- Audit Fees
- Independence and non-audit services

In relation to the fees, the Committee noted that the proposed audit fees for 2019/20 were £168,414 for the financial statements audit completed under the Code. The report indicated that the actual fees for 2018/19 were £150.056. In setting the fee, the Auditors had assumed that the authority would prepare a good quality set of accounts supported by comprehensive and well-presented working papers which would be ready at the start of the audit; provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

RESOLVED that the Audit and Procurement Committee note the External Audit Plan for year ending 31st March 2019.

58. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of public business.

59. **Consideration of Approval of Severance Package**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) which sought approval of a severance package for an employee.

Part 2I of the Council's constitution requires that any severance package for an employee of the Council of £100,000 or over should be determined by the Audit and Procurement Committee. When calculating the value of an exit package, the authority should calculate and include the costs to the authority as well as payments / benefits to the employee.

RESOLVED that the Audit and Procurement Committee approves the severance payment as calculated.

60. **Any other items of private business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of private business.

(Meeting closed at 5.25 pm)

Coventry City Council

Public report
Committee Report

Audit and Procurement Committee 16th March 2020

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:
N/A

Title:
Outstanding Issues

Is this a key decision?
No

Executive summary:

This report is to identify those issues on which further reports / information has been requested or are outstanding so that Members are aware of them and can monitor their progress.

Recommendations:

The Committee is recommended to:

1. Consider the list of outstanding items as set out in the Appendices to the report, and to ask the Deputy Chief Executive concerned to explain the current position on those items which should have been discharged.

2. Agree that those items identified as completed within the Appendices to the report, be confirmed as discharged and removed from the outstanding issues list.

List of Appendices included:

Appendix 1 - Further Report Requested to Future Meeting
Appendix 2 - Information Requested Outside Meeting

Other useful background papers:

None

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Outstanding Issues

1. Context (or background)

1.1 In May 2004, the City Council adopted an Outstanding Minutes system, linked to the Forward Plan, to ensure that follow-up reports can be monitored and reported to Members.

1.2 At their meeting on 25th January 2017, the Audit and Procurement Committee requested that, in addition to further reports being incorporated into the Committee's Work Programme, a report be submitted to each meeting detailing those additional reports requested to a future meeting along with details of additional information requested outside the formal meeting.

1.3 Appendix 1 to the report outlines items where a report back has been requested to a future Committee meeting, along with the anticipated date for further consideration of the issue.

1.4 In addition, Appendix 2 to the report sets out items where additional information was requested outside the formal meeting along with the date when this was completed.

1.5 Where a request has been made to delay the consideration of the report back, the proposed revised date is identified, along with the reason for the request.

2. Options considered and recommended proposal

2.1 N/A

3. Results of consultation undertaken

3.1 N/A

4. Timetable for implementing this decision

4.1 N/A

5. Comments from the Director Finance and Corporate Resources

5.1 Financial implications

N/A

5.2 Legal implications

N/A

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

N/A

6.2 How is risk being managed?

This report will be considered and monitored at each meeting of the Cabinet

6.3 What is the impact on the organisation?

N/A

6.4 Equalities / EIA

N/A

6.5 Implications for (or impact on) the environment

N/A

6.6 Implications for partner organisations?

N/A

Report author(s):

Name and job title:
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Directorate:
Place

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Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Names of approvers: (officers and Members)				

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Appendix 1

Further Reports Requested to Future Meetings

	Subject	Minute Reference and Date Originally Considered	Date For Further Consideration	Responsible Officer	Proposed Amendment To Date For Consideration	Reason For Request To Delay Submission Of Report
1.	Corporate Risk Register Update The Committee's suggestion that Risk 020 relating to Brexit be rated as red be considered and a report back to Committee be prepared	Minute 54/19 27th January 2020	To be confirmed	Paul Jennings		

*** identifies items where a report is on the agenda for your meeting.**

Appendix 2

Information/Action Requested Outside Meeting

	Subject	Minute Reference and Date Originally Considered	Information Requested / Action Required	Responsible Officer	Date Completed
1.	Information Governance Annual Report 2017/2018	Minute 20/18 16th July 2018	a) A letter from the Chair of the Committee relating to data protection training for Elected Members, be sent to Members. b) In addition to the completion of Data Protection Training, workshops be arranged for Elected Members to support them on the requirements of the GDPR.	Adrian West/ Sharon Lock	Ongoing
2.	Procurement and Commissioning Progress Report – Future Reporting Arrangements	Minute 22/18 16th July 2018 and Minute 45/19 11th November 2019	Discussion be held with the Chair of the Committee to determine the most appropriate format and submission of future reports. To include clarity of the role of the Committee in considering the reports.	Karen Tyler/ Mick Burns	Ongoing
4.	2019/20 Second Quarter Financial Monitoring Report (to September 2019)	Minute 53/19 27th January 2020	The Committee be provided with details of the level of expenditure that relates to the A46 link road and how much has been spent to date.	Paul Jennings	05/03/20

5.	2019/20 Second Quarter Financial Monitoring Report (to September 2019)	Minute 53/19 27th January 2020	In relation to the rising costs in SEN Transport, the Committee be provided with information on whether there has been any reshaping/realigning of services within this area.	Paul Jennings	05/03/20
6.	Corporate Risk Register Update	Minute 54/19 27th January 2020	1) Members be provided with a copy of the current risk matrix rationale. 2) A position statement be circulated setting out the current situation in relation to the Council and Brexit preparations.	Roger Martin Paul Jennings	

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Audit and Procurement Committee 16th March 2020

Work Programme 2019-2020

24th June 2019

Internal Audit Annual Report 2018-2019
Annual Governance Statement 2018-2019
Internal Audit Plan 2019-2020
Draft Statement of Accounts 2018-2019

15th July 2019

Audit Findings Report 2018-2019 (Grant Thornton)
Revenue and Capital Out-turn 2018-2019
Statement of Accounts 2018-2019
Audit Committee Annual Report 2018-2019
Procurement Progress Report (Private)
Consideration of Early Retirement in the Interests of the Efficiency of the Service (Private)

2nd September 2019

Audit Findings Report 2018-2019 (Grant Thornton)
Annual Audit Letter 2018-2019 (Grant Thornton)
Audited 2018-2019 Statement of Accounts
Quarter One Revenue and Corporate Capital Monitoring Report 2019-2020
Annual Fraud and Error Report 2018-2019
Whistleblowing Annual Report 2018-19
Consideration of Approval of Severance Package (Private)

11th November 2019

Half Year Internal Audit Progress Report 2019-2020
Treasury Management Update
Complaints to the Local Government and Social Care Ombudsman 2018-2019
Post of Director of Business, Investment and Culture - Salary Approval
Procurement Progress Report (Private)

27th January 2020

Quarter Two Revenue and Corporate Capital Monitoring Report 2019-2020
Corporate Risk Register Update
Half Yearly Fraud Update 2019-2020
Code of Corporate Governance (Adrian West)
Annual Governance Statement - Half Year Update

16th March 2020

Quarter Three Revenue and Corporate Capital Monitoring Report 2019-2020
Quarter Three Internal Audit Progress Report 2019-2020
Internal Audit Recommendation Tracking Report
RIPA (Regulation of Investigatory Powers Act) Annual Report 2018-2019
Procurement Progress Report (Private)

Date to be Agreed/Confirmed

Outside Body - Governance and Financial Arrangements for Coventry City of Culture Trust
Outside Body - Governance and Financial Arrangements for Coombe Abbey Park Limited
Outside Body - Governance and Financial Arrangements for Culture Coventry
Information Governance Annual Report 2018-2019

Agenda Item 6

Grant Thornton

An instinct for growth™

Informing the audit risk assessment for Coventry City Council Group 2019/20

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Coventry City Council Group's external auditors and the Audit and Procurement Committee (the Committee), as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Procurement Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Procurement Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Procurement Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Coventry City Council Group's management. The Audit and Procurement Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the group financial statements for 2019/20?	Valuation of the Council's asset portfolio and pension liability will continue to be the areas that are most subject to significant volatility. The Council is also incurring large Capital Programme spend which will feed through to movements within the key financial statements. There will be a need to review the impact on the group accounts of the Council's current or planned activity in relation to the UKBIC, the Friargate Joint Venture, a Material Recycling Facility and the proposed acquisition of a commercial venture (Council 25th February 2020).
2. Have you considered the appropriateness of the accounting policies adopted by the group? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	We are not aware of any events or transactions at this stage that will lead to any changes to or adoption of new accounting policies. This will be reviewed again during the final accounts process.
3. Is there any use of financial instruments, including derivatives in the group?	There is no use of financial derivative instruments.
4. Are you aware of any significant transactions outside the normal course of business?	The Council is increasing the extent of the activity that it undertakes through companies which it owns in part or on a 100% basis as set out at Question 1 above.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We are not aware at this stage of any changes of circumstances that would lead to an impairment of non-current assets. An annual impairment review of the Council's property assets is undertaken as a matter of course.
6. Are you aware of any guarantee contracts?	The Council provides pension guarantees to a number of organisations and is a guarantor for the UK City of Culture 2021.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	We are not aware of any significant contingencies or claims that are likely to affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the group during the year. Please indicate where they are working on open litigation or contingencies from prior years?	No solicitors used on litigation which would have a significant impact on the Council's financial position.
9. Have any of the group's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	No advisors used on issues which would have a significant impact on the Council's financial position.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Procurement Committee and management. Management, with the oversight of the Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Coventry City Council Group's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Procurement Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Procurement Committee oversees the above processes. We are also required to make inquiries of both management and the Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Coventry City Council's management.

Fraud risk assessment

Question	Management response
1. Has the group assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The authority's assessment is that this risk of material misstatement is low. The quarterly monitoring of service revenue and capital budgets, financial outturn results and the subsequent financial statements should identify any material misstatements, including where this could be due to fraud. These processes are key components of the annual financial cycle and as such are carried out as part of business as usual. In addition the financial statements are subject to internal quality assurance control checks including analytical reviews with the objective of identifying any significant year on year variances. Further risk assessment processes related to the preparation of accounts will be completed based upon any audit issues raised by both Internal and External Audit.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	See above, the risk of fraud within the financial statements is considered to be low.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the group as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	All concerns regarding fraud should be reported to the Chief Internal Auditor and defined processes are in place deal with any concerns raised. Since 1st April 2019 no concerns have been raised which would impact on the financial statements. In cases where fraud / error is identified through the work of Internal Audit as a result of third party actions (i.e the wider public) action is taken amend customer accounts / raise overpayments and recover monies wherever possible. The Council's corporate risk register is subject to regular review and is reported to the Audit and Procurement Committee. The Committee also receives a half yearly report on anti fraud and corruption activity.

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the group where fraud is more likely to occur?	A fraud risk register is maintained by Internal Audit and specific fraud risk assessments are undertaken where appropriate. Most risks around fraud relate to actions undertaken by third parties (i.e the wider public) to commit fraud against the Council. The risk of fraud in relation to financial reporting is assessed as low.
5. What processes do the group have in place to identify and respond to risks of fraud?	The work of Internal Audit focuses on four areas: Council Tax, the National Fraud Initiative, referrals and investigations considered through the Council's Fraud and Corruption Strategy and proactive work. In addition to this, a fraud risk register is maintained by Internal Audit and specific fraud risk assessments are undertaken where appropriate.
6. How would you assess the overall control environment for the group, including: the process for reviewing the effectiveness of the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Internal Audit Annual Report details the process for reviewing the effectiveness of the system of internal control and the results of this review. The last formal assessment of the Council's control environment was for the financial year 2018-19. The Chief Internal Auditor's opinion was that moderate assurance could be provided that there is generally a sound system of internal control in place. This means that there is generally an appropriate level of control for managing the majority of the significant inherent risks to the Council's objectives to a reasonable level. Nothing has come to light in 19-20 to materially impact on this opinion. No risk areas have been identified in relation to the financial statements. Roles and responsibilities in relation to systems of control are defined in various places such as the Constitution and Rules for Contracts and are enforced as far as practicable through ICT system controls and monitoring. This includes controls enforced though the Agresso system, which limits the potential for override of controls over the financial reporting process. Service area controls , e.g segregation of duties of officers to mitigate fraud are in place to support the Councils Fraud and Corruption Strategy and Whistleblowing Policy.

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	None known.
8. How does the group communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Council has a Code of Conduct which sets out the expected behaviours of its staff. In addition, all staff and agency workers are required to undergo an induction process. Contracts include terms and conditions around the behaviours etc of contractors. Policies linked to ethical behaviour and business processes are available on the Council's Intranet site and highlighted in the Managers Talk monthly emails. The Council has a Fraud and corruption Strategy, a Whistleblowing Policy and an e-learning fraud awareness tool in place. Other mechanisms are also used to encourage staff to report concerns, including the Finance and Audit school newsletter and face to face fraud awareness sessions. Staff are expected to raise all concerns about fraud with the Chief Internal Auditor. In 2019/20 to date, no issues have been reported which have led to significant fraud being identified.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Any postholder with responsibilities for handling income, particularly cash, or who have budget holder responsibilities could be considered to be high-risk. However, levels of cash income are not significant and appropriate checks and balances are in place, including budget monitoring, scheme of delegation and segregation of duties, which are also enforced through the Agresso system.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Most of the related party transactions that could give rise to potential fraud are those in which Councillors have a direct interest. Risks are mitigated by Councillor's declaration of interests and non-participation in debates. All postholders grade 9 and above are required to complete an annual declaration of interests and provide details of how any potential conflicts of interests are managed. In addition, the Council receives and reviews data matches via the National Fraud Initiative linked to this area of risk.

Fraud risk assessment

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Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit and Procurement Committee? How does the Audit and Procurement Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Audit and Procurement Committee receive half yearly reports on anti fraud and corruption activity. The Committee also receive quarterly Internal Audit progress reports which provides details of key audits undertaken. Where appropriate this would include issues relating to management processes for mitigating the risk of fraud and internal control issues. The Chief Internal Auditor's annual audit opinion on the adequacy and effectiveness of the internal control environment also highlights any significant control issues to the Committee. In 2019/20, details of actions taken by Internal Audit in-conjunction with service areas to prevent fraud have also been provided to the Committee . This followed a request from the Committee in the previous municipal year.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The Council has a Whistleblowing Policy and a defined process in place to deal with concerns raised by whistleblowers. In 2019/20, two complaints linked to potential fraud have been raised. In one case, the matter was found not to have been substantiated and in the other case, investigations are ongoing. Neither complaint relates to misstatement within the financial statements / financial reporting due to fraud.
13. Have any reports been made under the Bribery Act?	None identified.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Procurement Committee, is responsible for ensuring that the group's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Procurement Committee as to whether the group is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the group have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the group's regulatory environment that may have a significant impact on the group's financial statements?	Through effective governance processes and review mechanisms such as internal audit. The Monitoring Officer and the Council's legal team advise the Council's leadership, councillors and departments on changes to the legal and regulatory environment that impact on the Council.
2. How is the Audit and Procurement Committee provided with assurance that all relevant laws and regulations have been complied with?	The Annual Governance Statement presented to the Committee provides assurance that arrangements are in place for facilitating effective exercise of the Council's functions. This includes ensuring that its business is conducted in accordance with the law and proper standards.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No.

Impact of laws and regulations

Question	Management response
5. What arrangements does the group have in place to identify, evaluate and account for litigation or claims?	Corporate finance undertake discussions with the City Solicitor and Monitoring Officer to identify any significant litigation claims at the year end.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There have been no reports of non-compliance from regulatory bodies. Two instances of VAT non compliance have been self-reported to HMRC.

Going Concern

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the group? What was the outcome of that assessment?	Yes. Going concern is considered as part of the preparation of the financial statements. This considers key areas that impact on the Council's ability to continue as a going concern including financial resilience and medium term financial forecasts. The Council's relatively healthy financial position in 2019/20 and forecast balanced budget for 2020/21, together with the work reviewing the medium term financial position provide support for the Council's going concern assumption.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the group's Business Plan and the financial information provided to the group throughout the year?	Yes.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Budget Report incorporates any significant adjustments of a financial nature including statutory and policy changes. This position is updated through the regular financial monitoring process for any in-year changes and within the analysis of going concern.
4. Have there been any significant issues raised with the Audit and Procurement Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There are no significant issues or weaknesses that could impact upon going concern status.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	There are no adverse financial indicators that represent a threat to going concern considerations.

Going concern considerations

Question	Management response
6. Does the group have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the group's objectives? If not, what action is being taken to obtain those skills?	Yes. There are sufficient staff in post with the appropriate skills and experience. The level of the challenge to deliver the Council's plans and programmes is substantial but there are no significant instances where this is impacting on the delivery of objectives.
7. Does the group have procedures in place to assess their ability to continue as a going concern?	Yes. Financial budgeting and monitoring information is available on a regular basis providing the facility to review any early concerns with regard to going concern.
8. Is management aware of the existence of events or conditions that may cast doubt on the group's ability to continue as a going concern?	No.

Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit and Procurement Committee ? How has the Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	Yes. The Council’s going concern assessment is reported separately as part of the Narrative Statement within the Statement of Accounts reported to the Committee each year and is covered specifically within the Audit Findings Report.

Related Parties

Matters in relation to Related Parties

The Council is required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the group;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the group have in place to identify, account for and disclose related party transactions and relationships ?	Related party transactions and relationships are reported within the statutory accounting process through analysis of existing disclosure records and a process to collect information on these relationships.

Accounting estimates

Matters in relation to Accounting estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the group identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the group is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit and Procurement Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	We are not aware of any transactions, events or conditions other than those identified.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes. Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. pension fund actuary, professionally qualified asset valuer.
3. How is the Audit and Procurement Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates are an integral part of the statutory accounting and reporting process.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment and Investment Property Valuations	Current value for land/buildings defined as 'existing use value' Fair value for investment properties.	Valuations are performed annually to ensure that the current value/ fair value of a revalued asset does not differ materially from its carrying amount.	Use of internal valuers (RICS qualified) from Commercial Property department	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant component cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Consistent application of depreciation method across assets	Discussion with internal asset team and where applicable the internal valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use of internal valuers (RICS qualified) from Commercial Property department for PPE.	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert	No.
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Authority follows the requirements of the CIPFA Code of Practice.	Measured and recorded by the Corporate Finance Team using advice as appropriate from the Council's Treasury management advisors.	Yes Fund advisers – XX	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Credit Loss Allowance	Expected Credit Loss model	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. XX signs off the write off.	No		No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	No.	The use of actual dates of receipt of goods and services gives a low degree of uncertainty	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	No.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	For the LGPS the Authority responds to queries raised by the administering authority City of Wolverhampton Council.	The Authority are provided with an actuarial report by Barnett Waddingham (LGPS)	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Overhead allocation	The accountants apportion central support costs to services based on appropriate bases.	All support service cost centres are allocated according to the agreed processes.	No	Appropriate bases are reviewed each year to ensure equitable.	No
PFI liabilities	Estimates are made at the outset of PFI schemes based on established models. The models are agreed with our external auditors who have reviewed this extensively in recent years.	Given that estimates are established at the outset of the PFI scheme they are then determined for the life of the scheme, reflecting for example, the fixed cost or the debt financing within the scheme.	Yes, at the outset of the schemes or where re-financing of PFI debt is considered experts are used in line with standard practice.	Alternative estimates are not generally considered once the model has been established, unless there are major changes in the scheme (e.g. re-financing)..	No

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Dear S151 officer,

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

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

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

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

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

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

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

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

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

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

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

Appendix 1

PSAA's approach to fees

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

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

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

Each of these arrangements is discussed in more detail below.

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

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

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

ii). Pooling firms 'costs

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

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all of the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii). Charging for additional audit work

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

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

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

iv). Amendments to scale fees

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

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

TouchstoneRenard
Management Consultants

Public Sector Audit Appointments

Future Procurement and Market Supply Options Review

Final Report

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Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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Covering statement

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

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1. EXECUTIVE SUMMARY

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

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

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

Key issues

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

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

Firms that are not currently approved to operate in this market

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

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

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

Firms that are approved to operate in this market

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

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

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

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

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

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

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

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

Options available to PSAA

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

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

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

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

Options for attracting new entrants to the market include:

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

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

2. PURPOSE AND SCOPE

2.1 Overview

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

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

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

This exercise does not include:

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

2.2 Specific issues to be addressed

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

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

PSAA also cited the following 'options for consideration':

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

2.3 Other issues

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

3. WORK DONE AND METHODOLOGY

3.1 Interviews

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

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

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

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

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

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

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

3.2 Analysing responses

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

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

4. BACKGROUND

4.1 The market and PSAA's role

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

Abolition of the Audit Commission

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

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

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

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

Establishment of PSAA

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

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

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

The current appointing period

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

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

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

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

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

Code of Audit Practice

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

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

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

Regulation

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

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

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

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

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

Registration and licensing

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

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

Continuing change in the external audit and local audit sectors

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

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

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

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: ▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). ▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.
The Competition and Markets Authority	April 2019	Recommendations re: ▪ Separation of audit from consulting services. ▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. ▪ Introduction of statutory regulatory powers to increase accountability of audit committees.
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: ▪ A redefinition of audit and its purpose. ▪ The creation of a corporate auditing profession governed by principles. ▪ The introduction of suspicion into the qualities of auditing. ▪ The extension of the concept of auditing to areas beyond financial statements.
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

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

4.2 Supply of auditors

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

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

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

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

Firm	Current work for PSAA eligible bodies	Number of KAPs
Incumbents		
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
Others		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
Total number of key audit partners		***97***

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

4.3 Audit fees

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

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

4.4 Performance in the 2018/19 round of audits

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

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

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

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

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

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

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

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

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

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

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

What works well

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

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

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

What works less well

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

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

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

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

5.3 Number of lots and lot sizes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 The degree of emphasis on social value / apprenticeships

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

5.8 Timing issues

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

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

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

5.9 The Code of Audit Practice

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

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

5.10 CIPFA's Code of Practice for local authority accounting

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

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

5.11 The quality monitoring regime

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

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

5.12 Other issues – fees

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

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

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

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

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

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

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

Their comments included:

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

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

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

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

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

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

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

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

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

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

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

5.15 Is local auditing an attractive career option?

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

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

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

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

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

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

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

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

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

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

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

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

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

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

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

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

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

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

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

6.3 Awareness of the local audit environment

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

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

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

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

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

6.5 How important would the following factors be?

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

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

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

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

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

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

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

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

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

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

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

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

Other factors

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

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

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

Lot sizes, locations, values and composition of lots

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

The duration of the contract

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

The balance between price and quality used to evaluate the tenders

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

Whether lots include audits subject to FRC review

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

The legal right of electors to object

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

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

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

Positive comments included:

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

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

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

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

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

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

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

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

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

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

7. ISSUES AND OPTIONS

7.1 Introduction

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

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

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

Strengths	Weaknesses
▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people's lives.	▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA's eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies. ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.

Opportunities	Threats
▪ The Redmond review could make recommendations that address the firms' current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest	▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements.

7.3 The CBS report revisited

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

CBS 'Lesson'	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including…	**The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.**
▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market).	These factors remain and are now more strongly felt than before. It is **no longer the case that 'firms are intending to stay in the market'.** Their position is now less certain and dependent on developments ahead of the next procurement.
▪ there is evidence that gaining new entrants will be challenging.	This remains the case.
▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality.	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market.
Given the above factors, positive 'market making' action may be advisable.	If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants.

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

7.4 Opening up the market to new entrants

Issues

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

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

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

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

Options for PSAA

Options include:

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

  In May 2019 the Cabinet Office made the following statement:

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

7.5 Supply side resources

Issues

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

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

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

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

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

Options for PSAA

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

7.6 Timing of audits

Issues

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

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

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

Options for PSAA

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

7.7 Fees and quality

Issues

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

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

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

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

Options for PSAA

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

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

7.8 Number of lots and lot sizes

Number of lots

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

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

Size of lots

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

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

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

Options for PSAA

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

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

7.9 Composition and location of lots

Allocation of audits

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

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

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

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

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

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

Locations

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

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

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

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

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

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

Specialist lots

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

Options for PSAA

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

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

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

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

7.10 Contract duration

Issues

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

Options for PSAA

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

7.11 Contract structure

Issues

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

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

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

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

Options for PSAA

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

7.12 Joint audit options

Issues

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

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

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

Options for PSAA

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

7.13 Collaborative response with other audit agencies

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

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

SAAA

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

NAO

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

Scotland, Wales and Northern Ireland

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

The obstacles to achieving closer co-operation include:

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

Options for PSAA

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

7.14 Creating a not-for-profit supplier

Issues

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

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

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

Options for PSAA

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

GLOSSARY

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

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Coventry City Council

Public report
Cabinet

Cabinet — 18th February 2020
Audit and Procurement Committee — 16th March 2020

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources - Councillor J Mutton

Director Approving Submission of the report:
Director of Finance and Corporate Services

Ward(s) affected:
City wide

Title:
2019/20 Third Quarter Financial Monitoring Report (to December 2019)

Is this a key decision?
No

Executive Summary:

The purpose of this report is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity as at the end of December 2019. The headline revenue forecast for 2019/20 is for a net underspend of £1.9m. At the same point in 2018/19 there was a projected underspend of £1.8m. The headline capital position reports £20.6m of expenditure rescheduled into 2020/21.

The largest areas of budget pressure are within services for Children and Young People and Housing and Homelessness which are projecting overspends of £2.6m and £3.2m respectively. These are offset by a significant underspend within central and contingency budgets.

The Council's capital spending is projected to be £215.9m and includes major scheme expenditure including investment in the A46 Link Road, Whitley South infrastructure and the National Battery Plant.

Recommendations:

The Cabinet is requested to:

1) Approve the Council's revenue monitoring position;
2) Approve the revised capital estimated outturn position for the year of £215.9m incorporating: £14m net increase in spending relating to approved/technical changes of and net rescheduling of expenditure into 2020/21 of £16.6m.

The Audit and Procurement Committee is requested to:

1) Consider the proposals in the report and forward any recommendations to the Cabinet.

List of Appendices included:

Appendix 1	Revenue Position: Detailed Directorate breakdown of forecast outturn position
Appendix 2	Capital Programme: Analysis of Budget/Technical Changes
Appendix 3	Capital Programme: Estimated Outturn 2019/20
Appendix 4	Capital Programme: Analysis of Rescheduling
Appendix 5	Prudential Indicators

Background papers:

None

Other useful documents

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

Audit and Procurement Committee, 16th March 2020

Will this report go to Council?

No

Report title:
2019/2020 Third Quarter Financial Monitoring Report (to December 2019)

1. Context (or background)

1.1 Cabinet approved the City Council's revenue budget of £231.5m on the 19th February 2019 and a Directorate Capital Programme of £195.4m. This is the third quarterly monitoring report for 2019/20 to the end of December 2019. The purpose is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and to report on the Council's treasury management activity.

1.2 The current 2019/20 revenue forecast is for an underspend of £1.9m. The reported forecast at the same point in 2018/19 was an underspend of £1.8m. Capital spend is projected to be £215.9m, a reduction of £2.8m since the quarter 2 forecast.

2. Options considered and recommended proposal

2.1 This is a budget monitoring report and as such there are no options.

2.2 **Revenue Position** - The revenue forecast position is analysed by service area below.

Table 1 - Forecast Variations

Service Area	Revised Net Budget £m	Forecast Spend £m	Forecast Variation £m
Public Health	1.3	0.9	(0.4)
People Directorate Management	1.5	1.5	0.0
Education & Skills	12.7	14.3	1.4
Children & Young People	73.7	76.3	2.6
Adult Social Care	77.4	77.4	0.0
Customer Services & Transformation	13.6	16.9	3.3
Human Resources	1.3	1.7	0.4
Place Directorate Management	2.6	2.7	0.1
Business Investment & Culture	7.2	7.4	0.2
Transportation & Highways	4.6	4.8	0.2
Streetscene and Regulatory	28.2	29.9	1.7
Project Management & Property	(8.0)	(8.8)	(0.8)
Finance & Corporate Services	7.4	6.8	(0.6)
Contingency & Central Budgets	6.7	(3.3)	(10.0)
Total Spend	**230.2**	**228.5**	**(1.9)**

2.3 An explanation of the major forecast variances is provided below. Further details are provided in Appendix 1.

People Directorate

The People Directorate continues to face significant financial challenges in 2019/20 and beyond. The largest forecast pressure is Housing & Homelessness (temporary accommodation) £3.2m which has resulted from the level of activity transferring to the Council from the previously outsourced contract, the additional and less costly temporary accommodation solutions not being available as early in the financial year as previously forecast, and an increase in activity in the second and third quarters particularly within the non-family cohort. Work is underway, overseen by Strategic Housing Board, to reduce the cost of supporting families and individuals in temporary accommodation. The service is now in a position where it understands the causes of the long-standing financial pressures and has a number of strategies in place to significantly reduce the cost over 2020/21. This is through a combination of increasing prevention, reducing activity and considerably decreasing the cost of provision. For example, Caradoc Hall (102 units) is now open and fully occupied. From the new financial year, the Council will also have a further 75 lower cost temporary accommodation options for families. In addition, a number of lower cost temporary accommodation options for non-families are being explored, with the aim of them opening part way through the financial year.

There has been a £1.1m increase in forecast across the People Directorate since quarter 2 which is largely attributable to a small worsening position on Housing and Homelessness, and more significantly, increased cost of LAC and leaving care placements. This is due to delays in the delivery of Children's placement transformation and a higher unit cost of placements, partly attributable to the youth violence problems. Children's Transformation Board continues to monitor the progress of LAC placement transformation and associated budget reductions and take remedial action as necessary. We also have a £1.0M pressure in SEN transport which is linked to increasing demand and changes in provision. Strategic Transport group continue to review this and consider any steps that can be taken to reduce cost. The pre-budget report identified additional resource for the above 3 areas in 2020/21.

Adult Social Care is showing a balanced position, although there is increasing pressure surrounding packages of care alongside increasing demand in Deprivation of Liberty safeguards (DOLs) which are managed in year using iBCF protecting social care resources. The Public Health underspend relates to the holding of migration grant income centrally which is funding costs of other services across the Council.

Place Directorate

The Place Directorate is forecasting a net £0.8m deficit at quarter 3. Higher than budgeted costs in the directorate of around c£2m are being offset by net increased income of c£1.2m. The compensating variations contributing to these figures are explained as follows:

£1.5m of the overall spend pressure relates to a variety of service areas which have required the use of agency staff to maintain service continuity or deal with higher than normal service activity levels. Parking enforcement (£0.1m), streetpride (£0.4m), domestic refuse (£0.3m), CCTV (£0.1m), Revenues and Benefits (£0.2m) and Legal services (£0.4m) have all required agency to cover e.g. sickness, vacancies or activity levels where service continuity is a requirement. In most cases, the funding for this cover is within the centralised budgets and variation below.

Other spend pressures are a higher than budgeted cost of waste disposal (£0.45m), and the higher cost of domestic refuse collection (£0.2m) due to higher fleet costs and cost of collection over the Christmas period.

Net increased income of c£1.2m is offsetting some of the pressures. In most cases, services are generating more income including car parking (£0.4m), building control (£0.17m), regulatory services (£0.2m), property (£0.8m) and benefits subsidy (£1m) are all generating more income than is currently budgeted. However, there are other services which due to lower than normal activity are achieving insufficient income compared to budget, the primary ones being bus gate enforcement (£0.55m) and Bereavement services (£0.4m).

Contingency and Central Budgets
In overall terms this budget area is projected to underspend by £10m.

The large improvement since quarter 2 is due to £3.1m of employer pension contributions no longer due to be paid to the West Midlands Pension Fund. The Council has budgeted for a higher payroll and employer pension contributions than anticipated when fixed contributions were agreed with the Pension Fund 3 years ago. The Fund has confirmed that it is not expecting these amounts to be paid over to it and that it has taken account of this in calculating the Council's revised contributions for future years. Therefore, the over-budgeted sums can now be released to the Council's bottom line.

Net Asset Management Revenue Account expenditure is anticipated to be £2.4m less than budget because of lower costs of capital financing, higher investment income and higher loan income. Other corporate budgets reflect lower than budgeted pension costs linked to an early payment arrangement with the West Midlands Pension Fund (£2m); uncommitted resources related to one-off social care funding (£1m); Coventry and Warwickshire Business Rate Pool income in excess of budget (£1.1m); projected additional savings from the Friargate Project (£0.75m); lower than budgeted levy costs (£0.6m); and a contribution to reserves for managing the costs of major projects approved at quarter 2.

2.4 **Capital Position** - The 2019/20 capital outturn position for quarter two reported a revised outturn position of £218.7m compared with the original programme reported to Cabinet in February 2019 of £195.3m. Table 2 below updates the budget at quarter 3 to take account of a £14m increase in the programme from approved/technical changes, £16.6m of net rescheduling now planned to be carried forward into future years and a small £0.2m underspend. This will not result in the Council losing any funding. In total, the revised projected level of expenditure for 2019/20 is £215.9m**.** Appendix 3 provides an analysis by directorate of the movement since budget setting.

The Resources Available section of Table 2 explains how the Capital Programme will be funded in 2019/20. It shows 72% of the programme is funded by external grant monies, whilst 22% is funded from borrowing. The programme also includes funding from capital receipts of £8.3m.

Table 2 – Movement in the Capital Budget

CAPITAL BUDGET 2019-20 MOVEMENT	Qtr 3 Reporting £m
Estimated Outturn Quarter 2	218.7
Approved / Technical Changes (see Appendix 2)	14.0
"Net Underspend"	(0.2)
"Net" Rescheduling into future years (see Appendix 4)	(16.6)
Revised Estimated Outturn 2019-20	215.9

RESOURCES AVAILABLE:	Qtr 3 Reporting £m

Prudential Borrowing (Specific & Gap Funding)	47.0
Grants and Contributions	154.7
Capital Receipts	8.3
Revenue Contributions	5.9
Total Resources Available	215.9

2.5 **Treasury Management**

Interest Rates
The current Bank of England Base Rate has been at 0.75% since August 2018. The global economy has entered a period of slower growth in response to political issues and the UK economy continues to experience slower growth due to both Brexit uncertainty and the downturn in global activity.

The central forecast for the Bank Rate is to remain at 0.75% until at least the end of 2022. However, the risk to this forecast is heavily weighted to the downside. With comments made by the Bank of England and recent poor performance in economic data meaning that a rate cut in the near future is more likely.

Long Term (Capital) Borrowing
The net long term borrowing requirement for the 2019/20 Capital Programme is £38.1m, taking into account borrowing set out in section 2.4 above (total £47.0m), less amounts to be set aside to repay debt, including non PFI related Minimum Revenue Provision (£8.9m). Although the Council's recent Capital Programmes have incorporated prudential borrowing as part of the overall resourcing package, no long-term borrowing has been undertaken for several years, due in part to the level of investment balances available to the authority. The anticipated future high level of capital spend combined with the new lower level of investment balances available mean that the Council will need to keep this under review over the next few years. The actual pattern of these factors and the level and expected movement in interest rates will dictate when the Council next seeks to borrow although current advice remains for any borrowing to be of a short-term duration.

During 2019/20 interest rates for local authority borrowing from the Public Works Loans Board (PWLB) have varied within the following ranges:

PWLB Loan Duration (maturity loan)	Minimum 2019/20 to P9	Maximum 2019/20 to P9	As at the End of P9
5 year	1.20%	2.63%	2.63%
50 year	1.77%	3.25%	3.25%

The PWLB now allows qualifying authorities, including the City Council, to borrow at 0.2% below the standard rates set out above. This "certainty rate" initiative provides a small reduction in the cost of future borrowing.

On 9th October the Treasury increased the interest rate of PWLB borrowing by 1% in response to the high levels of borrowing and record lows that the PWLB interest rates had fallen to. This will have the impact of increasing the cost of any long-term borrowing taken out after this date. However, The Council has no plans to take any new long term borrowing in the near future with advice continuing to be to keep any borrowing to a short-term duration.

Regular monitoring continues to ensure identification of any opportunities to reschedule debt by early repayment of more expensive existing loans replaced with less expensive new loans. The premiums payable on early redemption usually outweigh any potential savings.

Short Term (Temporary) Borrowing and Investments
In managing the day to day cash-flow of the authority, short-term borrowing or investments are undertaken with financial institutions and other public bodies. As at 31/12/2019 the City Council held £34m of short term borrowing from other public bodies at an average interest rate of 0.93%.

Returns provided by the Council's short-term investments yield an average interest rate of 1.06%. This rate of return reflects low risk investments for short to medium durations with UK banks, Money Market Funds, Certificates of Deposits, other Local Authorities, Registered Providers and companies in the form of corporate bonds.

Although the level of investments varies from day to day with movements in the Council's cash-flow, investments held by the City Council identified as a snap-shot at each of the reporting stages were: -

	As at 31st December 2018 £m	**As at 30th September 2019 £m**	**As at 31st December 2019 £m**
Banks and Building Societies	6.0	5.0	0.0
Money Market Funds	20.6	0.4	5.2
Local Authorities	15.0	0.0	0.0
Corporate Bonds	3.3	9.0	5.8
Registered Providers	0.0	10.0	10.0
Total	**44.9**	**24.4**	**21.0**

External Investments
In addition to the above investments, a mix of Collective Investment Schemes or "pooled funds" is used, where investment is in the form of sterling fund units and non-specific individual investments with financial institutions or organisations. These funds are generally AAA rated, are highly liquid as cash, can be withdrawn within two to four days, and short average duration. The Sterling investments include Certificates of Deposits, Commercial Paper, Corporate Bonds, Floating Rate Notes, Call Account Deposits and Equities. These pooled funds are designed to be held for longer durations, allowing any short-term fluctuations in return to be smoothed out. In order to manage risk these investments are spread across a number of funds.

As at 31st December 2020 the pooled funds were valued at £29.5m, spread across the following funds: CCLA, Schroders, Investec, Columbia Threadneedle and M&G Investments.

Prudential Indicators and the Prudential Code
Under the CIPFA Prudential Code for Capital Finance authorities are free to borrow, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. These indicators are designed to ensure that borrowing entered into for capital purposes was affordable, sustainable and prudent. The purpose of

the indicators is to support decision making and financial management, rather than illustrate comparative performance.

The indicators, together with the relevant figures as at 31st December 2019 are included in Appendix 5. This highlights that the City Council's activities are within the amounts set as Performance Indicators for 2019/20. Specific points to note on the ratios are:

- The Upper Limit on Variable Interest Rate Exposures (indicator 9) sets a maximum amount of net borrowing (borrowing less investments) that can be at variable interest rates. At 31st December the value is -£43.7m (minus) compared to +£84.5m within the Treasury Management Strategy, reflecting the fact that the Council has more variable rate investments than variable rate borrowings at the current time.

- The Upper Limit on Fixed Interest Rate Exposures (indicator 9) sets a maximum amount of net borrowing (borrowing less investments) that can be at fixed interest rates. At 31st December the value is £249.7m compared to £422.4m within the Treasury Management Strategy, reflecting that a significant proportion of the Council's investment balance is at a fixed interest rate.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a financial monitoring report.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial implications

Revenue
In overall terms, this report indicates that the Council's financial position for the current year continues to be sound. As with previous quarters the position incorporates individual underspends that cannot be relied upon beyond 2019/20. In contrast, there are services that are reporting overspends within demand led budget areas where it is more difficult for the Council to exercise complete control. The position in these service areas has worsened once again at quarter 3, principally within Children's Services. It is inevitable that much of these additional pressures will continue into the 2020/21 financial year and for this reason these are being included within the Council's final Budget proposals for next year.

These pressures include ones that reflect what appear to be intractable long-term trends, including the cost and complexity of Looked After Children placements and costs across Homelessness and Housing, Special Educational Needs and Waste Services. The continued trend of additional pressure within demand led services and the impact of delays in implementing successful measures to tackle such issues were reported at quarter 2 as evidence of the need for the Council to continue to identify medium term cost efficiencies and commercial opportunities in order to maintain financial stability. The Council will shortly be approving its 2020/21 Budget but attention is already turning to the Budget strategy for future years.

Given the uncertainty facing local government finances beyond 2020/21, the Director of Finance and Corporate Services is clear that the Council needs to take measures to protect its financial position in the short-term to provide some protection against any financial shocks over the next few years. The Council is facing significant financial budget shortfalls over the medium term and an unpredictable picture in relation to how the Government will implement the Spending Review, a new local government finance formula and a revised Business Rates retention scheme. In the interim, the Council needs to ensure that it continues to hold a strong focus on managing services within existing budgetary limits or moving towards this. This includes continuing to implement transformational change to deliver existing savings plans, ensuring that demand for services is managed within existing policy parameters and identifying new ways of responding to service pressures to control costs.

The relatively positive position reported at quarter 3 should not deflect from the expectation of a very challenging outlook for the Council's revenue position and officer attention both at a corporate level and across services is focussed strongly on responding to these challenges.

Like many councils Coventry is experiencing pressure on its high needs budget as a result of a significant increase in activity across the city. For the first time in 2019/20 the centrally retained DSG is forecast to overspend in-year by £0.8M. This will be funded from the dedicated schools grant centrally retained reserve. Coventry has received additional money for High Needs in 2020/21, although the trajectory of these costs indicates that expenditure will continue to increase in future years and there is a current national dialogue with Government on this issue. Council officers are maintaining a watching brief on this issue.

Capital
The 2019/20 programme includes significant spend on schemes including the National Battery Manufacturing Development Facility, Whitley South Infrastructure, the Coventry Station Masterplan, the Higgs Centre 50m Swimming Pool and the UK Central transportation programme. Of these schemes there is a significant risk that the Coventry Station Masterplan will not be able to deliver its original scope within budget due to a significant increase in the Network Rail cost estimate for phase 3 and discussions are on-going in respect of the scope and phasing of outstanding works.

The overall level of rescheduling of £16.6m is distributed across a wide range of projects reflecting a more accurate assessment of expectations as the year-end approaches. None of the rescheduled programmes will result in any funding being lost to the Council.

The increase in the programme of £14m comprises new grant funding of £9m for the UK BIC Project (bringing the total Grant from Innovate UK to £111m) and £5m use of capital receipts for the purchase of the B&M Store approved at Cabinet on 8th October 2019.

5.2 **Legal implications**

None

6. Other implications

6.1 **How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?**
The Council monitors the quality and level of service provided to the citizens of Coventry and the key objectives of the Council Plan. As far as possible it will try to deliver better value for money and maintain services in line with its corporate priorities balanced against the need to manage with fewer resources.

6.2 **How is risk being managed?**
The need to deliver a stable and balanced financial position in the short and medium term is a key corporate risk for the local authority and is reflected in the corporate risk register. Budgetary control and monitoring processes are paramount in managing this risk and this report is a key part of the process.

6.3 **What is the impact on the organisation?**
It remains important for the Council to ensure that strict budget management continues to the year-end. Any resources available at year-end will be managed to ensure the Council's financial resilience or used to fund future spending priorities.

6.4 **Equalities / EIA**
No impact.

6.5 **Implications for (or impact on) the environment**
No impact at this stage although climate change and the environmental impact of the Council's decisions are likely to feature more strongly in the future.

6.6 **Implications for partner organisations?**
No impact.

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Appendix 1 Revenue Position: Detailed Directorate Breakdown of Forecasted Outturn Position

Appendix 1 details directorates forecasted variances.

Budget variations have been analysed between those that are subject to a centralised forecast and those that are managed at service level (termed "Budget Holder Forecasts" for the purposes of this report). The Centralised budget areas relate to salary costs – the Council applies strict control over recruitment such that managers are not able to recruit to vacant posts without first going through rigorous processes. In this sense managers have to work within the existing establishment structure and salary budgets are not controlled at this local level. The Centralised salaries and Overheads under-spend shown below is principally the effect of unfilled vacancies.

Directorate	**Revised Budget**	**Forecast Spend After Action/ Use of Reserves**	**Centralised Forecast Variance**	**Budget Holder Forecast Variance**	**Net Forecast Variation**
	£m	**£m**	**£m**	**£m**	**£m**
Public Health	1.3	0.9	0.0	(0.4)	(0.4)
People Directorate Management	1.5	1.5	0.0	0.0	0.0
Education and Skills	12.7	14.3	(0.1)	1.5	1.4
Children and Young People's Services	73.7	76.3	(1.7)	4.3	2.6
Adult Social Care	77.4	77.4	(0.5)	3.8	3.3
Customer Services & Transformation	13.6	16.9	(0.5)	3.8	3.3
Human Resources	1.3	1.7	0.2	0.2	0.4
Total People Directorate	**181.5**	**189.0**	**(2.6)**	**9.9**	**7.3**
Place Directorate Management	2.6	2.7	0.0	0.1	0.1
City Centre & Major Projects Development	7.2	7.4	0.1	0.1	0.2
Transportation & Highways	4.6	4.8	0.0	0.2	0.2
Streetscene & Regulatory Services	28.2	29.9	(0.2)	1.9	1.7
Project Management and Property Services	(8.0)	(8.8)	0.0	0.0	(0.8)
Finance & Corporate Services	7.4	6.8	(0.1)	(0.5)	(0.6)
Total Place Directorate	**42.0**	**42.8**	**(0.2)**	**1.0**	**0.8**
Total Contingency & Central Budgets	**6.7**	**(3.3)**	**0.0**	**(10.0)**	**(10.0)**
Total Spend	**230.2**	**228.3**	**(2.9)**	**0.9**	**(1.9)**
Resourcing	(231.4)	(231.4)	0.0	0.0	0.0
Ringfenced Funding Streams	1.2	1.2	0.0	0.0	0.0
Total	0.0	(1.9)	(2.8)	0.9	(1.9)

Reporting Area	Explanation	£m
Centralised (non-controllable variances)		
People Directorate	The Directorate underspend against its salary budgets and turnover target is mainly due to continuing vacancies in Customer Services, Housing, Adult and Childrens Social Care. This is partially offset by a non-salary overspend included above (e.g. agency, overtime). The position is less underspent than in 18/19 (£5.5M underspend) as a number of vacancies have been filled. It is expected that vacancy levels and agency costs will continue to reduce, which will continue to reduce the centralised salary underspend and the budget holder overspend relating to staffing.	(2.6)
Place Directorate	The directorate has gross underspends of £2.7m for centralised salaries. This has been offset by the turnover target for the same services of £2.5m, creating a net 'surplus' of £0.2m. Overall however, as described above, there are still a number of vacancies or other resourcing requirements which have been covered using agency staff to ensure services can be maintained. These costs are included in the service narratives. The underlying position is that an estimated £1.5m of the centralised budget for salaries is required to fund agency cover included in the deficits described above, therefore the turnover target for centrally funded posts has not been achieved.	(0.2)
Total Non-Controllable Variances		**(2.8)**

People Directorate			
Service Area	**Reporting Area**	**Explanation**	**£M**
Public Health	Public Health - Migration	This underspend relates to the holding of migration grant income centrally which is funding costs of other services across the Council.	(0.5)
Public Health	Other Variances Less than 100K		0.1
Public Health			**(0.4)**
Education and Skills	SEND & Specialist Services	The significant increase in the number of pupils entitled to home to school/college travel assistance, is underpinned by a growth in both non-SEN and SEN school placements. Capacity limitations on the in-house fleet required an interim response of short-term taxi commissions to meet demand thereby inflating mid-year unit costs. This has been subsequently mitigated by a further investment in fleet expansion. The requirement to provide personalised arrangements for children who are unable to travel safely on a mini-bus has increased significantly, all reasonable measures are in place to monitor and challenge this element of provision whilst ensuring the Council continues to meet its statutory duty.	1.2
Education and Skills	Employment & Adult Education	To date it has not been possible to deliver a £200k financial savings target set as part of previous budget setting processes to ensure we maximise ESFA grant funding against internal training programmes.	0.2
Education and Skills	Other Variances less than £100k		0.1
Education and Skills			**1.5**
Children and Young People's Services	Children's Services Management Team	The service has delivered savings as a result of service changes and review. These support the delivery of the Children's Services Transformation programme in the current and future years.	(1.0)
Children and Young People's Services	Commissioning, QA and Performance		0.2

Children and Young People's Services	Help & Protection	The budget holder variance largely relates to the costs of agency staff covering vacancies across the service. This is more than offset by underspends across centralised salary budgets. We continue to recruit permanent social workers and reduce agency staff levels as part of the Workforce Transformation.	0.7
Children and Young People's Services	LAC & Care Leavers	The variance is largely as a result of the placement pressures (£1.9M net overspend). Children in external children's homes are above projected numbers and there have been some high cost placements as a consequence of youth violence. The supported accommodation continues to show an overspend as a result of activity and high cost placements (£0.8M). The forecast in these areas has worsened since QTR 2 by £1.1M, and work is underway to understand the impact of this on 20/21 financial year in the context of the Children's Transformation Programme. There are a number of other variances across the service as a result of activity pressure (care leavers, permanence allowances of £0.4M) and agency costs of in excess of £0.5M partially offset by a centralised salary underspend.	4.4
Children & Young People's Services			**4.3**
Adult Social Care	Adult Social Care Director	The majority of the underspend represents the use of iBCF resources to manage the financial position. These resources are available to manage Adult Social Care pressures. The level of demand is increasing at higher than levels estimated at the start of the year. The contributory factors to this are described in the specific sections below. This rising demand on the grant, which is cash limited, will reduce the ability to absorb further increases this year and in subsequent years.	(2.0)
Adult Social Care	Older People Operational	Additional costs of agency staff pending recruitment but overall staffing slightly underspent.	0.1
Adult Social Care	All Age Disability and Mental Health Operational	There remains significant pressures in Deprivation of Liberty Assessment demand leading to additional assessment costs. The All Age Disability Team has also seen increasing demand and a high turnover of staff leading to increased Agency costs, recruitment to posts is ongoing.	0.6
Adult Social Care	Older People Community Purchasing	Whilst the iBCF grant has been provided to manage pressures (see Adult Social Care Director line), pressure remains within Older People Community Purchasing budgets from continuing demands for Residential	0.2

		placements. Work is underway to provide more cost effective alternatives.	
Adult Social Care	All Age Disability and Mental Health Community Purchasing	Whilst the iBCF grant has been provided to manage pressures (see Adult Social Care Director line), higher than expected increased demands across Mental Health services is putting additional pressure on the financial position.	1.7
Adult Social Care	Other Variances less than £100k		(0.1)
Adult Social Care			**0.5**
Customer Services & Transformation	Customer and Business Services	Vacancies have been held post Business Services change to align the work and understand where best to place the resource, recruitment is under way at the moment however we are staggering this. Some of these posts will be given back at the end of the financial year to meet transferred Business Services savings target. There is a restructure of the PA function underway which will introduce new roles and may result in some redundancies. Vacancies are being held until this review concludes and temporary resource is being used in the interim. Once concluded (Apr/May) new positions will be recruited to on a permanent basis. This review has been delayed at various points which has resulted in a budget holder variance.	0.3
Customer Services & Transformation	ICT & Digital	The majority of the overspend relates to the need to accelerate the refresh of part of the PC estate to avoid potential significant ICT service problems within the service and possibly across the wider organisation. Action being taken to reduce the overspend includes reviewing sources of funding and reducing spend temporarily in other ICT areas e.g. mobile phones. There is also a net 40K under-recovery of traded income	0.2
Customer Services & Transformation	Transformation Programme Office	Variance has changed this quarter to better reflect potential spend against the Professional Fees budget line, at this stage in the year. Use of this budget is unpredictable as it is dependent on organisational transformation plans and internal/external resource requirements to deliver this.	(0.1)
Customer Services & Transformation	Housing & Homelessness	Housing and Homelessness is forecasting an overspend of £3.2m due to a combination of continued and increased demand, activity transferring to the council from the previously outsourced contract and the additional and less costly Temporary Accommodation solutions not being available in quarter 3 as previously forecast. Although an additional	3.5

		£3.4m has been allocated to the service in 2019/20 in recognition of the increased demand, the majority of this overspend is driven by the gap between what we pay out for temporary accommodation compared with what we can reclaim through the Housing Benefit Subsidy grant. This has been further exacerbated by an increase in activity in the last 6 months particularly in the number of non families in temporary accommodation. There are a number of mitigations in place to reduce the level of expenditure in this area, closely monitored by Strategic Housing Board.	
Customer Services & Transformation	Other Variances Less than 100K		(0.1)
Customer Services & Transformation			**3.8**
Human Resources	Workforce Transformation	The HR service continues to face challenges with external income from both schools and other contracts particularly within Employment Practice and Occupational Health.	0.2
Human Resources			**0.2**
Total Controllable Variances - People			**9.9**
Place Directorate	**Place**		
Service Area	**Reporting Area**	**Explanation**	**£M**
Place Directorate Management			0
Place Directorate Management			
Business & Investment	Sports, Culture, Destination & Bus Relationships	St Mary's trading position is in deficit due to income generating activity not making enough to fund fixed costs as a result of only 10 months expected trading activity to reflect the proposed capital works	0.1
City Centre & Major Projects Development			**0.1**
Transportation & Highways	Traffic	"Bus gate and parking enforcement are projected to be c£0.6m lower than both budget and previous years as a result of both temporary bus gate closures and a lower activity trend generally. This is offset by a forecast increase in income from car parks of c£0.4m "	0.3

Transportation & Highways	Variances less than £100k		(0.1)
Transportation & Highways			**0.2**
Streetscene & Regulatory Services	Planning & Regulatory Services	Additional income primarily in the building control service following increased activity, and also recovery of enforcement costs in environmental health.	(0.3)
Streetscene & Regulatory Services	Streetpride & Parks	This is mainly related to a reduction in income for Bereavement Services due to falling death rates. Equipment issues have also resulted in Car Parking income pressures at Coombe, however upgraded pay machines and barriers have now been installed. There has also been urgent spend to upgrade city centre streetpride mess room facilities	1.0
Streetscene & Regulatory Services	Waste & Fleet Services	"Commercial Waste is forecasting a shortfall of c£0.3m. This shortfall is due to increased gate fees & tonnages. Domestic Waste is forecasting spend pressures of c£0.5m. This is due to increased pool cover for sickness absence, additional bin purchases & the cost of Christmas cover. Waste Disposal costs are also forecast to overspend by £0.3m. This is partly due to higher tonnages and partly higher gate fees/loss of rebate income for co-mingled recycling	1.0
Streetscene & Regulatory Services	Environmental Services	A mixture of overtime & agency to cover long term sickness, higher costs due to increase in the number of vehicles & shortfall against aspirational income targets.	0.2
Streetscene & Regulatory Services			**1.9**
Project Management and Property Services	Project Management	Overall a small net surplus is expected, however income is forecast to be down hence the variation. However, this is offset by reduced staffing costs	0.1
Project Management and Property Services	Commercial Property & Development	Vacant post and charges to Capital for Development surveyors time in respect of the property acquisition and disposal programmes	(0.3)
Project Management and Property Services	Facilities & Property Services	Primarily relates to a one-off Business Rates refund of £434k on operational buildings	(0.6)
Project Management and Property Services			**(0.8)**
Finance & Corporate Services	Revenue & Benefits	There is a surplus as a result of an increase in housing benefit overpayment recovery. This is offset by additional costs required to	(0.8)

		administer an increasing council tax base and a reduction in court cost income.	
Finance & Corporate Services	Legal Services	"Primarily: - the cost of agency and external cover for vacant posts and the use of external counsel in Legal Services. - underlying cost pressures within coroners due to price and volume increases."	0.4
Finance & Corporate Services	Democratic Services	A combination of one-off savings whilst restructures are implemented and additional income from school's appeal works.	(0.1)
Finance & Corporate Services			**(0.5)**
Total Non-Controllable Variances - Place			**1.0**
Contingency & Central Budgets			
Service Area	**Reporting Area**	**Explanation**	**£M**
Total Controllable Variances - Contingency & Central Budgets		The large improvement since quarter 2 is due to £3.1m of employer pension contributions no longer due to be paid to the West Midlands Pension Fund. The Council has budgeted for a higher payroll and employer pension contributions than anticipated when fixed contributions were agreed with the Pension Fund 3 years ago. The Fund has confirmed that it is not expecting these amounts to be paid over to it and that it has taken account of this in calculating the Council's revised contributions for future years. Therefore, the over-budgeted sums can now be released to the Council's bottom line. Net Asset Management Revenue Account expenditure is anticipated to be £2.4m less than budget because of lower costs of capital financing, higher investment income and higher loan income. Other corporate budgets reflect lower than budgeted pension costs linked to an early payment arrangement with the West Midlands Pension Fund (£2m); uncommitted resources related to one-off social care funding (£1m); Coventry and Warwickshire Business Rate Pool income in excess of budget (£1.1m); projected additional savings	**(10.0)**

		from the Friargate Project (£0.75m); lower than budgeted levy costs (£0.6m); and a contribution to reserves for managing the costs of major projects approved at quarter 2.	

Appendix 2

Approved / Technical Changes

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
Air Quality - Clean Bus Technology Fund	A further £2.517m of Clean Bus Technology Fund was awarded to CCC. This is the element to be spent this financial year with remainder profiled into 2020-21.	**1.7**
On-street Residential Charge-point Scheme Phase 2	Grant Award from Office for Low Emission Vehicles for On-street Residential Charge-points phase 2.	**0.3**
Better Street Community Project (Transforming Cities Fund)	TfWM award as part of the Transforming Cities Fund of £265k to support Walking and Cycling programme.	**0.3**
Coombe Abbey	New Play Provision agreed at Cabinet	**0.8**
City Centre Regeneration - City Centre South and Friargate	Revenue contribution for development costs for CCS not eligible for WMCA Grant, plus reprofile of Friargate Project management Budget from 20/21 to match spend	**0.3**
Acquisition of B&M	Approved at Cabinet on 8th October 2019 to purchase this Investment Property	**5.3**
UKBIC	Additional Funding awarded	**9.2**
Acquisition Costs Temporary Accommodation (Homeless)	The change to the programme is to increase the budget as a result of additional property projects being progressed in year to alleviate the temporary accommodation revenue financial pressure. These have all had oversight from Strategic Housing Board and Cabinet Member and are in line with the original aims of the allocation.	**0.2**
City of Culture	Adjustment to correct the programme forecast at Qtr 2. This has no impact on resources	**(4.0)**
SUB TOTAL - Place Directorate		**14.0**
TOTAL APPROVED / TECHNICAL CHANGES		**14.0**

Appendix 3

DIRECTORATE	ESTIMATED OUTTURN QTR 2 £m	APPROVED / TECHNICAL CHANGES £m	OVER / UNDER SPEND NOW REPORTED £m	RESCHEDULED EXPENDITURE NOW REPORTED £m	REVISED ESTIMATED OUTTURN 19-20 £m
PEOPLE	12.3	0.0	0.0	0.0	12.1
PLACE	206.4	14.0	(0.0)	(16.6)	203.8
TOTAL	**218.7**	**18.0**	**(0.0)**	**(20.6)**	**215.9**

Appendix4

Rescheduling and Accelerated Spend

SCHEME	EXPLANATION	£m
PEOPLE DIRECTORATE		
Basic Need	Works underway to expand secondary schools – three of the smaller projects have completed and the programme of works for larger secondary expansion projects to commence at the earliest February 2020, which means much of the expenditure will be seen next financial year.	(0.5)
SEND	Project completion within this financial year – two projects completed and two projects due to complete by February. We were awarded extra funding from the DFE to undertake further projects.	**0.5**
SUB TOTAL - People Directorate		**0.0**
PLACE DIRECTORATE		
City Centre Regeneration	Reprofiling of expenditure will continue whilst the scheme's planning application is being developed	(0.3)
Friargate	Expenditure forecasts will continue to be estimates until development and building contracts are in place (anticipated to be Summer 2020).	(0.2)
Coventry Station Masterplan	The 2 bids received for Phase 3 (NUCKLE 1.2) of this project were significantly over budget, and even with an alternative proposal provided by Network rail this was also over budget. Currently options are being considered with the DFT/NR on how to take this scheme forward. This has caused delays in the programme, while further options to make this scheme affordable are considered. Phase 1/2 are still on track.	(0.9)
GD14 - A46 N-S Corridor (Stanks)	Delays to the project has meant that they have been unable to defray as much expenditure as originally forecasted. Delays are due to a number of uncharted utilities found on site and re-profiling the programme to encompass pedestrian management routes	(0.7)
GD36 - A452 Europa Way Corridor	Project has been subject to several delays which have impacted on the programme	(0.3)

Vehicle & Plant Replacement	Vehicles have been delayed replacing in this financial year, mainly due to a proposed bid for additional grant funding. If this bid was successful, we would likely replace many of these vehicles with electric cars and vans, using capital grant fund instead. We will know if February whether we are successful in the bid, whereby we order the new vehicles that will be paid for in 20/21	(0.5)
ESIF - Business Support Phase 2	We had forecast that we would give out £1.7m in grants by the end of the financial year as we had approved a significant amount in grant approvals. However, due to Brexit and some issues with Building purchases, some of our businesses have delayed their expenditure so we have been reconsidered our forecast. Our Business Support Programme is running to December 2021 therefore we still have a considerable amount of time for this expenditure to take place and we are confident that it will take place in full	(0.3)
ESIF - Low Carbon	Down to commitment and spend from SMEs.	(0.1)
London Road Cemetery	There was delay in appointing the project manager for the London Road Cemetery project. This then resulted in the projects start on site date. Hence the underspend on the project. The project is now due to be on site early March and has a completion date of early November	(0.8)
Growing Places	Delays with contracting; signing of legal documentation and purdah due to the recent elections has meant that projects have not been able spend to forecast.	(0.3)
City Centre Destination Leisure Facility	The project has had a £100k additional costs due to an agreed extension of time for the contractor	0.1
Superfast Broadband	The re-scheduling is as a result of agreeing a payment profile with City Fibre as part of the Cabinet report which was approved in April with regards to the network lease extension and expansion. £300k is required to be paid in future years, hence the rescheduling.	(0.3)
Housing Venture	The underspend is due to Whitefriars Housing claiming an alternative external grant towards the Garage/infill project, and as they can't drawdown 2 Grants at the same time, they are using the external grant first before using the S106 and receipts money that the Council is holding.	(0.3)
MRF Development Costs	The development costs are anticipated to come it at around £2.8M, of which £800k has already been spent to date developing the feasibility and detailing business case and financial model. The capital works order was set up to cover costs associated with procurement phase which commenced at the end of September. It is anticipated that this phase of works will take around 12-15 months, with financial close anticipated early 2021. The updated forecast reflects anticipated spend against proposal received by the supporting advisory team, and appointment of internal secondments.	(0.7)
Lentons Lane Cemetery - Phase 2	At quarter 2, the project was in a state of flux due to proposed changes in the scope of works and the subsequent impact on the budget. It was agreed to reschedule at quarter three, once the scope had been agreed and the programme was better understood. As at quarter 3, the project has slipped by three	(1.5)

	months due to the debate about the scope of works and one month due to issues with preparing the tender documents. The delay of four months in total means that the majority of the contractor spend will now fall into financial year 2020/21.	
Whitley South	The variation is due to the project team being in a position to further firm up the expenditure profile based on an updated contractor programme and cashflow. This is due to the technical and planning issues having been resolved providing a more robust programme of work	(1.3)
Loop Line	The request from Historic Coventry Trust is to defer the drawdown of this loan facility until the second quarter of 20/21	(0.2)
Miscellaneous under £100k		0.1
SUB TOTAL - Place Directorate		**(16.6)**
TOTAL RESCHEDULING		**(16.6)**

Appendix 5

Prudential Indicators

Indicator	per Treasury Management Strategy	As at 31st December 2019
Ratio of Financing Costs to Net Revenue Stream (Indicator 1), illustrating the affordability of costs such as interest charges to the overall City Council bottom line resource (the amount to be met from government grant and local taxpayers).	13.40%	13.05%
Gross Borrowing should not, except in the short term, exceed the estimated Capital Financing Requirement (CFR) at the end of 3 years (Indicator 2), illustrating that, over the medium term, net borrowing (borrowing less investments) will only be for capital purposes. The CFR is defined as the Council's underlying need to borrow, after taking account of other resources available to fund the capital programme.	Year 3 estimate / limit of £472.7m	£321.3m Gross borrowing within the limit.
Authorised Limit for External Debt (Indicator 5), representing the "outer" boundary of the local authority's borrowing. Borrowing at the level of the authorised limit might be affordable in the short term, but would not be in the longer term. It is the forecast maximum borrowing need with some headroom for unexpected movements. This is a statutory limit.	£487.6m	£321.3m is less than the authorised limit.
Operational Boundary for External Debt (Indicator 6), representing an "early" warning system that the Authorised Limit is being approached. It is not in itself a limit, and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.	£467.6m	£321.3m is less than the operational boundary.
Upper Limit on Fixed Rate Interest Rate Exposures (Indicator 9), highlighting interest rate exposure risk. The purpose of this indicator is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.	£422.4m	£249.7m
Upper Limit on Variable Rate Interest Rate Exposures (Indicator 9), as above highlighting interest rate exposure risk.	£84.5m	-£43.7m
Maturity Structure Limits (Indicator 10), highlighting the risk arising from the requirement to refinance debt as loans mature: < 12 months 12 months – 24 months 24 months – 5 years 5 years – 10 years 10 years +	 0% to 40% 0% to 20% 0% to 30% 0% to 30% 40% to 100%	 25% 2% 5% 6% 63%

Investments Longer than 364 Days (Indicator 11), highlighting the risk that the authority faces from having investments tied up for this duration.	£30m	£0.0m

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Coventry City Council

Public report

Report to

Audit and Procurement Committee 16th March 2020

Name of Cabinet Member:
Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:
City Wide

Title:
Quarter Three Internal Audit Progress Report 2019-20

Is this a key decision?
No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the internal audit activity for the period April to December 2019, against the Internal Audit Plan for 2019-20.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the performance as at quarter three against the Internal Audit Plan for 2019-20.

2. Consider the summary findings of the key audit reviews (attached at Appendix One).

List of Appendices included:

Appendix One - Summary Findings from Key Audit Reports Completed between October and December 2019

Background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Quarter Three Internal Audit Progress Report 2019-20

1. Context (or background)

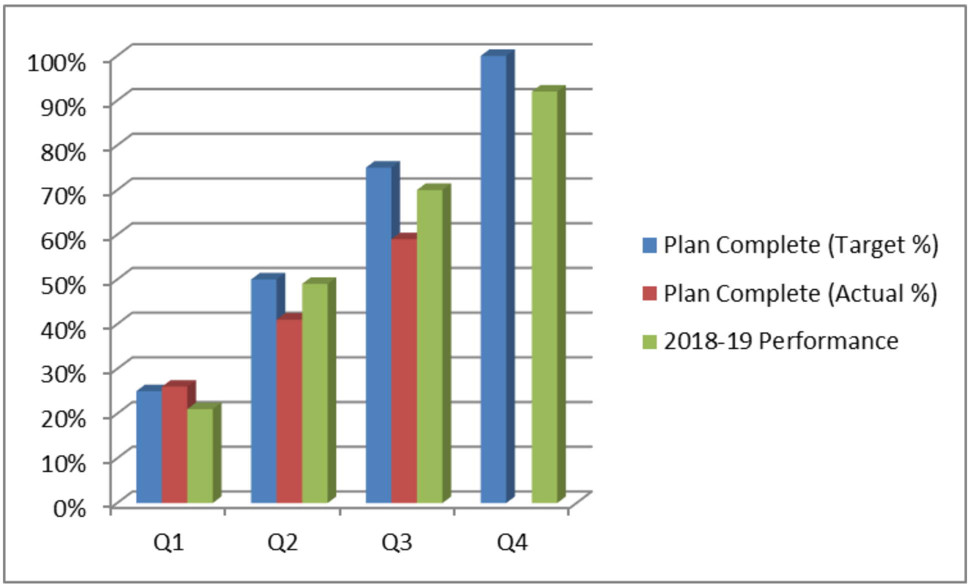
1.1 This report is the second monitoring report for 2019-20, which is presented in order for the Audit and Procurement Committee to discharge its responsibility 'to consider summaries of specific internal audit reports as requested' and 'to consider reports dealing with the management and performance of internal audit'.

2. Options considered and recommended proposal

2.1 Delivering the Audit Plan

2.1.1 The key target facing the Internal Audit Service is to complete 90% of its work plan by the 31st March 2020. The chart below provides analysis of progress against planned work for the period April to December 2019.

Chart One: Progress against delivery of Internal Audit Plan 2019-20



As at the end of December 2019, the Service has completed 59% of the Audit Plan against a planned target of 75% (which is based on delivering 100% of the plan). It is acknowledged that progress in quarter three remains below target. The number of audits completed at the end of December 2019 has been affected by (a) the induction of new members of staff within the Internal Audit Service and (b) the Christmas leave period. However, it is the Chief Internal Auditor's view that, based on an assessment of progress made at the end of January 2020, the Service is on track to meet its key target by the end of 2019-20.

2.1.2 At its meeting on the 11th November 2019, the Audit and Procurement Committee received an update on the resource position within the Internal Audit Service. As a result, the Committee noted that the Internal Audit Plan had been amended to 460 days, which reflected the current best estimate of available resources at the time. During quarter three, the resource position has continued to be closely monitored. The Service's ability to complete the revised Audit Plan has continued to be impacted by an unplanned absence within the Team. As a result, the Plan has been amended to 440 days (which reflects the available resources for the remainder of the financial year). Consequently, the progress reported in 2.1.1 above is based on this revised Audit Plan. This reduction has been accommodated through:

- A small number of audits have been postponed until 2020/21.

- Changes in operational requirements for audit involvement.

In the view of the Chief Internal Auditor, this further minor change to the available audit days will not, in any significant respects, impact on the ability to deliver the annual internal audit opinion.

2.2 **Other Key Performance Indicators (KPIs)**

In addition to the delivery of the Audit Plan, the Internal Audit Service has a number of other KPI's which underpin its delivery. The table below shows a summary of the performance for 2019-20 to date against these five KPIs, with comparative figures for the financial year 2018-19. Currently, all of the indicators are close to / above target. However, performance management continues to be a key focus for management within Internal Audit with targeted actions remaining on-going to continue to make improvements and deliver sustainable performance.

Table One: Internal Audit Key Performance Indicators 2019-20

Performance Measure	Target	Performance Q3 2019-20	Performance 2018-19
Planned Days Delivered (Pro rota against agreed* plan) *revised plan for 2019-20	100%	69%	94%
% of work time spent on audit work	90%	90%	91%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	87%	84%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	86%	82%
Audit Delivered within Budget Days	80%	78%	77%

2.3 **Audits Completed to Date**

2.3.1 Attached at Table Two below is a list of the audits finalised between October and December 2019, along with the level of assurance provided.

Table two: Audits completed October to December 2019

Audit Area	Audit Title	Assurance
Corporate Risk	Car Park Passes	Fact finding
	Compliance with HR Procedures – Children's Services	Limited
Council / Audit priorities	Council Plan Performance – Data Quality	Moderate
	Agency Workers Contract	Moderate
Regularity	Post 16 School Funding	Verification
	Parking Platform Grant	Verification
	St Osburg's Primary School	None
Directorate issues	Coroners Review	Moderate
	Trading Standards Exercising Warrants	Fact finding
Formal Follow Ups	Access to Council Buildings	Limited

The following audits are currently in progress:

- **Audits at Draft Report Stage** – Sports and Arts grants process

- **Audits On-going** – Adult Social Care Workflow Processes, Health and Safety Audit Programme, IT Disaster Recovery and Business Continuity, Business Rates, CareDirector, Tribunals for Special School Places, Selective and Additional Licensing.

Details of a selection of key reviews completed in this period are provided at Appendix One. In all cases, the relevant managers have agreed to address the issues raised in line with the timescales stated. These reviews will be followed up in due course and the outcomes reported to the Audit and Procurement Committee.

2.3.2 Following the findings of the audit review of St Osburg's Primary School, arrangements have been made with finance colleagues to support the School to address the issues raised. The Internal Audit Service will be undertaking a formal follow up review to obtain assurance that actions have been progressed before the end of this academic year.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

Reporting on progress regarding the delivery of the Annual Audit Plan ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

6. Other implications

6.1 **How will this contribute to achievement of the Council's plan?**

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis and reflected in the annual Internal Audit Plan.

6.2 **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. This risk is managed through on-going communication with customers to agree timing and identify issues at any early stage to allow for remedial action to be taken.

- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.3 **What is the impact on the organisation?**

None

6.4 **Equalities / EIA**

None

6.5 **Implications for (or impact on) Climate Change and the environment**

No impact

6.6 **Implications for partner organisations?**

None

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Directorate:
Place

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Names of approvers: (officers and members)				
Barry Hastie	Director of Finance and Corporate Services	Place	23/2/20	26/2/20
Adrian West	Members and Elections Team Manager	Place	23/2/20	2/3/20
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	23/2/20	23/2/20

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Appendix One – Summary Findings from Key Audit Reports Completed between October and December 2019

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Compliance with HR procedures – Children's Services **May 2020** **Director of HR / Head of Workforce Transformation/ Senior HR Managers / Head of Recruitment, Payroll, Pensions and Employee Benefits / Director of Children's Services**	**Overall Objective:** To evaluate the arrangements in place within Children's Services to ensure that line managers comply with key responsibilities in relation to managing staff, specifically where there is a risk that non-compliance could result in overpayments of salary being made, e.g. sickness absence. This included identifying barriers which may prevent managers form complying with HR procedures and considering opportunities for removing these. **Audit methodology:** - Interview with a sample of 21 managers across Children's Services. - Audit testing of a sample of transactions linked to sickness absence and contract variations. - Evaluation of the processes in place which underpin the Council's HR procedures. **Opinion**: Limited Assurance **Actions Agreed:** • Undertake a review of the Promoting Health at Work (PHAW) Policy and corporate procedures to ensure that they are fit for purpose and reflect the Council's current processes. • Ensure that the corporate induction process for managers incorporates appropriate introduction around HR responsibilities, including requirements around sickness absence recording. • Take steps to enhance the current Intranet offer for managing absence and sickness recording. • Explore how ICT could be more effectively utilised to provide proactive prompts / reminders to managers of the need to record sickness absence on a weekly basis. • Consider if the currently monthly report from Resourcelink used to identify employees who have triggered the Promoting Health at Work procedure can be revised to ensure it includes all employees, regardless of when the sickness absence has been recorded. • Introduce appropriate processes to escalate / take action where HR do not receive assurance that PHAW procedures have been complied with. • Update the Council's contract variation procedures to include target timescales for the processing of requests. • Ensure that an appropriate audit trail is maintained to support the on-line approval of contract variations undertaken in Children's Services. • Disseminate the results of this review to all managers within Children's Services to raise awareness.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Council Plan Performance – Data Quality **April 2020** **Consultant Public Health (Insight) / Insight (Social Care) Performance Manager**	**Overall Objective:** To provide assurance on the accuracy of the performance indicator data used in the Council Plan. **Key controls assessed:** - Confirming the integrity of the systems used to generate the required data. - Testing to validate the data reported in relation to a sample of indicators, namely carbon dioxide emissions, fly-tipping incidents, adults receiving direct payments and re-referrals into Children's social care. **Opinion**: Moderate Assurance **Actions Agreed - risk level high (H) or medium (M):** • Take appropriate steps to gain assurance that the Council will be in a position to produce the performance figure in relation to carbon dioxide emissions for 2019-20 (and future years) on a timely basis and progress on-going work to improve the accuracy and reliability of data used in this calculation. (M) • Investigate the reasons behind the data anomalies highlighted in relation to the performance indicator on adults receiving direct payments and ensure that if required, action is taken to prevent future errors of this type occurring when performance is calculated. (M)

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
St Osburg's Primary School Primary School **March 2020** **Head Teacher**	**Overall Objective:** To provide assurance that robust systems and controls exist to support the effective management of the School's resources. **Key controls assessed:** - Effective systems are in place to manage the school's finances. - All expenditure is committed in line with documented procedures, is appropriately authorised and accounted for. - All income due to the school is collected, accounted for and banked in full. - Effective systems exist over the school's banking arrangements. - All school assets are securely held minimising the risk of theft and losses. **Opinion**: No Assurance **Agreed Actions - risk level high (H) or medium (M):** • With immediate effect, take steps to change the Head Teacher's password to the School's finance system and take action to ensure that access to the School's finance system is strictly controlled and that adequate separation of duties is maintained within the operation of financial processes at the School. (H) • Take appropriate action to ensure that financial procedures are consistently adhered to by the School, specifically (a) ensure that arrangements for the filing of invoices are fit for purpose and complied with (b) official purchase orders are raised / issued at the time the order is placed with the supplier (c) wherever possible, delivery notes are retained and (d) cease the practice of raising purchase orders to reimburse staff for minor items of expenditure. (H) • Ensure that in respect of all purchases, the School complies with procurement rules / legislation or where exceptions to this are required, approval is sought in advance from the Governing Body. (H) • Ensure that all electronic bank transfers are made through the BACS payment run facility within the School's finance system and ensure that all final cheque run listings are retained to provide a complete audit trail of payments. (H) • Complete transaction logs for all purchase card expenditure, which are subject to approval by the Head Teacher and are retained as evidence. (H) • Ensure that HMRC requirements in respect of IR3 are complied with for all individuals and agencies. (H) • Ensure that (a) cash collection sheets are fully completed and retained for all cash transactions (b) income summary sheets of monies to be banked are completed and retained (c) when monies are prepared for

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	banking, this duty is undertaken by two officers and includes appropriate checks to ensure all monies can be accounted for. (H) • Ensure that an independent review of the income process is completed on a regular basis and an appropriate audit trail is retained as evidence of the review. (M) • Ensure that the debtor's policy is updated in accordance with the Fair Funding Scheme of Delegation and is approved by the Governing Body. (M) • Take appropriate action to ensure that separation of duties is maintained between the raising and authorisation of credit notes and supporting documentation is retained to support the authorisation of any debts written off. (M) • Ensure that a safe register is introduced and maintained. (M) • Consider re-introducing more frequent use of the Security Collection Service to collect / bank income on behalf of the School. (M) • Ensure that all credits on account are cleared within the financial year that they relate to. (M) • Ensure that virements are authorised and reported in accordance with the provisions of the Fair Funding Scheme of Delegation. This should include a formal decision being taken by the Governing Body in relation to the delegation of powers of virement. (H) • Take action to update the Whistleblowing Policy to ensure it is aligned to current arrangements and is approved by the Governing Body. (H) • Undertake a specific piece of work with the School's Finance Support Service to obtain clear guidance / training on financial processes that should be in place to provide an appropriate system of internal control. (H)

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Coventry City Council

Public report

Report to

Audit and Procurement Committee 16th March 2020

Name of Cabinet Member:
Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:
City Wide

Title:
Internal Audit Recommendation Tracking Report

Is this a key decision?
No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the progress made in implementing internal audit recommendations since the last update in March 2019.

Recommendation:

The Audit and Procurement Committee is recommended to note the progress made in implementing audit recommendations and confirm its satisfaction with this and the proposed action by the Chief Internal Auditor for audits where actions remain outstanding.

List of Appendices included:

Appendix One – Results of Formal Follow up Exercise
Appendix Two – Results of Self-Assessment Follow up Exercise

Background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Internal Audit Recommendation Tracking Report

1. Context (or background)

1.1 The Public Sector Internal Audit Standards requires that "the Chief Audit Executive (i.e. Chief Internal Auditor) must establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management have accepted the risk of not taking action".

1.2 As reflected within its terms of reference, the Audit and Procurement Committee is required to receive reports on Internal Audit's follow up process. This report provides an update as to progress in respect of the agreed management actions which have been followed up during the period March 2019 to February 2020.

2. Options considered and recommended proposal

2.1 **Follow Up Procedure -** Given the number of audits that the Internal Audit Service completes every year, it is critical that it has a robust procedure in place for ensuring that it obtains appropriate assurance that audit recommendations have been implemented but does so in a way that allows the Service to respond to new risks facing the Council. Where appropriate, Internal Audit defines within its audit reports the follow up process to those responsible for the system / area under review and a date is agreed of when this will take place.

Currently, there are three key considerations that will determine the follow up procedure adopted, namely:

1) Whether the area audited is of such significance that it is subject to an annual review.

2) The level of assurance provided in the audit report.

3) A self-assessment process for those reviews where neither of the points above apply, but a follow up review is necessary.

2.2 These considerations are expanded upon below:

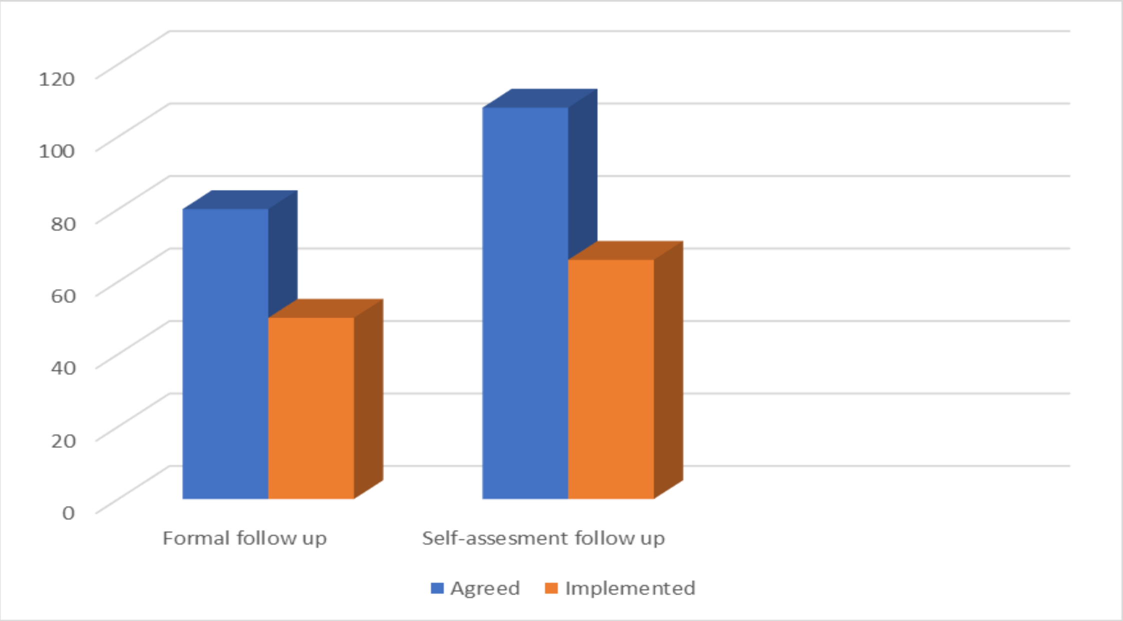
- **Annual Audits:** These audits are generally included in the Audit Plan on an annual basis because of the nature of the systems, and the fact they are corporate wide and have been identified as key in delivering the Council's objectives (e.g. financial systems, risk management).

- **Level of Assurance:** Any audit which receives '*no*' or '*limited*' assurance is subject to a follow up review to assess improvements based on a timing agreed between Internal Audit and relevant management. In either of these circumstances, a formal follow up review will take place which involves Internal Audit assessing progress through audit testing to ensure that agreed actions have been implemented and are working effectively.

- **Self-Assessment Process:** For all other audits, a process exists which is based on a self-assessment by relevant managers. This involves Internal Audit asking managers for an update on the action taken to implement audit recommendations.

2.3 Overall, it is believed that the procedure achieves the right balance between ensuring action is taken in response to risks identified by Internal Audit and allowing the Service to focus on identification of new risks.

2.4 **Results –** The results of the latest follow up exercise are attached at Appendix One and Two and are summarised in the graph below.



Of the 188 actions followed up, 62% have been implemented based on both the formal and self-assessment follow up method. When this is analysed by follow up method the results are:

- Formal follow up method – 63% implementation rate.

- Self-assessment follow up method – 61% implementation rate.

In terms of the specific results, the following points should be considered:

- Formal follow up – The implementation rate of 63% is comparable with results achieved over the last three years where implementation rates ranged from 57% to 71%. It is difficult to reach any specific conclusions on the implementation rate, although it should be pointed out that this does not mean that the recommendations outstanding are not subsequently implemented as revised implementation dates are agreed for all outstanding actions.

- Self-assessment – The implementation rate of 61% reflects a reduction when compared to the last three years where reported implementation rates ranged from 70% to 98%. Whilst there may be a number of factors which have contributed to this, it is worth pointing out that the introduction of a new template form to assist managers to undertake the self-assessment and face to face meetings held in some cases may have assisted managers to reach more appropriate conclusions on the level of progress made. Given that the current rate of implementation is comparable to that of the formal follow up method, it is our view that the self-assessment process is fit for purpose at the current time.

2.5 No validation checks have been undertaken on self-assessment responses in 2019-20 due to other priorities within the Internal Audit Service. However, given the reported rate of implementation, this is not considered a significant risk at the current time and this option remains available to Internal Audit in the future as a mechanism to provide assurance over the self-assessment process.

2.6 **Proposed Way Forward for Dealing with Outstanding Actions -** After the follow up has been completed, the results are collated within Internal Audit. If progress is not consistent with expectations, audit management will determine the next course of action.

Based on the reasons for the lack of progress, the following courses of action are available:

- Revised implementation dates are agreed for outstanding actions.
- Concerns raised through the management structure to ensure senior managers are aware of both the lack of progress made and the risks still facing a service.
- As a last resort, to ask the Audit and Procurement Committee to intervene and seek prompt action from the relevant manager.

Our proposed actions for the audits where recommendations remain outstanding are highlighted within Appendices One and Two.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

Reporting on progress in implementing audit recommendations ensures that the Council meets its statutory obligations in respect of maintaining an effective internal audit function and represents good governance.

6. Other implications

6.1 **How will this contribute to achievement of the Council Plan?**

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis and reflected in the annual Internal Audit Plan.

6.2 **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit Service perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee.

- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.3 **What is the impact on the organisation?**

None

6.4 **Equalities / EIA**

None

6.5 **Implications for (or impact on) Climate Change and the environment**

No impact

6.6 **Implications for partner organisations?**

None

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Paul Jennings	Finance Manager Corporate Finance	Place	23/2/20	24/2/20
Names of approvers: (officers and members)				
Barry Hastie	Director of Finance and Corporate Services	Place	23/2/20	26/2/20
Adrian West	Member and Elections Team Manager	Place	23/2/20	2/3/20
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	23/2/20	23/2/20

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Appendix One – Results of Formal Follow Up Exercise

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Council Tax			5	4	This includes the results of formal follow up exercises undertaken from both the 2018/19 audit and the 2019/20 audit.
Business Rates	4	3	13	11	This includes the results of formal follow up exercises undertaken from both the 2018/19 audit and the 2019/20 audit.
Housing Benefits	1	1	1	1	
CareDirector (Expenditure and Income)	10	6	6	3	This includes the results of formal follow up exercises undertaken from both the 2018/19 audit and the 2019/20 audit.
Risk Management			4	0	Progress has been delayed due to changing in staffing. Assurance has been obtained that actions will be addressed during 2020/21.
Passenger Transport	4	1	5	2	Will be subject to a further formal follow up review.
Access to Council Buildings	4	1			Will be subject to a further formal follow up review.
Frederick Bird Primary School	3	1	9	8	The outstanding actions have been followed up through the self-assessment process – see Appendix Two for results
Children's Services Financial Culture			11	8	

Unless stated otherwise – any outstanding actions will now be followed up through self-assessment process / next annual review

Appendix Two – Results of Self-Assessment Follow up Exercise

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Changes to invoice processing / goods receipting			1	1	
Tax evasion risk assessment			2	2	
Purchasing cards			1	1	
Database system administration*			2	1	
Housing benefit overpayments follow up			4	3	
Repairs and maintenance	2	0	4	0	Completion of actions has been delayed due to implementation of a new ICT System and a restructure within the Service. Revised implementation dates have been agreed.
Network infrastructure *			1	0	
Controls over accessing systems	1	0	3	0	A working group has been established and has met to take these actions forward.
Mandatory training	3	1	2	1	
Spon Gate Primary School	1	1	4	4	
Learning disabilities providers contract management	2	2	3	3	
Cyber security *			2	1	
Permanence payments	1	0	6	0	Implementation of actions has been delayed to prioritisation of the Business Services restructure. Discussions are currently taking place to agree a way forward.
Remote / flexible working *			3	2	
IT Service desk			3	3	
ICT audit follow up			3	3	
Community support grant			1	1	
Sowe Valley Primary School	1	1			

Audit Review	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented	Comments
Sharepoint / legacy storage			3	3	
Foster carer experience *			4	2	
New payroll processes			1	0	Recommendation superseded
Direct payments	1	1	2	2	
Organised crime checklist			7	3	
GDPR readiness follow up *	1	0			
Data protection follow up *	1	0	1	0	
Castlewood School	1	1			
ICT strategy, policies and procurement			4	3	
Frederick Bird Primary School follow up	2	2	1	1	
Aldermoor Farm Primary School	1	1	5	5	
Community support grant controls over vouchers	1	1	2	2	
System upgrades / development			2	0	
Grange Farm Primary School	2	2	5	4	
Agency workers contract			5	2	

Revised implementation dates have been agreed for all outstanding actions and these will be followed through a further self-assessment / validation checks.
*These relate to the outstanding / residual actions from the audit which have been followed up during the period and does not reflect the total number of recommendations originally agreed and which have been followed up previously.

Coventry City Council

Public report
Audit and Procurement Committee

Audit and Procurement Committee 16 March 2020

Name of Cabinet Member:
Cabinet Member for Policy and Leadership – Councillor G Duggins

Director Approving Submission of the report:
Director of Finance and Corporate Services

Ward(s) affected:
N/A

Title:
Code of Corporate Governance

Is this a key decision?
No

Executive Summary:

The Council approved a Code of Corporate Governance in April 2017. The Code and associated guidance provides a framework to help ensure that the Council's governance arrangements are up to date and reflect best practice. A Corporate Governance Board monitors progress and activity against the Code and this report summarises the outcome of the review work carried out during the last year which will inform the Annual Governance Statement which will be presented to the Audit and Procurement Committee in June as part of its consideration of the statement of accounts for 2019/20.

Recommendations:

The Audit and Procurement Committee is recommended to note progress and next steps being considered to maintain sound corporate governance arrangements and make any recommendations for consideration as part of the development of the Annual Governance Statement.

List of Appendices included:

Appendix 1: Code of Corporate Governance
Appendix 2: Code of Corporate Governance - Summary of activity and proposed action

Background papers:

None

Other useful documents:

Delivering Good Governance in Local Government: Framework (2016 edition)

Delivering Good Governance in Local Government: Guidance for English Local Authorities (2016 edition)
(Governance Services, Room 79, Council House)

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: Code of Corporate Governance

1. Context (or background)

1.1 Coventry City Council has a range of measures in place to ensure that governance in the organisation is managed effectively and works hard to ensure that these arrangements are robust and meet best practice. In reality this is achieved through a range of policies, plans, procedures such as the Constitution (including codes of conduct for Members and employees), the Council Plan, the Medium-Term Financial Strategy and policies on whistle blowing, tackling fraud and corruption and managing risk.

1.2 The Council updated its Code of Corporate Governance (Appendix 1) in April 2017 to reflect national guidance and best practice. The Code provides a framework against which the organisation's governance arrangements can be assessed to ensure that the principles of the code are being met, that there are systems and processes in place to measure their effectiveness and that gaps in policies, performance or assurance are identified and appropriate actions developed.

1.3 The Council has introduced a Corporate Governance Board to ensure the Council's governance arrangements are kept under review and amended and updated to reflect best practice and ensure they are effective. Local authorities are required to conduct a review at least once every financial year of the effectiveness of their governance framework and to to report on this review with its Statement of Accounts. The Audit and Procurement Committee is responsible for approving the Annual Governance Statement alongside the Statement of Accounts. The Code of Corporate Governance is one element in informing this process.

2. Options considered and recommended proposal

2.1 Progress made on strengthening the Council's governance arrangements and meeting the standards set out in the Code during the last year has included:

- Review and update of the Member Code of Conduct;
- Launch of a "Cause for Concern" page on the intranet to improve signposting for concerns including whistleblowing, fraud and corruption;
- Introduction of a new Equality, Diversity and Inclusion Policy
- A review of Contract Procedure Rules for consideration by Council;
- A review of Finance Procedure Rules for consideration by Council.

More information is provided at Appendix 2 to the report.

2.2 A number of actions that will help to strengthen the Council's corporate governance arrangements over the coming year have also been identified and these are included in Appendix 2 to the report.

3. Results of consultation undertaken

3.1 No consultation has been undertaken.

4. Timetable for implementing this decision

4.1 Reviewing the Council's progress against the Code supports the development of the Annual Governance Statement. The Statement will detail key governance and control issues facing the Council in the coming year and will be considered by the Audit and Procurement Committee in June.

5. Comments from Director of Finance and Corporate Resources

5.1 Financial implications

There are no direct financial implications arising from this report. Ensuring that the Code is up to date and reflects best practice will support robust internal control and strong financial management.

5.2 Legal implications

The Accounts and Audit Regulations 2015 require that local authorities produce an Annual Governance Statement as part of their Statement of Accounts but there are no direct legal implications arising from this report.

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

The Code is an important part of the framework and assurance process that helps to ensure that governance arrangements for decision-making and implementation of the Council’s policies, plans and procedures are effective.

6.2 How is risk being managed?

Robust internal control, including ensuring effective arrangements for risk management, is a principle of the Code. Building the Code into the annual cycle for reviewing governance and internal control will help to ensure that any risks that could impact on effective corporate governance are identified and addressed

6.3 What is the impact on the organisation?

The Code provides the framework for the key policies, plans, protocols and systems which support good governance across the Council. Ensuring the Council reviews its governance arrangements and developing appropriate actions will over time strengthen governance arrangements throughout the organisation.

6.4 Equality and Consultation Analysis (ECA)

One of the principles of the Code is that the rule of law is respected and that it provides a further check that equalities legislation is being adhered to.

6.5 Implications for (or impact on) climate change and the environment

One outcome of the recent revisions to the national guidance was to build sustainable economic, social and environmental benefits into the framework and this has been incorporated into Coventry's Code.

6.6 Implications for partner organisations?

Ensuring openness and comprehensive stakeholder engagement is one of the key principles of the Code and will support effective partnership working.

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Councillor G Duggins	Cabinet Member for Policy and Leadership	-	28/02/20	28/02/20

This report is published on the council's website: www.coventry.gov.uk/councilmeetings

Appendix 1

Demonstrating the principles of good Corporate Governance

Principles	Sub principles	The Council does this by
A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	Ensuring members and officers behave with integrity and creating a culture which focuses on acting in the public interest.
	Demonstrating strong commitment to ethical values	Ensuring that Members, officers and external service providers understand and demonstrate the ethical values of the Council, which are set out in our policies and procedures.
	Respecting the rule of Law	Ensuring members and officers demonstrate a strong commitment to the rule of the law and adhere to relevant laws and regulations.
B: Ensuring openness and comprehensive stakeholder engagement	Openness	Ensuring an open, accessible and transparent culture which underpins decision-making.
	Engaging with citizens and stakeholders	Effectively engaging with citizens, service users and stakeholders, ensuring that communication and engagement methods are effective and that feedback mechanisms are in place.
C: Defining outcomes in terms of sustainable economic, social, and environmental benefits	Defining outcomes	The Council has a clear vision which sets out what it is planning to achieve and how it will monitor and report progress.
	Sustainable economic, social and environmental benefits	Considering and balancing the combined economic, social and environmental impacts of policies, plans and decisions and ensure fair access to services.
D: Determining the interventions necessary to optimise the achievement of the intended outcomes	Identifying the right course of action	Ensuring decision makers have the information they need.
	Planning action	Establishing and implementing robust planning and performance cycles, underpinned by effective resource planning.
	Maximising outcomes	Ensuring that resources are used in the most effective way to support the Council's priorities

Principles	Sub principles	The Council does this by
E: Developing the Council's capacity including the capability of its leadership and the individuals within it.	Developing capacity	Maximising the capacity of the Council by making sure its assets, resources, partnerships and employees are as effective as possible.
	Developing strong leaders	Developing the leadership skills and capacity of members, senior managers and employees to meet the challenges facing the Council.
F: Managing risks and performance through robust internal control and strong public financial management	Managing risk	Recognising that risk management is an integral part of Council business and decision-making.
	Managing performance	Monitoring service delivery effectively and ensuring an effective scrutiny function is in place to provide constructive challenge.
	Robust internal control	Ensuring effective arrangements for risk management, counter fraud and anti-corruption arrangements are in place and that the Audit and Procurement Committee provides effective assurance.
	Managing data	Ensuring effective arrangements are in place to identify information assets and risks and for the safe collection, storage, use and sharing of data.
	Strong financial management	Ensuring financial management supports short-term financial and operational performance as well as longer-term aims.
G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability	Implementing good practise in transparency	Ensuring reports used for decision making are clear, balanced and easy to read.
	Implementing good practices in reporting	Reporting regularly on performance, value for money and use of resources.
	Assurance and effective accountability	Ensuring that learning, improvements and corrective actions from audit, peer challenges, reviews and inspections are acknowledged, and appropriate changes are made.

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Appendix 2

Coventry City Council

Code of Corporate Governance

Introduction

Governance is about the arrangements that organisations put in place to make sure that their aims are defined and achieved. For local authorities it is also about making sure that councils act in the public interest.

The City Council has adopted a Code of Corporate Governance in line with the national best practice framework. This sets out the principles that underpin good governance and how local authorities can assure themselves and others that they are meeting them.

Coventry City Council's Code of Corporate Governance adopts the principles set out in the new CIPFA/SOLACE Framework and explains what these mean for the way the Council operates. The Code provides the framework for the key policies, plans, protocols and systems which support good governance across the Council.

This document summarises the key arrangements the Council has in place to meet the requirements of the Code, measures undertaken during the last year and actions planned for the coming year to strengthen them.

Key issues identified will be incorporated in the preparation of the Statements of Internal Control which will form part of the Annual Governance Statement

Demonstrating the principles of good Corporate Governance

Principles	Sub principles	Summary of position, progress and actions required
A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	The Constitution sets out how the Council will operate in line with the law including the powers and delegations that are in place. All formal reports include legal implications and require sign off by Legal Services. Codes of Conduct for Members and officers are in place. The Ethics Committee regularly monitors and reviews declarations of officer and member gifts, hospitality, declarations of interests and complaints against members and makes recommendations for good practice. The Audit Committee monitors and makes recommendations for good practice on the Council’s anti-fraud, corruption and bribery activity. ***Progress during 2019/20*** • An appraisal process for employees based on behaviours now embedded and 94.7% of employees received an appraisal in 2018/19. • New “Cause for Concern” page on the intranet launched February 2020 to provide central source of information and signposting for any concerns to be raised including whistleblowing, fraud and corruption. • The Constitutional Advisory Panel has reviewed the Member Code of Conduct and recommended changes to reflect best practice highlighted by the Committee on Standards in Public Life which will be considered by Council in March 2020. • The Constitutional Advisory Panel has reviewed the Contract Procedure Rules and Finance Procedure Rules and recommended changes which will be considered by Council in March 2020. ***Actions proposed for 2020/21:*** • Review Code of Good Planning Practice for Members and Employees dealing with Planning Matters • Refresh Member Code of Conduct Training • Review of Bribery and Corruption arrangements as part of audit plan
	Demonstrating strong commitment to ethical values	
	Respecting the rule of Law	

Principles	Sub principles	Summary of position, progress and actions required
B: Ensuring openness and comprehensive stakeholder engagement	Openness Engaging with citizens and stakeholders	The Council's priorities are set out in the One Coventry Plan which is published on the Council's website and regularly reviewed by Cabinet and Scrutiny. The reports on which decisions are based are publicly available and set out the information on which recommendations are based and appropriate meetings are open to members of the public. The Council's website includes a wide range of information including how to access services, engage with the Council and respond to consultations which is supported by a wide range of other activities and approaches. ***Progress during 2019/20*** • Launched Let's Talk Coventry, a digital engagement platform which provides an easy and coordinated way to facilitate engagement and consultation throughout the Council. This is helping to inform the sensitive delivery of projects where the Council and communities work together • Updated the Joint Strategic Needs Assessment to include the residents' voice, collected via conversations with communities in addition to the data. ***Actions proposed for 2020/21:*** • Carry out the Household Survey • Review and update the Council's Publication Scheme • Implement a new system to manage Freedom of Information and Subject Access requests

Principles	Sub principles	Summary of position, progress and actions required
C: Defining outcomes in terms of sustainable economic, social, and environmental benefits	Defining outcomes Sustainable economic, social and environmental benefits	The Council's vision and priorities are set out in the One Coventry Plan which is published on the Council's website. The plan and progress against it is regularly reviewed by Cabinet and Scrutiny. The priorities in the Plan balance social, economic and environmental objectives to support a sustainable Coventry. A consistent approach to the application of Social Value is being promoted across the city through the One Coventry Partnership ***Progress during 2019/20*** • Approval of a revised set of equality objectives following consultation and engagement • Impact on Climate Change is now an explicit consideration in in all formal decisions ***Actions proposed for 2020/21:*** • Review of the Climate Change Strategy • Review and update the Social Value and Sustainability Policy • Review and update Policy Framework
D: Determining the interventions necessary to optimise the achievement of the intended outcomes	Identifying the right course of action Planning action Maximising outcomes	The Council's Medium-Term Financial Strategy is reviewed annually by Scrutiny and reviewed and approved by Cabinet and sets out the financial planning foundations that support delivery of the Council's vision and priorities and the financial and policy context for the Council's Budget process. Following consultation with the public and partners, in February Council approves the annual budget which sets the allocation of revenue and capital resources to meet the Council's identified priorities. ***Progress during 2019/20*** • MTFS and budget approved • Annual review of priorities and actions against One Council Plan ***Actions proposed for 2020/21:*** • Review and update the Social Value and Sustainability Policy

Principles	Sub principles	The Council does this by
E: Developing the Council's capacity including the capability of its leadership and the individuals within it.	Developing capacity Developing strong leaders	The Senior leadership has been broadened and strengthened through stronger arrangements for the Strategic Management Board, Corporate Leadership Team and Extended Leadership Team. A revised management structure will be introduced from April 2020 to further support the One Coventry approach. A comprehensive Leadership Development programme is in place and embedded, supported by a corporate learning and development offer. ***Progress during 2019/20:*** • A new Equality, Diversity and inclusion Policy provides the foundation for employment policies, procedures and practice. • A programme of activity to co-create One Coventry Values has been undertaken during the year. ***Actions proposed:*** • Programme in place for revision of workforce policies • Implement One Coventry Values from April 2020 • Member Training Strategy and programme being developed for consideration and approval by Council
F: Managing risks and performance through robust internal control and strong public financial management	Managing risk Managing performance Robust internal control Managing data Strong financial management	The Council has a range of robust policies, frameworks and monitoring frameworks to manage risks and performance and ensure robust internal control. These include: • A risk management policy and framework: the Corporate risk register is reviewed regularly by the Strategic Management Board and Audit and Procurement Committee and managing risk is a key element of decision-making for major projects and programmes. • Robust arrangements to monitor progress against corporate priorities set out in the One Coventry Council plan and at service level. Regular reporting to Cabinet and scrutiny has been enhanced by the development of the real time performance dashboard and citywide intelligence hub which are available on the Council's website. • An annual audit plan which takes into account the Council's corporate risk register and operational risks identified by management across the Council. The Audit and Procurement Committee is responsible for approving the annual audit plan, monitoring its completion and receives reports on the

Principles	Sub principles	The Council does this by
		findings of audit reviews • Arrangements in place to identify information assets and risks and for the safe collection, storage, use and sharing of data. The implementation of the Information Management Strategy is overseen by the Information Management Strategy Group and supported by Data Protection and Information Governance Teams. • Robust financial management arrangements which include a Medium Term Financial Strategy that provides the financial planning foundations that support delivery of the Council's vision and priorities, an annual budget setting process and regular monitoring and reporting ***Progress during 2019/20:*** • Work has been undertaken during the year to ensure that directorate risk registers are in place across the organisation ***Actions proposed for 2020/21:*** • Review risk management framework • Update of Fraud Risk Assessment (as part of audit plan) • Develop and implement action plan arising from external review of Scrutiny
G: Implementing good practices in transparency,	Implementing good practise in transparency	The Council produces and publishes an annual governance statement which explains how Coventry City Council meets its corporate governance requirements

Principles	Sub principles	The Council does this by
reporting, and audit to deliver effective accountability	Implementing good practices in reporting Assurance and effective accountability	and details key governance and control issues identified that the Council faces in the coming year. The annual External Auditor's report provides the Audit and Procurement Committee with assurance on the accuracy of the Council's financial statements and gives an opinion on the Council's arrangements to ensure value for money. A self-assessment against the Public Sector Internal Audit Standards is carried annually as part of the annual internal audit report which is considered at the Audit and Procurement Committee and Full Council. Action plans are developed to address any areas for improvement. The Council uses the findings of inspections and reviews to continue to improve its services ***Progress during 2019/20:*** • Continued to implement recommendations from the Local Government Association Peer Review from 2018/19 • Reviews of Scrutiny, Communications and Adult Social Care undertaken. ***Actions proposed for 2020/21:*** • Review the Terms of Reference for the Audit and Procurement Committee • Implement learning and outcomes from external reviews • Commission an independent assessment of the effectiveness of the Audit and Procurement Committee • Develop a governance assurance framework relating to third party interests

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Coventry City Council

Public Report
Cabinet Member

Audit and Procurement Committee 16 March 2020

Cabinet Member for Policing and Equalities 26th March 2020

Name of Cabinet Member:
Cabinet Member for Policing and Equalities – Councillor A S Khan

Director Approving Submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:

None

Title:
Annual Compliance Report - Regulatory & Investigatory Powers Act (RIPA) 2019

Is this a key decision?
No

Executive Summary:

The Regulation of Investigatory Powers Act 2000 (RIPA) governs the acquisition and disclosure of communications data and the use of covert surveillance by local authorities.

The Council uses powers under RIPA to support its core functions for the purpose of prevention and detection of crime where an offence may be punishable by a custodial sentence of 6 months or more or are related to the underage sale of alcohol and tobacco. There are three processes available to local authorities under RIPA: the acquisition and disclosure of communications data; directed surveillance; and covert human intelligence sources ("CHIS").

The Act sets out the procedures that the Council must follow if it wishes to use directed surveillance techniques or acquire communications data in order to support core function activities (e.g. typically those undertaken by Trading Standards and Environmental Health). The information obtained as a result of such operations can later be relied upon in court proceedings providing RIPA is complied with.

The Home Office Code for Covert Surveillance and Property Interference recommends that elected members, whilst not involved in making decisions or specific authorisations for the local authority to use its powers under Part II of the Act, should review the Council's use of the legislation and provide approval to its policies. The Council adopted this approach for oversight of the authority's use of Parts I and II of the Act.

Recommendations:

The Audit and Procurement Committee is requested to:

1. Consider and note the Council's use and compliance with RIPA.

2. Forward any comments and/or recommendations to the Cabinet Member for Policing and Equalities.

The Cabinet Member for Policing and Equalities is requested to:

1. Consider any comments and/or recommendations provided by the Audit and Procurement Committee.

2. Approve the report as a formal record of the Council's use and compliance with RIPA.

List of Appendices included:

None

Other useful background papers:

None

Other useful background information:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

Yes – Audit and Procurement Committee 16 March 2020

Will this report go to Council?

No

Report title: **Annual Compliance Report - Regulatory & Investigatory Powers Act (RIPA) 2019**

1. Context (or background)

1.1 RIPA governs the acquisition and disclosure of communications data and the use of covert surveillance by local authorities. The Council can only use powers under RIPA to support its core functions for the purpose of prevention and detection of crime.

1.2 There are different thresholds that need to be met before any surveillance can be undertaken. In the case of Directed Surveillance or the use of CHIS an offence has to be punishable by a custodial sentence of 6 months or more or the offence is related to the underage sale of alcohol and/or tobacco. In the case of Communications Data an offence has to be punishable by a custodial sentence of 12 months or more (e.g. offences relating to counterfeit goods which carry a maximum penalty of 10 years in prison).

1.3 Where the above criteria are met, local authorities can make an application for the acquisition and disclosure of communications data (such as telephone billing information or subscriber details) or directed surveillance (covert surveillance of individuals in public places); and the use of a CHIS (such as the deployment of undercover officers). The powers are most commonly used by Trading Standards. However, powers can also be used by other Council services if their offences meet the serious crime threshold, mentioned in 1.2 above.

1.4 RIPA and Codes of Practice set out the procedures that local authorities must follow when undertaking surveillance. These include approval by Authorised Council Officers for Directed Surveillance / CHIS applications to show that the proposed use of the powers is "necessary and proportionate".

1.5 The Council is required to have a Senior Responsible Officer to maintain oversight of the RIPA arrangements, procedures and operations. The Council's Monitoring Officer performs this function and is responsible for the integrity of the Council's process for managing the requirements under RIPA.

1.6 Since 1st September 2017, the Investigatory Powers Commissioner's Office (IPCO) has been responsible for the judicial oversight of the use of covert surveillance by public authorities throughout the United Kingdom.

1.7 2019 saw the implementation of Part 3 of the Investigatory Powers Act 2016 (IPA). The introduction of this legislation has seen the most significant change to the acquisition of communications data in recent years. The IPA consolidates all existing powers available to law enforcement and other agencies. It radically overhauls the way these powers are authorised and overseen. The legislation also ensures that the powers conveyed are fit for the fast-moving digital age that we live in. The IPA has introduced the Office for Communications Data Authorisation (OCDA) which is now responsible for independently authorising all applications for communications data. This has removed the requirement for local authorities to seek judicial approval for communications data. In addition, the legislation has broadened the range of communications data available including access to location data.

1.8 The acquisition of communications data is undertaken through the National Antifraud Network (NAFN). They act as the single point of contact for many local authorities and ensure the application is RIPA/ IPA compliant. It is NAFN that are audited by the commissioners.

1.9 Details of the applications that the Council has made are set out below:

1.9.1 Use of Directed Surveillance or Covert Human Intelligence Sources

For the Period 1 January 2019 – 31 December 2019

The number of applications made for a Directed Surveillance authorisation	4
The number of Directed Surveillance authorisations successfully granted	4
The number of Directed Surveillance authorisations that were cancelled	3
The number of Directed Surveillance authorisations extant at the end of the year	1

- All of the requests covered core functions permitted by the Act and were for the purpose of preventing and detecting crime.
- There were no reported instances of the Council having misused its powers under the Act.

1.9.2 Use of Acquisition & Disclosure of Communications Data

No applications for the disclosure of communications data were made during the period 1 January 2019 – 31 December 2019.

1.10 Comparison Data

The IPCO require annual statistical data each year. However, due to the impact of the UK leaving the EU their 2017 report has only just been publish which shows local authorities authorised 310 Directed Surveillance applications which equates to approximately 0.9 applications per authority. In 2019 Coventry authorised 4 applications.

In relation to Communications Data requests the data shows most neighbouring authorities undertaking a very small number, if any checks. This is explained in part by the fact that local authorities are required to undertake all other checks that are reasonable before conducting a communications data request.

1.11 RIPA Training

It is recommended good practice to provide RIPA training to all relevant officers periodically. Accordingly, one day's training session was delivered on 18 January 2017. Elected Members, and Council Officers from core function departments, Legal and those who play a key role in implementing and/or managing CCTV systems attended.

2. Options considered and recommended proposal

2.1 The Audit and Procurement Committee is recommended to consider and note the Annual Compliance Report, which sets out how the Council has used its powers during the reporting periods of the individual Commissioners. In addition, the Committee is recommended to forward any comments or recommendations to the Cabinet Member for Policing and Equalities.

2.2 The Cabinet Member for Policing and Equalities is recommended to consider any comments and/or recommendations from the Audit and Procurement Committee and approve the report as a formal record of the Council's use and compliance with RIPA.

3. Results of consultation undertaken

3.1 Not applicable

4. Timetable for implementing this decision

4.1 The report will be a formal record of the Council's use of RIPA in 2019 when approved by the Cabinet Member for Policing and Equalities.

5. Comments from Director of Finance and Corporate Services

5.1 **Financial implications** – The Council has budget provision to cover the cost of the training, which was delivered by an external trainer who specialises in RIPA legislation. There are no other direct financial implications arising from this report.

5.2 **Legal implications** – The powers of local authorities have remained largely unchanged following the introduction of the Investigatory Powers Act 2016. However, Officers will continue to monitor the operation of RIPA and ensure that any amendments are incorporated into the Council's policy and procedures as appropriate.

Consideration and endorsement by Members, ensures that appropriate scrutiny is in place. Consideration of RIPA activity as recommended by the OSC guidance ensures that such activity is subject to appropriate scrutiny and control.

6. Other implications

Whilst the requirement to obtain judicial / OCDA approval introduced an additional step into the process, given the Council's low use of its powers under RIPA, it has not resulted in any significant delays for planned operations. Routine patrols, ad-hoc observations at trouble 'hot spots', immediate response to events and overt use of CCTV do not require RIPA authorisation.

6.1 How will this contribute to achievement of the Council's Plan?

As and when judicial / OCDA approval is sought to use these powers, it will help support the Council's core aims by preventing and detecting crime associated with enforcement activities such as: investigations relating to counterfeiting and fraudulent trading activity, or underage sales of alcohol or tobacco.

6.2 How is risk being managed?

The requirement for the Council to seek judicial / OCDA approval for any proposed use of its powers under the Regulation of Investigatory Powers Act 2000, as amended by the Protection of Freedoms Act 2012 and IPA, reduces the risk of the Council using such powers inappropriately or unlawfully. This will help ensure any evidence gained from such use will be admissible in a court of law.

6.3 What is the impact on the organisation?

There is no additional impact on the Council.

6.4 Equalities / EIA

When submitting a request for authorisation to use RIPA, consideration is given to any impact on equalities.

6.5 Implications for (or impact on) climate change and the environment?

There are no implications on the environment.

6.6 Implications for partner organisations?

There are no implications on partner organisations.

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Michelle Salmon	Governance Services Officer	Place	2/3/2020	3/3/2020
Names of approvers for submission: (officers and members)				
Cath Crosby	Lead Accountant (Business Partnering)	Place	2/3/2020	4/03/2020
Julie Newman	City Solicitor and Acting Monitoring Officer	Place	2/3/2020	2/3/2020
Martin Yardley	Deputy Chief Executive	Place	4/3/2020	4/03/2020
Councillor A Khan	Cabinet Member for Policing and Equalities	-	5/03/2020	5/03/2020

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Coventry City Council

Public report

Audit and Procurement Committee 16th March 2020

Director approving submission of the report:
Chief Executive

Ward(s) affected: N/A

Title: Post of Director of Law and Governance - Salary Approval.

Is this a key decision?
No

Executive Summary:
In line with statutory guidance issued by the Secretary of State under S40 Localism Act 2011, and the Council's Pay Policy statement, approval is being sought in respect of an annual salary package in excess of £100,000 for the post of Director of Law and Governance.

Recommendations:
The Audit and Procurement Committee are requested to approve a salary range of up to £106,130 pa for the post of Director of Law and Governance.

List of Appendices included:

Appendix 1 – Business Case

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: **Post of Director of Law and Governance – Salary Approval.**

1. Context (or background)

1.1 This post was formerly the Head of Legal Services, including the statutory role of Monitoring Officer. The post has been amended to also include the responsibility, accountability and management of the governance for the council. These additional duties have resulted in a proposed change in grade and therefore salary.

1.2 The Chief Executive has suggested changes in relation to the senior management structure in order to meet the changing organisational needs, secure sufficient capacity at a senior level and ensure it was fit for purpose. These changes were subject to consultation with both the officer concerned and the trades unions.

1.3 The Director of Law and Governance will now be responsible for:

- Legal Services, including acting as City Solicitor
- Act as Proper Officer for Registrars
- Monitoring Officer
- Governance, including Member Services

1.4 The Business Case at Appendix 1 to the report, identifies that the post of Director of Law and Governance should be graded at Grade AD1, the salary range for which is £97,929 to £106,130.

1.5 Statutory Guidance under S40 of the Localism Act 2011 requires that full Council, or some other agreed formal meeting of members should be offered the opportunity to approve salary packages over £100,000. Under the Council's Constitution, this responsibility has been allocated to the Audit and Procurement Committee under its terms of reference.

2. Options considered and recommended proposal

2.1 Appendix 1 to the report sets out the Business case for the re-designation of the post.

3. Results of consultation undertaken

3.1 Consultation was undertaken as part the process, no comments made.

4. Timetable for implementing this decision

4.1 It is proposed that the appointment for this post will be implemented from 1st April 2020.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial implications
This post will be funded from within existing resources.

5.2 Legal implications
The Salary range within this report would form part of the contract of employment.

A local authority's power to appoint officers on such reasonable terms and conditions as the authority thinks fit is subject to section 41 of the Localism Act 2011 (requirement for determinations relating to terms and conditions of chief officers to comply with Pay Policy statement).

In addition, statutory guidance states that under these arrangements, full council, or a meeting of members should be offered the opportunity to vote before large salary packages are offered in respect of a new appointment. The Secretary of State considers £100,000 is the right level for that threshold to be set. For this purpose, salary packages should include salary, any bonuses, fees or allowances routinely payable to the appointee and any benefits in kind to which the officer is entitled as a result of their employment

6. Other implications

6.1 How will this contribute to the achievement of the Council's Plan?

The re-designation of the Director of Law and Governance, to include Governance Services, will enhance the service and support provided as it aligns more comprehensively with the post holders existing portfolio and to help lead our One Coventry approach.

6.2 How is risk being managed?

Not applicable

6.3 What is the impact on the organisation?

As a member of the Strategic Management Board and Corporate Leadership Team, this post will play the lead role in developing executing the strategic direction of the Council through the One Coventry approach.

6.4 Equalities

This post has a legal responsibility for ensuring the City Council complies with and meets its obligations under Equality Legislation.

6.5 Implications on Climate Change and the Environment

None

6.6 Implications for partner organisations

None

Report author(s):

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Chief Executive

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Contributor/approver name	**Title**	**Directorate or organisation**	**Date doc sent out**	**Date response received or approved**
Contributors:				
Names of approvers for submission: (officers)				
Barry Hastie	Director of Finance and Corporate Services	Place	25/2/20	25/2/20
Oluremi Aremu	Major Projects Lead Lawyer, Legal Services	Place	25/2/20	25/2/20
Susanna Newing	Director of Human Resources	People	25/2/20	25/2/20

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Appendix 1

Director of Law and Governance
Appointment on salary above £100k - Business case

1. **Re-designation of role**

Under the revision of the role the Director of Law and Governance will:

- Influence and enable a robust and proactive corporate governance culture through the decision-making process and input to strategic objectives,
- To lead on policy and planning, to ensure the Council meets the highest standards of ethical and corporate governance.
- Act as a champion of democratic governance and the roles of Elected Members across the Council and externally.
- Ensure the effective performance management of the legal, coroners, registrars, members, elections and Governance Services including the setting, monitoring and delivery of service objectives and targets.

The role will continue to undertake the following:

- Act as City Solicitor
- Accountable Officer for Legal Services
- Monitoring Officer
- Proper Officer for Registrars

2. **Grade and salary**

The post has been evaluated using the Local Government Employers Job Evaluation Scheme that is used in respect of all senior manager roles within the Council and allocated the appropriate grade within the Council's senior management pay structure.

3. **Additional Research**

The proposed salary grade is competitive with those for similar posts in large first-tier local authorities

4. **Rationale**

The proposed salary grade reflects the additional responsibilities now included within the role based on the qualification, experience and knowledge required.

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